You should read the following discussion in conjunction with the consolidated financial statements included in the accountants' report and the notes thereto set out in Appendix I to this prospectus and the selected historical financial information and operating data included elsewhere in this prospectus. The consolidated financial statements have been prepared in accordance with IFRS.

Our historical results do not necessarily indicate results expected for any future periods. The following discussion and analysis contain forward-looking statements that involve risks and uncertainties. Such statements reflect the current views of our management with respect to future events and are subject to certain risks, uncertainties and assumptions, including the risk factors described in this prospectus. Should one or more of these risks or uncertainties materialise, or should underlying assumptions prove to be incorrect, our results of operations and financial condition may be adversely affected and may vary materially from those described herein as anticipated, believed or expected.

The financial information extracted from our consolidated financial statements as of and for the years ended 31 December 2010, 2011, 2012 and the six months ended 30 June 2013 included in this prospectus is audited. Financial information as of and for the six months ended 30 June 2012 is unaudited and financial information as of or for any period subsequent to 30 June 2013 included in this prospectus is derived from management accounts and is therefore also unaudited.

OVERVIEW

We are one of the largest comprehensive marketing, promotion and channel management service providers dedicated to imported pharmaceutical products and medical devices in China. We have a 17-year operating history, and, according to the Frost & Sullivan Report, we were the second largest marketing and promotion service provider for pharmaceutical products in the PRC based on wholesale value of products sold, accounting for 9.4% of the market in 2012. As is customary for pharmaceutical marketing, promotion and channel management service providers in China, we purchase our products from our suppliers and onward sell such products primarily to our distributors to generate revenue. Under this business model, the level of services we provide in respect of our suppliers' products is reflected in the prices we are able to obtain through our onward sale of their products primarily to our distributors as compared to our suppliers' pricing of their products, rather than through the direct payment of marketing, promotion or service fees by our suppliers. Please see the section headed "Industry Overview — Pharmaceutical Marketing, Promotion and Channel Management Services Industry in China — Overview" of this prospectus.

We provide comprehensive marketing, promotion and channel management services to small- and medium-sized overseas suppliers that lack the critical mass or ability to independently market their products in the rapidly growing Chinese healthcare market. We provide co-promotion and channel management services to Alcon, the world's largest eye care products company. In 2010, 2011, 2012 and the six months ended 30 June 2013, our revenue generated from the sale of products for which we provide comprehensive marketing, promotion and channel management services amounted to RMB170.5 million, RMB194.4 million, RMB323.7 million and RMB200.3 million, respectively, representing 29.9%, 27.1%, 33.8% and 36.3% of our revenue for the respective period. In 2010, 2011, 2012 and the six months ended 30 June 2013, our gross profit for such products amounted to RMB93.9 million, RMB105.1 million, RMB202.5 million and RMB106.4 million, respectively, representing 56.5%, 53.7%, 66.0% and 65.2% of our gross profit for the respective period, and our gross profit margin for such products was 55.0%, 54.0%, 62.6% and 53.1% for the respective period. In 2010, 2011, 2012 and the six months ended 30 June 2013, our sales of Alcon products in aggregate amounted to RMB400.1 million, RMB523.4 million, RMB635.0 million and RMB351.1 million, respectively,

representing 70.1%, 72.9%, 66.2% and 63.7% of our revenue for the respective period. In 2010, 2011, 2012 and the six months ended 30 June 2013, our gross profit from the sale of Alcon products in aggregate amounted to RMB72.2 million, RMB90.7 million, RMB104.2 million and RMB56.9 million, respectively, representing 43.5%, 46.3%, 34.0% and 34.8% of our gross profit for the respective period.

Our marketing and promotion services include formulating marketing and promotion strategies, educating individual physicians on the clinical uses and benefits of our products, organising academic conferences, seminars, symposiums and other promotional activities, and appointing and supervising third-party promotion partners (who are responsible for most of the day-to-day marketing and promotional activities). When required by the suppliers, we also manage the product registration process that is necessary to enable the sale of imported pharmaceutical products and medical devices in China.

As of the 30 June 2013, we had 219 in-house marketing and promotion employees and 967 third-party promotion partners. Our in-house team is primarily responsible for formulating our marketing and promotion strategies, conducting selected marketing programmes, and appointing, training and supervising our promotion partners. Our in-house team typically conducts pilot marketing programmes for new products in selected regions. Based on the pilot programmes, our third-party promotion partners implement our marketing plans across the country. Our promotion partners are experienced in promoting pharmaceutical products and medical devices in their respective target markets and conduct their activities under the supervision of our in-house team. Our marketing and promotion model allows us to extend our geographic coverage, maintain operational flexibility, reduce fixed costs and lower our overall marketing and promotion costs.

Our channel management services focus on customs clearance and warehousing, participating in tender processes that are a requirement for selling pharmaceutical products and medical devices to public hospitals and medical institutions, appointing and managing distributors (who primarily process purchase orders, deliver products and collect payments), managing and optimising inventory levels at distributors and hospitals, and collecting, integrating and analysing sales data.

For the six months ended 30 June 2013, we sold our products through our nationwide marketing, promotion and channel management service network to a total of 21,589 hospitals and other medical institutions (including 1,092, or 67.2% of Class III hospitals nationwide, 2,658, or 40.5% of Class II hospitals nationwide, and 17,839 Class I hospitals and other medical institutions), and 85,420 pharmacies, across 31 provinces, municipalities and autonomous regions in China. We had a product portfolio of 32 pharmaceutical products (substantially all of which are prescription products), covering ophthalmology, pain management, cardiovascular, respiratory, gastroenterology, immunology and other therapeutic areas, and medical devices covering four medical specialties, as of the Latest Practicable Date. We had also secured marketing, promotion and sales rights for 14 additional prescription pharmaceutical products and 21 additional medical devices, and are in the process of registering them or preparing for their registration with the CFDA for their import for sale in China, as of the Latest Practicable Date. Please see the section headed “Business — Our Products — Product Pipeline” of this prospectus for further details of our product pipeline.

Our current product portfolio includes a number of products manufactured by small- and medium-sized overseas suppliers, sales of which experienced high growth rate during the Track Record Period. These products address unmet medical needs or have superior clinical profiles, improved quality or formulations, or relatively limited competition in the Chinese market. For example, in 2004, we secured the marketing, promotion and sales rights in China for Fluxum, one of the fastest-acting heparin products for the treatment and prophylaxis of deep-vein thrombosis, according to the Frost & Sullivan Report. Fluxum is a well-recognised originator brand and has competed favourably and commanded premium pricing in hospital tenders across China over

comparable generic products manufactured in China. Fluxum was the fourth most popular low molecular weight heparin product in China in 2012, with an 8% market share, according to the Frost & Sullivan Report. From 2010 to 2012, our revenue and gross profit from the sale of Fluxum grew at a CAGR of 55.2% and 86.4%, respectively. In 1997, we secured the exclusive marketing, promotion and sales rights in China for Difene, an anti-inflammation pain-relief drug featuring a unique dual-release formulation with enhanced safety profile. Difene was the second most popular oral diclofenac sodium product in China in 2012, with a market share of approximately 14%, according to the Frost & Sullivan Report. From 2010 to 2012, our revenue and gross profit from the sale of Difene grew at a CAGR of 17.6% and 22.0%, respectively.

We currently purchase our products primarily from eight major suppliers based in Europe and North America. We believe we enjoy good business relationships with our suppliers, two of which have been supplying products to us for over 16 years and another two of which have been supplying products to us for around 10 years. We have maintained a supply agreement renewal rate of 100% over the past 10 years for our products, except for our supply agreement for Bestcall, the supplier of which decided to exit the PRC market for the product after the PRC government imposed additional restrictions on antibiotics that significantly impacted the product's sales and profitability. In 2010, 2011, 2012 and the six months ended 30 June 2013, products purchased from our largest supplier, Alcon, accounted for 80.6%, 84.6%, 79.7% and 79.6% of our total products purchased, and products purchased from our five largest suppliers accounted for 97.1%, 96.7%, 94.5% and 92.2% of our total products purchased, for the respective period.

We provide comprehensive marketing, promotion and channel management services to all of our suppliers other than Alcon, and are generally the sole provider of such services to our suppliers in China for the relevant products. We focus on providing such services to small- and medium-sized overseas suppliers who seek to sell their products in the rapidly growing Chinese healthcare market but lack the critical mass or ability to independently market their products in China.

We provide co-promotion and channel management services to Alcon. We have enjoyed an uninterrupted business relationship with Alcon since 1996. We are the sole provider of channel management services for all of the ophthalmic pharmaceutical products Alcon sells in China. In January 2010, we expanded the scope of services we provide to Alcon to include co-promotion services for six of its ophthalmic pharmaceutical products. Such co-promotion services are targeted at hospitals and pharmacies not covered by Alcon's in-house sales and marketing team. Our revenue generated from the sale of these six products accounted for 65.4%, 61.1%, 60.1% and 59.1% of our total sales of Alcon products in 2010, 2011, 2012 and the six months ended 30 June 2013, respectively. In January 2013, we started providing co-promotion services for one additional product of Alcon. We believe the expansion of collaboration with Alcon substantially strengthens the business relationship between Alcon and us. In October 2013, Alcon extended its supply agreement with us for a further term of five years until 31 December 2018.

We sell the large majority of our products to distributors that onward sell the products to hospitals and pharmacies, either directly or through their sub-distributors. In 2010, 2011, 2012 and the six months ended 30 June 2013, aggregate sales to our five largest customers accounted for 19.9%, 17.6%, 17.5% and 16.4% of our revenue, and sales to our largest customer accounted for 5.7%, 4.1%, 4.3% and 4.0% of our revenue for the respective period. As of the Latest Practicable Date, we had a nationwide network of over 500 distributors located across 31 provinces, municipalities and autonomous regions in China. Our in-house team and third-party promotion partners work closely with our distributors to execute purchase orders and respond to hospitals and pharmacies' demands for our products in a timely manner.

In 2010, 2011 and 2012, our total revenue was RMB570.6 million, RMB717.8 million and RMB958.7 million, respectively, representing a CAGR of 29.6% over the three years. Our total revenue increased by 27.4% from RMB432.7 million in the six months ended 30 June 2012 to RMB551.3 million in the six months ended 30 June 2013. Our gross profit in 2010, 2011 and 2012 was RMB166.1 million, RMB195.7 million and RMB306.7 million, respectively, representing a CAGR of 35.9% over the three years, and our gross profit margin for the respective year was 29.1%, 27.3% and 32.0%. Our gross profit increased by 22.3% from RMB133.4 million in the six months ended 30 June 2012 to RMB163.2 million in the six months ended 30 June 2013 and our gross profit margin decreased from 30.8% to 29.6%. Our net profit in 2010, 2011 and 2012 was RMB75.1 million, RMB97.0 million and RMB185.7 million, respectively, representing a CAGR of 57.3% over the three years, and our net profit margin for the respective year was 13.2%, 13.5% and 19.4%. Our net profit increased by 42.2% from RMB78.1 million in the six months ended 30 June 2012 to RMB111.1 million in the six months ended 30 June 2013 and our net profit margin increased from 18.1% to 20.1%.

SIGNIFICANT FACTORS AFFECTING OUR RESULTS OF OPERATIONS

The most significant factors that directly or indirectly affect our financial performance and results of operations are:

- market demand for our products and services;
- our ability to secure and maintain marketing, promotion and sales rights;
- PRC regulations on tender processes and prices of pharmaceutical products;
- the mix of services we provide for our products; and
- PRC taxation.

Market Demand for Our Products and Services

A key growth driver of our business has been, and we expect will continue to be, the increased demand for pharmaceutical products and medical devices in China, in particular increased demand for imported pharmaceutical products and medical devices from small- and medium-sized suppliers. With approximately one-fifth of the world's population, a fast-growing economy, an ageing population with increasing disposable income, health awareness and life expectancy and active government support, China represents a significant potential market for pharmaceutical products and medical devices. China's pharmaceutical product and medical device market has grown, and is expected to continue grow, significantly. According to the Frost & Sullivan Report, the Chinese market for imported pharmaceutical products grew from RMB26.8 billion in 2008 to RMB60.3 billion in 2012, representing a CAGR of 22.5% from 2008 to 2012, and is expected to continue to grow at a CAGR of 21.1% from 2013 to 2017 and reach RMB159.6 billion in 2017; while the Chinese market for imported medical devices grew from RMB31.4 billion in 2008 to RMB72.2 billion in 2012, representing a CAGR of 23.2% from 2008 to 2012, and is expected to continue to grow at a CAGR of 20.5% from 2013 to 2017 and reach RMB177.0 billion in 2017.

As imported pharmaceuticals and medical devices are generally perceived by Chinese consumers to be of superior quality than domestic alternatives, we expect that demand for such

products to particularly benefit from the overall projected growth of the Chinese market. We provide comprehensive marketing, promotion and channel management services to small- and medium-sized overseas suppliers that have limited understanding of the Chinese market or do not have the capability, expertise and experience to introduce their products to the Chinese market independently. According to the Frost & Sullivan Report, the market for imported pharmaceutical products manufactured by small- and medium-sized companies is expected to grow at a CAGR of 21.8% from 2013 to 2017, reaching RMB75.4 billion in 2017. Please see the section headed "Industry Overview" of this prospectus for further details. We believe demand for this market segment is further enhanced by the more affordable pricing it offers as compared to similar products manufactured by large international companies.

However, the continued growth in demand for pharmaceutical products and medical devices in China, as well as our ability to benefit from that growth through an increase in demand for our services, is subject to a number of risks and uncertainties. If demand for imported pharmaceutical products and medical devices fails to achieve the expected growth, our growth strategy and results of operations could be materially and adversely affected.

Our Ability to Secure and Maintain Marketing, Promotion and Sales Rights

We do not manufacture pharmaceutical products or medical devices, and depend on a limited number of suppliers to provide us with the products that we market, promote and sell. Substantially all of the products we sold during the Track Record Period were purchased from our top five suppliers. In particular, total sales of products purchased from our largest supplier, Alcon, accounted for 70.1%, 72.9%, 66.2% and 63.7% of our total revenue and 43.5%, 46.3%, 34.0% and 34.8% of our total gross profit in 2010, 2011, 2012 and the six months ended 30 June 2013, respectively. During the Track Record Period, we expanded our portfolio of pharmaceutical products (substantially all of which are prescription products) from 25 products, covering six therapeutic areas, to 32 products, covering eight therapeutic areas as of the Latest Practicable Date. In 2012, we expanded our product portfolio to include medical devices to address four medical specialties. If we are unable to maintain existing, and secure new, marketing, promotion and sales rights in China, our business, financial condition and results of operations could be materially and adversely affected.

Our ability to maintain and secure our marketing, promotion and sales rights in China is dependent on various factors, including the effectiveness of our comprehensive marketing, promotion and channel management services, our ability to perform our contractual obligations specified in the relevant supply agreements and continuing relationships with the suppliers. In addition, our ability to maintain marketing, promotion and sales rights may be affected by a number of factors beyond our control, including the general demand for our products in China, our suppliers' business strategies in China and the market and competitive environment. Please see the section headed "Risk Factors — Risks Relating to Our Business — We rely on a limited number of suppliers under fixed term supply agreements to provide us with the pharmaceutical products and medical devices we market, promote and sell. If we cannot renew such agreements or otherwise maintain our relationships with suppliers, our business, financial condition and results of operations may be materially and adversely affected" of this prospectus.

PRC Regulations on Tender Processes and Prices of Pharmaceutical Products

A substantial portion of the products we sell to our customers are then sold to public hospitals and medical institutions in China. Public hospitals and medical institutions must implement collective tender processes for the purchase of pharmaceutical products listed in the Insurance Catalogues.

Our sales volume and market share depend on our ability to successfully compete in the collective tender processes for the sale of pharmaceutical products to public hospitals and medical

institutions. Factors considered by these hospitals in assessing bids include, among other things, the quality and price of the products and the service and reputation of the tendering parties. We believe that our success in winning bids in collective tender process was a key factor to our revenue growth, allowing our products to reach over 20,000 public hospitals and other medical institutions in 31 provinces, municipalities and autonomous regions in China during the Track Record Period. If we are not successful in winning bids in hospital tender processes in the future, we will lose the revenue associated with the sale of the affected pharmaceutical products to those hospitals. Please see the section headed "Risk Factors — Risks Relating to Our Business — We may not be able to compete successfully in the tender processes for the sale of pharmaceutical products and medical devices to public hospitals and medical institutions, which may materially and adversely affect our business, financial condition and results of operations" of this prospectus.

On the other hand, if we are successful in winning bids in hospital tender processes, the relevant products will be sold to the hospitals at the bid prices, which in part determine the prices at which we sell our products to our distributors. Our bidding strategy focuses on emphasising the quality of our products at reasonable prices, instead of competing solely based on pricing. Therefore, our selling prices were not significantly affected by the tender processes during the Track Record Period.

In China, pharmaceuticals listed in the Insurance Catalogues are generally sold at a higher volume because patients purchasing such pharmaceuticals are eligible for a full or partial reimbursement under the medical insurance programmes. As a result, the inclusion of any of our products in the Insurance Catalogues tends to substantially increase our sales volume of that product. However, pharmaceuticals included in the Insurance Catalogues are subject to price controls primarily in the form of maximum retail prices, and their prices may be adjusted downwards from time to time. This in turn may have a corresponding impact on the wholesale price of the affected products and may negatively affect our revenue and profitability.

As of the Latest Practicable Date, 16 of our 32 products were included in the National Insurance Catalogue and subject to price controls at the national level, and 13 additional products were included in the relevant provincial Insurance Catalogues and subject to price controls within the respective province, municipality or autonomous region. Sales of the 16 products subject to price controls at the national level accounted for approximately 71.4%, 71.1%, 68.7% and 66.4% of our total revenue in 2010, 2011, 2012 and the six months ended 30 June 2013, respectively. Sales of the additional 13 products subject to price controls at the provincial level accounted for approximately 17.1%, 22.3%, 24.0% and 21.3% of our total revenue in 2010, 2011, 2012 and the six months ended 30 June 2013, respectively. During the Track Record Period, the NDRC lowered the maximum retail prices of certain of our pharmaceutical products in March 2011, June 2011, October 2012 and February 2013, respectively. The lowering on the maximum retail prices for those products had only a limited impact on the overall average selling prices, revenue and gross profit margins of our products during the Track Record Period because we were able to partially pass on the price adjustments to our distributors and suppliers and sell the products to hospitals and pharmacies through our distributors at prices that allow a profit margin for the hospitals and pharmacies. In addition, seven of the 14 additional prescription pharmaceutical products in our product pipeline will be subject to price controls if the current price control measures remain unchanged when the sale of such products commences in China. See the section headed "Business — Pricing" for more details.

However, we may not be able to pass on future price adjustments to our distributors and suppliers and if we are required to lower the prices at which we sell our products due to the future impact of price controls, our business, financial condition and results of operations may be materially and adversely affected. Please see the section headed "Risk Factors — Risks Relating to Our Business

— The majority of the pharmaceutical products we market, promote and sell are subject to government price controls that may adversely affect our margins" of this prospectus.

To mitigate the risks associated with any potential price control measures imposed against our products and to reduce the potential impact on our business and results of operations, we continue to expand our product portfolio and increase the number of products that we market, promote and sell to reduce our reliance on any single or a small group of products.

The Mix of Services We Provide for Our Products

We achieve higher margins in respect of products sold via the provision of comprehensive marketing, promotion and channel management services, as compared to products sold via the provision of co-promotion and channel management services. Such differences in gross profit margins reflect the level of services we provide in respect of the particular products. Generally, we provide a higher level of value-added services for products sold via the provision of comprehensive marketing, promotion and channel management services and the suppliers have minimal involvement in the marketing, promotion and sales of such products. Please see the section headed "Business — Our Services" of this prospectus for further details of the key differences between our comprehensive marketing, promotion and channel management services and our co-promotion and channel management services.

The following table sets out a breakdown of our revenue by the types of services we provide with respect to the relevant products and as a percentage of our total revenue for the periods indicated:

	For the year ended 31 December						For the six months ended 30 June			
	2010		2011		2012		2012		2013	
	RMB'000	% of revenue	RMB'000	% of revenue	RMB'000	% of revenue	RMB'000 (unaudited)	% of revenue	RMB'000	% of revenue
Revenue										
Products sold via the provision of comprehensive marketing, promotion and channel management services	170,549	29.9	194,437	27.1	323,721	33.8	135,883	31.4	200,257	36.3
Products sold via the provision of co-promotion and channel management services	400,098	70.1	523,394	72.9	635,002	66.2	296,816	68.6	351,073	63.7
Total	570,647	100.0	717,831	100.0	958,723	100.0	432,699	100.0	551,330	100.0

The following table sets out a breakdown of our gross profit margin by the types of services we provide with respect to the relevant products for the periods indicated:

	For the year ended 31 December			For the six months ended 30 June	
	2010	2011	2012	2012	2013
	%	%	%	% (unaudited)	%
Gross profit margin					
Products sold via the provision of comprehensive marketing, promotion and channel management services	55.0	54.0	62.6	62.9	53.1
Products sold via the provision of co-promotion and channel management services	18.0	17.3	16.4	16.1	16.2
Overall	29.1	27.3	32.0	30.8	29.6

Our products sold via the provision of comprehensive marketing, promotion and channel management services accounted for 29.9%, 27.1%, 33.8% and 36.3% of our total revenue and 56.5%, 53.7%, 66.0% and 65.2% of our gross profit in 2010, 2011, 2012 and the six months ended 30 June 2013, respectively. Our products sold via the provision of co-promotion and channel management services accounted for 70.1%, 72.9%, 66.2% and 63.7% of our total revenue and 43.5%, 46.3%, 34.0% and 34.8% of our gross profit in 2010, 2011, 2012 and the six months ended 30 June 2013, respectively. The percentage increases in the revenue and gross profit contributions from products sold via the provision of co-promotion and channel management services, and the decrease of our gross profit margin, from 2010 to 2011 were primarily due to an increase in the demand for Alcon products in 2011 mainly because of the positive impact from the inclusion of certain Alcon products in the Insurance Catalogues and certain reported quality issues of the products of a major competitor of Alcon. Please see "— Description of Selected Components of Statements of Profit or Loss and Other Comprehensive Income — Cost of Sales, Gross Profit and Gross Profit Margin" and "— Results of Operations" below for detailed discussions of the gross profit margin changes from period to period.

For our comprehensive marketing, promotion and channel management services, we strategically target the highly attractive market segments of imported pharmaceutical products and medical devices manufactured by small- and medium-sized overseas suppliers. We expect revenue and profit contributions from products sold via the provision of such services to increase in future periods. However, if the market demand for our products sold via the provision of comprehensive marketing, promotion and channel management services declines in the future because, for example, substitute or replacement products at more favourable price terms or with better quality become available in the market or we fail to sustain the popularity of such products, our revenue and profits could be materially and adversely affected. Alternatively, if demand growth for products sold via the provision of co-promotion and channel management services outpaces that for products sold via the provision of comprehensive marketing, promotion and channel management services, our margins could also be adversely affected.

PRC Taxation

PRC enterprise income tax, or EIT, constitutes substantially all of our income tax. The standard EIT rate, which is applicable to our PRC subsidiaries, is 25%, except for subsidiaries that enjoy preferential tax rates. In 2010 and most of 2011, our business was conducted primarily through Pioneer Pharma, a company located in Hainan Yangpu Economic Development Zone. Pioneer Pharma was subject to a reduced EIT rate of 22% and 24% in 2010 and 2011, respectively and a regular EIT rate of 25% in 2012. In October 2011, Naqu Pioneer, a company located in Naqu, Tibet, became a wholly-owned subsidiary of Pioneer Pharma and we began conducting our business operations through Naqu Pioneer. Since the beginning of 2012, we have been conducting our business primarily through Naqu Pioneer. Naqu Pioneer was entitled to reduced EIT rates of 15% and 9% in 2011 and 2012, respectively, pursuant to local policies. Please see "— Description of Selected Components of Statements of Profit or Loss and Other Comprehensive Income — Income Tax Expense" below and the section headed "Regulatory Framework — Regulations Relating to Taxation" of this prospectus for further details of our taxation. Our effective tax rate was 22.5%, 21.2%, 10.2% and 11.1% for the years ended 31 December 2010, 2011, 2012 and the six months ended 30 June 2013, respectively. We expect to continue to enjoy reduced EIT rates as substantially all of our revenue will be generated through Naqu Pioneer and the reduced EIT rate of 9% applicable to Naqu Pioneer will be effective through 2019.

Furthermore, under local government policies aimed at encouraging local business operations, we receive grants as reimbursement for our payment of EIT and other taxes. In particular, we currently receive, and expect that we will continue to receive through 2020, preferential tax treatment in the form of government grants pursuant to which the local government returns to us each year the full 9% EIT

paid by Naqu Pioneer in the prior year. Please see "— Description of Selected Components of Statements of Profit or Loss and Other Comprehensive Income — Other Income" below for further details of the government grants.

However, preferential tax treatment granted to our subsidiaries by governmental authorities, including the return of taxes through government grants, is subject to review and could be adjusted or terminated. The discontinuation of any preferential tax treatment currently available to us will cause our effective tax rate to increase, which could have a material adverse effect on our results of operations. Please see the section headed "Risk Factors — Risks relating to Our Business — We are subject to potential changes or termination of the preferential tax treatments and government support policies currently applicable to us" of this prospectus.

BASIS OF PRESENTATION

Our Company was incorporated on 5 February 2013 as an exempted limited liability company in the Cayman Islands. The Group underwent the Reorganisation in preparation for the Listing. Prior to the Reorganisation, Pioneer Pharma conducted the majority of the Group's current principal business. As part of the Reorganisation, on 25 June 2013, the assets and liabilities of Pioneer Pharma except for (i) properties and motor vehicles, (ii) investment in an associate, being the interest in Covex and (iii) certain receivables and payables, were transferred to Naqu Pioneer upon the completion of the Reorganisation (the **"Transferred Business"**). Upon completion of the Reorganisation, our Company became our Group's holding company. The Company and its subsidiaries (including the Transferred Business) have been under the common control of the Controlling Shareholders throughout the Track Record Period or since their respective date of incorporation or establishment, where there is a shorter period. Therefore, the Group resulting from the Reorganisation is regarded as a continuing entity. Accordingly, the financial information included in the accountant's report set out in Appendix I to this prospectus has been prepared on the basis as if the Company had always been the holding company of the Group using the principles of merger accounting.

The consolidated statements of profit or loss and other comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for the Track Record Period include the results, changes in equity and cash flows of the companies (including the Transferred Business) now comprising the Group as if the current group structure had been in existence throughout the Track Record Period, or since their respective date of incorporation or establishment, where there is a shorter period.

The consolidated statements of financial position of the Group as at 31 December 2010, 2011 and 2012 and 30 June 2013 have been prepared to present the assets and liabilities of the companies (including the Transferred Business) now comprising the Group as if the current group structure had been in existence at those dates taking into account the respective dates of incorporation/establishment of the companies now comprising the Group, where applicable.

Pioneer Pharma has no other business except its investment in Covex, which was made in 2012 and does not form part of our Group. Therefore, the accounts' report set out in Appendix I to this prospectus has incorporated the financial information of Pioneer Pharma during the Track Record Period except for Pioneer Pharma's investment in Covex. The cash outflow relating to the investment during 2012 is accounted for as a deemed distribution to shareholders.

CRITICAL ACCOUNTING POLICIES, ESTIMATES AND JUDGEMENT

The discussion and analysis of our financial position and results of operations are based on the consolidated financial statements prepared in accordance with the significant accounting policies set

out in the accountants' report set out in Appendix I to this prospectus. Preparation of our individual and consolidated financial information requires us to make estimates and judgements in applying certain critical accounting policies which may have a significant impact on our consolidated results. We base our estimates on historical experience and other assumptions which our management believes to be reasonable under the circumstances. Results may differ from these estimates under different assumptions and conditions. The following are regarded as critical accounting policies which may require estimates and assumptions on the part of our Directors.

Revenue Recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold in the normal course of business, net of sales returns, rebates, discounts and sales related taxes.

Revenue from the sale of goods is recognised when the goods are delivered to and received by our customers and titles have passed, at which time all the following conditions are satisfied:

- our Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- our Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to our Group; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Our revenue is recorded net of sales returns. Our estimated provisions for sales return are based upon historical experience and current trends of actual customer returns. As of 31 December 2010, 2011 and 2012 and 30 June 2013, the carrying amounts of provision for sales return were RMB1.9 million, RMB2.8 million, RMB3.2 million and RMB3.7 million, respectively. Actual sales returns could differ from our estimates.

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to our Group and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition. We use judgment in selecting an appropriate valuation technique for financial instruments not quoted in an active market and applying valuation techniques commonly used by market practitioners.

Inventories

Inventories are stated at the lower of cost and net realisable value. Costs of inventories are calculated using the first-in-first-out method. Net realisable value represents the estimated selling price for inventories less all estimated costs necessary to make the sale.

We review the ageing of our inventories at the end of each reporting period, and make allowance for obsolete and slow-moving inventory items identified that are no longer saleable in the

market. We estimate the net realisable value for such items based primarily on the latest invoice prices and current market conditions. We carry out an inventory review on a product-by-product basis at the end of each reporting period and make allowance for obsolete items. As of 31 December 2010, 2011 and 2012 and 30 June 2013, the carrying amounts of our inventories were RMB109.6 million, RMB242.6 million, RMB295.9 million and RMB299.7 million, respectively, net of allowance for inventories of RMB1.0 million, RMB1.2 million, RMB1.3 million and RMB0.9 million, respectively.

Trade Receivables

We take into consideration the estimation of future cash flows when there is objective evidence of impairment loss. The amount of the impairment loss 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 been incurred) discounted at the financial asset's effective interest rate computed at initial recognition. Where the actual future cash flows are less than expected, a material impairment loss may arise. As of 31 December 2010, 2011 and 2012 and 30 June 2013, the carrying amounts of trade receivables were RMB78.2 million, RMB97.1 million, RMB122.1 million and RMB164.6 million, respectively, net of allowance for doubtful debts of RMB0.4 million, RMB0.5 million, RMB0.1 million and RMB0.3 million, respectively.

Foreign Currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are re-translated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rate prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the re-translation of monetary items, are recognised in profit or loss in the period in which they arise, except for exchange differences arising on a monetary item that form part of our Group's net investment in a foreign operation, in which case, such exchange differences are recognised in other comprehensive income and accumulated in equity and will be reclassified from equity to profit or loss on disposal of the foreign operation.

For the purposes of presenting the Financial Information, the assets and liabilities of our Group's foreign operations are translated into the presentation currency of the Group (i.e. RMB) at the rate of exchange prevailing at the end of the reporting period. Income and expenses items are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of the translation reserve (attributable to non-controlling interests as appropriate).

Financial Instruments

Financial assets and financial liabilities are recognised in the consolidated statement of financial position when a group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other

than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial Assets

The Group's financial assets are classified into one of the three categories, including financial assets at fair value through profit or loss ("FVTPL"), loans and receivables and available-for-sale financial assets. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest income is recognised on an effective interest basis for debt instruments.

Financial assets at fair value through profit or loss

Financial assets at FVTPL represent financial assets held for trading.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near term; or
- it is a part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

Financial assets at FVTPL are measured at fair value, with changes in fair value arising from remeasurement recognised directly in profit or loss in the period in which they arise. The net gain or loss recognised in profit or loss includes any dividend or interest earned on the financial assets and is included in the 'other gains and losses' in the consolidated statement of comprehensive income. Fair value is determined in the manner described in note 6 to the accountant's report included in Appendix I to this prospectus.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including trade and other receivables, pledged bank deposits, restricted bank deposits and bank balances and cash) are carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment loss on financial assets below).

Available-for-sale financial assets

Available-for-sale financial assets, representing other investments, are non-derivatives that are either designated or not classified as financial assets at FVTPL, loans and receivables or held-to-maturity investments.

Equity securities held by our Group that are classified as available-for-sale and are traded in an active market are measured at fair value at the end of each reporting period. Changes in the fair value of available-for-sale equity securities are recognised in other comprehensive income and accumulated under the heading of investments revaluation reserve. Dividends on available-for-sale equity investments are recognised in profit or loss. When the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified to profit or loss (see the accounting policy in respect of impairment loss on financial assets below).

Financial Liabilities and Equity Instruments

Debt and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities. Equity instruments issued by the group entities are recognised at the proceeds received, net of direct issue costs.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that from an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest expense is recognised on an effective interest basis.

Financial liabilities at fair value through profit or loss

Financial liabilities at FVTPL represent financial liabilities held for trading.

A financial liability is classified as held for trading if:

- it has been incurred principally for the purpose of repurchasing in the near term; or
- on initial recognition it is a part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

Financial liabilities at FVTPL are measured at fair value, with any gains or losses arising on remeasurement recognised directly in profit or loss in the period in which they arise. The net gain or

loss is included in the 'other gains and losses' line item in profit or loss and includes any interest paid on the financial liabilities.

Other financial liabilities

Other financial liabilities including trade and other payables, bank borrowings and amounts due to related parties are subsequently measured at amortised cost, using the effective interest method.

Derivative Financial Instruments

Derivatives are initially recognised at fair value at the date when a derivative contract is entered into and are subsequently remeasured to their fair value at the end of the reporting period. The resulting gain or loss is recognised in profit or loss immediately.

Fair value of derivative financial instruments

Our Directors use their judgement in selecting an appropriate valuation technique for financial instruments not quoted in an active market. Valuation techniques commonly used by market practitioners are applied. For derivative financial instruments, assumptions are made based on quoted market rates adjusted for specific features of the instrument. Our Directors believe that the chosen valuation techniques and assumptions are appropriate in determining the fair value of financial instruments.

Government Grants

Government grants are not recognised until there is reasonable assurance that our Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognised in profit or loss on a systematic basis over the periods in which our Group recognises as expenses the related costs for which the grants are intended to compensate.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to our Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit before tax as reported in the consolidated statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. Our Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the Financial Information and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are recognised for all deductible temporary difference to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the

initial recognition of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries, except where our Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments are only recognised to the extent that it is probable that there will be sufficient taxable profit against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of the reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which our Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Current and deferred taxes are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred taxes are also recognised in other comprehensive income or directly in equity, respectively.

Impairment Losses on Tangible and Intangible Assets Other than Financial Assets

At the end of the reporting period, the Group reviews the carrying amounts of its tangible and intangible assets with finite useful lives to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. When it is not possible to estimate the recoverable amount of an individual asset, our Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no

impairment loss been recognised for the asset (or a cash-generating unit) in prior years. A reversal of an impairment loss is recognised as income immediately.

DESCRIPTION OF SELECTED COMPONENTS OF STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Revenue

We generate revenue from the sale of products purchased from our suppliers and we do not directly receive any marketing or service fees from our suppliers. During 2010, 2011 and 2012, we generated substantially all of our revenue from sales of pharmaceutical products. Beginning in 2012, we also began to generate a small portion of revenue from sales of medical devices.

We categorise our sales of pharmaceutical products and medical devices into two categories based on the type of services we provide:

- products sold via the provision of comprehensive marketing, promotion and channel management services; and
- products sold via the provision of co-promotion and channel management services, which are provided for Alcon products.

The following table sets out a breakdown of our revenue by the types of services we provide with respect to the relevant products and as a percentage of our total revenue for the periods indicated:

	For the year ended 31 December						For the six months ended 30 June			
	2010		2011		2012		2012		2013	
	RMB'000	% of revenue	RMB'000	% of revenue	RMB'000	% of revenue	RMB'000 (unaudited)	% of revenue	RMB'000	% of revenue
Revenue										
Products sold via the provision of comprehensive marketing, promotion and channel management services	170,549	29.9	194,437	27.1	323,721	33.8	135,883	31.4	200,257	36.3
Products sold via the provision of co-promotion and channel management services	400,098	70.1	523,394	72.9	635,002	66.2	296,816	68.6	351,073	63.7
Total	570,647	100.0	717,831	100.0	958,723	100.0	432,699	100.0	551,330	100.0

Please see the sections headed "Business — Our Services — Comprehensive Marketing, Promotion and Channel Management Services" and "Business — Our Services — Co-Promotion and Channel Management Services" of this prospectus for detailed discussions regarding our products sold via the provision of comprehensive marketing, promotion and channel management services and our products sold via the provision of co-promotion and channel management services.

During the Track Record Period, a substantial portion of our revenue was generated from the sale of the Alcon series of ophthalmic pharmaceutical products. In 2010, 2011, 2012 and the six months ended 30 June 2013, sale of Alcon products in aggregate amounted to RMB400.1 million, RMB523.4 million, RMB635.0 million and RMB351.1 million, respectively, which collectively represented 70.1%, 72.9%, 66.2% and 63.7% of our total revenue for the respective period. We expect that the sales of Alcon products to continue to comprise a substantial portion of our revenue in the near

future, and our business will therefore remain sensitive to the sales volume and pricing of the Alcon products. Please see the section headed “Risk Factors — Risks Relating to Our Business — We depend on the sale of Alcon products for a substantial portion of our revenue. If we fail to maintain the rights for Alcon products or our relationship with Alcon, or the market demand for Alcon products declines, our business, financial condition and results of operations may be materially and adversely affected” of this prospectus.

Cost of Sales, Gross Profit and Gross Profit Margin

Our cost of sales primarily represents costs of the purchase of pharmaceutical products and medical devices from our suppliers.

Gross profit is equal to revenue, substantially all of which is derived from the sale of pharmaceutical products and medical devices, less cost of sales. Gross profit margin is equal to gross profit divided by revenue. Changes in our gross profit and margin from period to period are primarily driven by (i) our product mix, (ii) the selling prices to our customers, which in turn are affected by the price controls imposed by the PRC government, hospital tender processes and the proportion of our products sold in first-tier cities, and (iii) the purchase prices from our suppliers, taking into account the impact of exchange rate fluctuations on purchases that are denominated in foreign currencies.

The following tables set out a breakdown of our cost of sales, gross profit and gross profit margin by the types of our services for the periods indicated:

	For the year ended 31 December						For the six months ended 30 June			
	2010		2011		2012		2012		2013	
	RMB'000	% cost of sales	RMB'000	% of cost of sales	RMB'000	% of cost of sales	RMB'000 (unaudited)	% of cost of sales	RMB'000	% of cost of sales
Cost of sales										
Products sold via the provision of comprehensive marketing, promotion and channel management services	76,667	19.0	89,387	17.1	121,173	18.6	50,375	16.8	93,883	24.2
Products sold via the provision of co-promotion and channel management services	327,890	81.0	432,742	82.9	530,805	81.4	248,890	83.2	294,214	75.8
Total	404,557	100.0	522,129	100.0	651,978	100.0	299,265	100.0	388,097	100.0

	For the year ended 31 December						For the six months ended 30 June			
	2010		2011		2012		2012		2013	
	Gross profit RMB'000	Gross profit margin %	Gross profit RMB'000	Gross profit margin %	Gross profit RMB'000	Gross profit margin %	RMB'000 (unaudited)	Gross profit margin %	RMB'000	Gross profit margin %
Gross profit and gross profit margin										
Products sold via the provision of comprehensive marketing, promotion and channel management services	93,882	55.0	105,050	54.0	202,548	62.6	85,508	62.9	106,374	53.1
Products sold via the provision of co-promotion and channel management services	72,208	18.0	90,652	17.3	104,197	16.4	47,926	16.1	56,859	16.2
Total/overall	166,090	29.1	195,702	27.3	306,745	32.0	133,434	30.8	163,233	29.6

We achieve higher gross profit margins in respect of products sold via the provision of comprehensive marketing, promotion and channel management services, as compared to products sold via the provision of co-promotion and channel management services which require us to perform fewer services. Such differences in gross profit margins reflect the level of services we provide in respect of the particular products. Generally, we provide more value-added services for products sold via the provision of comprehensive marketing, promotion and channel management services and the suppliers have minimal involvement in the marketing, promotion and sale of such products. Please see the section headed "Business — Our Services" of this prospectus for further details of the key differences between our comprehensive marketing, promotion and channel management services and our co-promotion and channel management services.

Our gross profit margin from products sold via the provision of comprehensive marketing, promotion and channel management services was 55.0%, 54.0%, 62.6% and 53.1% in 2010, 2011, 2012 and the six months ended 30 June 2013, respectively. The increase of such gross profit margin from 54.0% in 2011 to 62.6% in 2012 was primarily due to (i) the increased sales of certain of our existing higher-margin key products, such as Difene, and increased margins of certain of our existing key products, such as Fluxum, primarily as a result of the broadening of our distribution network for these products to penetrate the market, particularly in larger cities, (ii) the increased sales of high-margin product Polimod, which we began selling in May 2011, and (iii) the decrease in Renminbi-translated purchase prices of products that were denominated in U.S. dollar and Euro, as a result of the appreciation of Renminbi. The decrease of such gross profit margin from 62.9% in the six months ended 30 June 2012 to 53.1% in the six months ended 30 June 2013 was primarily due to the increased sales of medical devices within our comprehensive marketing, promotion and channel management services segment. Within the products we sell via the provision of our comprehensive marketing, promotion and channel management services, we generally achieve higher gross profit margins for pharmaceutical products than medical devices.

Our gross profit margin from products sold via the provision of co-promotion and channel management services decreased from 18.0% in 2010 to 17.3% in 2011, 16.4% in 2012 and 16.2% in the six months ended 30 June 2013, primarily due to increases in purchase prices for Alcon products.

Other Income

Our other income mainly represents income recognised with respect to grants from the local government to encourage our business and operations and interest on bank deposits. The following table sets forth a breakdown of our other income for the periods indicated:

	For the year ended 31 December			For the six months ended 30 June	
	2010	2011	2012	2012	2013
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Government grants	7,937	7,269	11,383	5,337	35,112
Interest on bank deposits	5,827	7,455	14,428	9,355	6,772
Rental income	334	594	775	381	410
Others	355	626	18	-	242
Total	14,453	15,944	26,604	15,073	42,536

The increase in government grants beginning in 2012 primarily reflected the return of EIT paid by Naqu Pioneer in 2011 in respect of its increased business activity beginning in October 2011, which further increased in the six months ended 30 June 2013 as a result of EIT paid in 2012 after we began to conduct our business operations primary through Naqu Pioneer in the beginning of 2012.

Please see "— Significant Factors Affecting our Results of Operation — PRC Taxation" above, "— Description of Selected Components of Statements of Profit or Loss and Other Comprehensive Income — Income Tax Expense" below and the section headed "Regulatory Framework — Regulations Relating to Taxation" of this prospectus for further details of our taxation.

Distribution and Selling Expenses

Distribution and selling expenses mainly include marketing and promotion expenses, salaries and benefits for our personnel engaged in marketing and sales activities, inspection expenses,

travelling expenses relating to marketing and sales activities, transportation and miscellaneous expenses and charges, welfare benefits and other related expenses.

Marketing and promotion expenses primarily include expenses incurred by, and bonuses paid to, our promotion partners, as well as the expenses incurred by our own marketing and promotion team. We reimburse marketing and promotion expenses incurred by our promotion partners up to a pre-agreed maximum amount. We may also provide incentives to these promotion partners when they exceed certain promotion targets. These promotion targets include pre-agreed sales volume and number of hospitals covered. Inspection expenses primarily include expenses incurred by us for the inspection of our imported pharmaceutical products. Transportation and related charges primarily include shipping costs to our customers.

The following table sets out a breakdown of our distribution and selling expenses and each item is also expressed as a percentage of our revenue for the periods indicated:

	For the year ended 31 December						For the six months ended 30 June			
	2010		2011		2012		2012		2013	
	RMB'000	% of revenue	RMB'000	% of revenue	RMB'000	% of revenue	RMB'000 (unaudited)	% of revenue	RMB'000	% of revenue
Marketing and promotion expenses	46,234	8.1	47,129	6.6	56,855	5.9	26,773	6.2	29,228	5.3
Salaries and benefits for marketing and sales employees	6,634	1.2	8,095	1.1	15,670	1.6	6,516	1.5	9,740	1.8
Inspection expenses	4,957	0.9	7,069	1.0	7,767	0.8	3,586	0.8	4,251	0.8
Travelling expenses	217	0.0	679	0.1	2,248	0.3	847	0.2	1,193	0.2
Transportation and miscellaneous expenses and charges	2,132	0.4	2,694	0.4	3,714	0.4	1,725	0.4	2,159	0.4
Administrative and other expenses	3,637	0.6	2,986	0.4	5,833	0.6	1,928	0.4	1,169	0.1
Total	63,811	11.2	68,652	9.6	92,087	9.6	41,375	9.5	47,740	8.6

The decrease in distribution and selling expenses as percentage of revenue in 2011 and 2012 compared to 2010, and the decrease in the six months ended 30 June 2013 compared to the six months ended 30 June 2012, were mainly because certain of our products had become more established in the market and therefore required proportionally less marketing and promotion expenditures in order to generate corresponding revenue.

Listing Expenses

Listing expenses comprise the expenses incurred in connection with the Global Offering and mainly include the professional fees paid to accountants, attorneys and valuers. We incurred listing expenses of RMB7.4 million in the six months ended 30 June 2013 and did not incur listing expenses in 2010, 2011 and 2012.

Administrative Expenses

Administrative expenses mainly include salaries and compensation for our management and administrative staff, depreciation and amortisation expenses, travelling and hospitality expenses, professional fees, and other miscellaneous expenses such as rental, office expenses and utilities, and provision for bad and doubtful debts. The following table sets out a breakdown of our administrative expenses and each item is also expressed as a percentage of our revenue for the periods indicated:

	For the year ended 31 December						For the six months ended 30 June			
	2010		2011		2012		2012		2013	
	RMB '000	% of Revenue	RMB '000	% of Revenue	RMB '000	% of Revenue	RMB'000 (unaudited)	% of revenue	RMB'000	% of revenue
Salaries and compensation for management and administrative staff	4,440	0.8	6,433	0.9	10,302	1.1	4,577	1.1	7,013	1.3
Depreciation and amortisation expenses	1,874	0.3	2,579	0.4	2,871	0.3	1,414	0.3	1,523	0.3
Travelling and hospitality expenses	2,059	0.4	1,678	0.2	2,687	0.3	809	0.2	1,740	0.3
Professional fees	3,160	0.6	2,654	0.4	4,028	0.4	2,024	0.5	549	0.1
Other expenses	4,032	0.6	4,989	0.6	8,782	0.9	2,857	0.6	2,771	0.5
Total	15,565	2.7	18,333	2.5	28,670	3.0	11,681	2.7	13,596	2.5

Finance Costs

Finance costs comprise interest paid on bank borrowings, including borrowings that are secured by our pledged bank deposits, on which we receive interest. Finance costs are not presented on a net basis of interest on bank deposits, which is recorded under other income. Our finance costs increased from RMB5.0 million in 2010 to RMB5.5 million in 2011 and to RMB9.4 million in 2012. This increase was primarily due to increased average balance of our bank borrowings under an offshore short-term banking facility in order to pay for our purchase costs denominated in foreign currencies in a more cost effective manner. Our finance costs decreased from RMB4.8 million in the six months ended 30 June 2012 to RMB3.8 million in the six months ended 30 June 2013, primarily due to decreased average balance of our bank borrowings. See "— Indebtedness" below for further details.

Income Tax Expense

Income tax expense represents the sum of tax currently payable and deferred tax.

Pioneer Medical (HK) and Pioneer HK are incorporated in Hong Kong and subject to Hong Kong Profits Tax at a rate of 16.5% on assessable profits in Hong Kong. No provision for Hong Kong Profits Tax for the year ended 31 December 2012 and for the six months ended 30 June 2013 is made as they have had no assessable profits since their incorporation.

Pioneer Singapore and Pioneer Medident are subject to Singapore Profits Tax of a rate of 17%. No provision for Singapore Profits Tax was made for the year ended 31 December 2012 and for the six months ended 30 June 2013 as the amount involved is insignificant.

PRC enterprise income tax, or EIT, constitutes substantially all of our income tax. The standard EIT rate, which is applicable to our PRC subsidiaries, is 25%, except for subsidiaries that enjoy preferential tax rates. In 2010 and most of 2011, our business was conducted primarily through Pioneer Pharma, a company located in Hainan Yangpu Economic Development Zone. Pioneer Pharma was subject to a reduced EIT rate of 22% and 24% in 2010 and 2011, respectively, and a regular EIT rate of 25% in 2012. In October 2011, Naqu Pioneer, a company located in Naqu, Tibet, became a wholly-owned subsidiary of Pioneer Pharma and we began conducting our business operations through Naqu Pioneer. Since the beginning of 2012, we have been conducting our business primarily through Naqu Pioneer. Naqu Pioneer was entitled to reduced EIT rates of 15% and 9% in 2011 and 2012, respectively, pursuant to local policies. As advised by our legal adviser as to PRC laws, Jingtian & Gongcheng, Naqu Pioneer has satisfied all conditions required for it to be entitled to the preferential tax treatments as disclosed above. The conditions that Naqu Pioneer has satisfied include (i) it was incorporated in the Naqu logistics centre and completed tax registration with the sub-taxation bureau of Naqu region office, the SAT; (ii) it is engaged in the business of the sale and promotion of pharmaceutical products and medical devices (falling within the scope of the encouraged industry sectors) with all licences, permits and certificates required, and it is not engaged in the industry sectors that are expressly prohibited or restricted by the local government of Tibet; and (iii) it obtained an approval notice of tax reduction and exemption that was issued by the sub-taxation bureau of Naqu region office, pursuant to which the 15% EIT tax rate originally applicable to Naqu Pioneer was further reduced by 40% to 9% for a period of ten years from 1 January 2010.

Furthermore, under local government policies aimed at encouraging local business operations, we receive grants as reimbursement for our payment of EIT and other taxes. In particular, we currently receive, and expect that we will continue to receive through 2020, preferential tax treatment in the form of government grants pursuant to which the local government returns to us each year the full 9% EIT paid by Naqu Pioneer in the prior year. Our receipt of government grants is recorded as a component of other income. Please see "— Significant Factors affecting our Results of Operations — PRC Taxation" and "— Description of Selected Components of Statements of Profit or Loss and Other Comprehensive Income — Other Income" above and the section headed "Regulatory Framework — Regulations Relating to Taxation" of this prospectus for further details regarding our taxation and the grants we receive.

The following table sets out our income tax expense for the periods indicated:

	For the year ended 31 December			For the six months ended 30 June	
	2010	2011	2012	2012	2013
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Current tax:					
PRC Enterprise Income Tax	23,963	26,855	24,978	12,794	12,662
Overseas income tax	-	520	-	-	-
	23,963	27,375	24,978	12,794	12,662
(Over) under provision in prior year:					
PRC Enterprise Income Tax	-	-	(2,540)	(2,540)	433
Deferred tax:					
Current year	(2,158)	(1,294)	(2,002)	(1,746)	747
Attributable to a change in tax rate	-	-	686	686	-
	21,805	26,081	21,122	9,194	13,842

Dividends declared by the PRC subsidiaries to parent companies incorporated in Hong Kong and the Cayman Islands are subject to withholding tax of 5% and 10%, respectively.

RESULTS OF OPERATIONS

The following table sets out the data of our consolidated statements of profit or loss and other comprehensive income both in absolute terms and as a percentage of our revenue for the periods indicated:

	For the year ended 31 December						For the six months ended 30 June			
	2010		2011		2012		2012		2013	
	RMB '000	% of revenue	RMB '000	% of revenue	RMB '000	% of revenue	RMB'000 (unaudited)	% of revenue	RMB'000	% of revenue
Revenue	570,647	100.0	717,831	100.0	958,723	100.0	432,699	100.0	551,330	100.0
Cost of sales	(404,557)	(70.9)	(522,129)	(72.7)	(651,978)	(68.0)	(299,265)	(69.2)	(388,097)	(70.4)
Gross profit	166,090	29.1	195,702	27.3	306,745	32.0	133,434	30.8	163,233	29.6
Other income	14,453	2.5	15,944	2.2	26,604	2.8	15,073	3.5	42,536	7.7
Other gains and losses	691	0.1	3,922	0.5	3,682	0.4	(3,347)	(0.8)	(7,091)	(1.3)
Distribution and selling expenses	(63,811)	(11.2)	(68,652)	(9.6)	(92,087)	(9.6)	(41,375)	(9.5)	(47,740)	(8.6)
Listing expenses	-	-	-	-	-	-	-	-	(7,440)	(1.3)
Administrative expenses	(15,565)	(2.7)	(18,333)	(2.5)	(28,670)	(3.0)	(11,681)	(2.7)	(13,596)	(2.5)
Finance costs	(4,976)	(0.8)	(5,490)	(0.8)	(9,435)	(1.0)	(4,805)	(1.1)	(3,820)	(0.7)
Share of loss of an associate	-	-	-	-	-	-	-	-	(1,160)	(0.2)
Profit before tax	96,882	17.0	123,093	17.1	206,839	21.6	87,299	20.2	124,922	22.7
Income tax expense	(21,805)	(3.8)	(26,081)	(3.6)	(21,122)	(2.2)	(9,194)	(2.1)	(13,842)	(2.6)
Profit for the year	75,077	13.2	97,012	13.5	185,717	19.4	78,105	18.1	111,080	20.1
Other comprehensive income (expense):										
Items that may be reclassified subsequently to profit or loss:										
Exchange differences on translation of foreign operations	-	-	(62)	0.0	616	0.1	547	0.1	274	0.1
Fair value (loss) gain on other investments	-	-	-	-	(3,243)	(0.4)	-	-	3,122	0.6
	-	-	(62)	-	(2,627)	(0.3)	547	0.1	3,396	0.7
Total comprehensive income for the year/period	75,077	13.2	96,950	13.5	183,090	19.1	78,652	18.2	114,476	20.8
Profit (loss) for the year/period attributable to:										
Owners of the Company	70,435	12.4	95,675	13.3	186,369	19.5	78,448	18.2	112,499	20.4
Non-controlling interests	4,642	0.8	1,337	0.2	(652)	(0.1)	(343)	(0.1)	(1,419)	(0.3)
	75,077	13.2	97,012	13.5	185,717	19.4	78,105	18.1	111,080	20.1
Total comprehensive income (expense) attributable to:										
Owners of the Company	70,435	12.4	95,613	13.3	183,742	19.2	78,995	18.3	115,895	21.0
Non-controlling interests	4,642	0.8	1,337	0.2	(652)	(0.1)	(343)	(0.1)	(1,419)	(0.2)
	75,077	13.2	96,950	13.5	183,090	19.1	78,652	18.2	114,476	20.8

Six months ended 30 June 2013 compared to six months ended 30 June 2012

Revenue

Our revenue increased by 27.4% from RMB432.7 million in the six months ended 30 June 2012 to RMB551.3 million in the six months ended 30 June 2013. Our revenue from products sold via the provision of comprehensive marketing, promotion and channel management services increased by 47.4% from RMB135.9 million in the six months ended 30 June 2012 to RMB200.3 million in the six months ended 30 June 2013, primarily due to (i) increased sales of medical devices, which we began selling in January 2012, (ii) increased sales of Vinpocetine API, as a result of our increased promotion efforts and

sales to additional pharmaceutical manufacturers, (iii) increased sales of other existing key products, including Difene, Fluxum and Polimod, primarily as a result of the overall growth of market demand for these products. Such sales increases were partially offset by a decrease in sales of Bestcall resulting from the introduction of a new policy to limit the use of antibiotics by the PRC government and a decrease in sales of Fleet Phospho-Soda due to the non-renewal of its imported drug registration certificate. We ceased the import and sale of Bestcall and suspended the import and sale of Fleet Phospho-Soda in 2013, and sales of these two products in the six months ended 30 June 2013 represented the sales of our remaining inventories of these products. Our revenue from products sold via the provision of co-promotion and channel management services increased by 18.3% from RMB296.8 million in the six months ended 30 June 2012 to RMB351.1 million in the six months ended 30 June 2013, primarily due to our increased promotion efforts for the seven Alcon products for which we provide co-promotion services as well as the increasing market demand for Alcon products.

Cost of sales

Our cost of sales increased by 29.7% from RMB299.3 million in the six months ended 30 June 2012 to RMB388.1 million in the six months ended 30 June 2013, primarily due to increased purchase volumes of our products in line with our increased sales. Our cost of sales for products sold via the provision of comprehensive marketing, promotion and channel management services increased by 86.4% from RMB50.4 million in the six months ended 30 June 2012 to RMB93.9 million in the six months ended 30 June 2013, primarily due to increased purchase volumes of these products to meet the increasing market demand. Our cost of sales in products sold via the provision of co-promotion and channel management services increased by 18.2% from RMB248.9 million in the six months ended 30 June 2012 to RMB294.2 million in the six months ended 30 June 2013.

Gross profit and gross profit margin

Our gross profit increased by 22.3% from RMB133.4 million in the six months ended 30 June 2012 to RMB163.2 million in the six months ended 30 June 2013. Our overall gross profit margin decreased from 30.8% to 29.6% for the respective period, primarily due to the increased sales of medical devices within our comprehensive marketing, promotion and channel management services segment. Our gross profit margin from products sold via the provision of comprehensive marketing, promotion and channel management services decreased from 62.9% in the six months ended 30 June 2012 to 53.1%. The decrease in our overall gross profit margins in the six months ended 30 June 2013 relating to medical device sales was partially offset by an overall higher proportional revenue contribution from products sold via the provision of comprehensive marketing, promotion and channel management services, which generate higher margins compared to products sold via the provision of co-promotion and channel management services. Our revenue from products sold via the provision of comprehensive marketing, promotion and channel management services increased by 47.4% from the six months ended 30 June 2012 to the six months ended 30 June 2013, and accounted for 36.3% of our total revenue in the six months ended 30 June 2013 compared to 31.4% in the six months ended 30 June 2012. Our gross profit margin from products sold via the provision of co-promotion and channel management services remained relatively stable at 16.1% in the six months ended 30 June 2012 and 16.2% in the six months ended 30 June 2013.

Other income

Other income increased significantly from RMB15.1 million in the six months ended 30 June 2012 to RMB42.5 million in the six months ended 30 June 2013, primarily due to an increase in government grants, which were partially offset by a decrease in interest on bank deposits. The increase in government grants from RMB5.3 million in the six months ended 30 June 2012 to RMB35.1 million

in the six months ended 30 June 2013 was primarily due to our receipt of grants representing the return of EIT paid by Naqu Pioneer in 2012 after we began to conduct our business operations primary through Naqu Pioneer in the beginning of 2012. Please see "— Significant Factors Affecting Our Results of Operations — PRC taxation" above. The decrease in interest on bank deposits from RMB9.4 million in the six months ended 30 June 2012 to RMB6.8 million in the six months ended 30 June 2013 was primarily due to decreased average balance of our bank deposits.

Distribution and selling expenses

Our distribution and selling expenses increased by 15.4% from RMB41.4 million in the six months ended 30 June 2012 to RMB47.7 million in the six months ended 30 June 2013. Distribution and selling expenses as a percentage of our revenue decreased from 9.5% in the six months ended 30 June 2012 to 8.6% in the six months ended 30 June 2013, mainly because certain of our products had become more established in the market and therefore required proportionately less marketing and promotion expenditures in order to generate corresponding revenue.

Listing Expenses

We incurred listing expenses of RMB7.4 million in the six months ended 30 June 2013 and did not incur listing expenses in the six months ended 30 June 2012. The listing expenses were incurred in connection with the Global Offering and mainly include the professional fees paid to accountants, attorneys and valuers.

Administrative expenses

Our administrative expenses increased by 16.4% from RMB11.7 million in the six months ended 30 June 2012 to RMB13.6 million in the six months ended 30 June 2013, primarily due to an increase in salaries and benefits for our management and administrative staff, as a result of increased headcount because of our expanded business activities and increased average salary and benefit levels, and an increase in travelling and hospitality expenses, partially offset by a decrease in professional fees. Administrative expenses as percentage of revenue decreased from 2.7% in the six months ended 30 June 2012 to 2.5% in the six months ended 30 June 2013.

Finance costs

Our finance costs decreased by 20.5% from RMB4.8 million in the six months ended 30 June 2012 to RMB3.8 million in the six months ended 30 June 2013 primarily due to decreased average balance of our bank borrowings.

Income tax expense

Income tax expense increased by 50.6% from RMB9.2 million in the six months ended 30 June 2012 to RMB13.8 million in the six months ended 30 June 2013. Our effective income tax rate in the six months ended 30 June 2012 and 2013 was 10.5% and 11.1%, respectively.

Profit for the period

As a result of the above factors, our profit for the period increased by 42.2% from RMB78.1 million in the six months ended 30 June 2012 to RMB111.1 million in the six months ended 30 June 2013. Our net profit margin increased from 18.1% in the six months ended 30 June 2012 to 20.1% in the six months ended 30 June 2013.

Year ended 31 December 2012 compared to year ended 31 December 2011

Revenue

Our revenue increased by 33.6% from RMB717.8 million in 2011 to RMB958.7 million in 2012. Our revenue from products sold via the provision of comprehensive marketing, promotion and channel management services increased by 66.5% from RMB194.4 million in 2011 to RMB323.7 million in 2012, primarily due to (i) increased sales of certain of our existing key products, including Fluxum and Difene, as a result of broadening of our distribution network for these products to include additional hospitals, (ii) the full year effect of sales of Polimod, which we began selling in May 2011, (iii) revenue generated by sales of medical devices, which we began selling in January 2012, and (iv) the overall growth of market demand for our products. Our revenue from products sold via the provision of co-promotion and channel management services increased by 21.3% from RMB523.4 million in 2011 to RMB635.0 million in 2012, primarily due to our increased promotion efforts for the six Alcon products for which we provide co-promotion services as well as the increasing market demand for Alcon products.

Cost of sales

Our cost of sales increased by 24.9% from RMB522.1 million in 2011 to RMB652.0 million in 2012, primarily due to an increase in the purchase volume of our products from suppliers. Our cost of sales for products sold via the provision of comprehensive marketing, promotion and channel management services increased by 35.6% from RMB89.4 million in 2011 to RMB121.2 million in 2012. Our cost of sales in products sold via the provision of co-promotion and channel management services increased by 22.7% from RMB432.7 million in 2011 to RMB530.8 million in 2012.

Gross profit and gross profit margin

Our gross profit increased by 56.7% from RMB195.7 million in 2011 to RMB306.7 million in 2012. Our gross profit margin increased from 27.3% in 2011 to 32.0% in 2012. This increase was primarily due to higher proportional revenue contribution from products sold via the provision of comprehensive marketing, promotion and channel management services, which generate higher margins. Our revenue from products sold via the provision of comprehensive marketing, promotion and channel management services increased by 66.5% from 2011 to 2012, and accounted for 33.8% of our total revenue in 2012 compared to 27.1% in 2011.

Our gross profit margin from products sold via the provision of comprehensive marketing, promotion and channel management services increased from 54.0% in 2011 to 62.6% in 2012, primarily due to (i) increased sales of certain of our existing higher-margin key products, such as Difene, and increased margins of certain of our existing key products, such as Fluxum, primarily as a result of the broadening of our distribution network for these products to penetrate the market, particularly in larger cities, (ii) the increased sales and improved margin of Polimod, which we began selling in May 2011, and (iii) the decrease in Renminbi-translated purchase prices of products that were denominated in U.S. dollar and Euro, as a result of the appreciation of Renminbi. Our gross profit margin from products sold via the provision of co-promotion and channel management services decreased from 17.3% in 2011 to 16.4% in 2012, primarily due to increases in purchase prices for Alcon products.

Other income

Other income increased by 66.9% from RMB15.9 million in 2011 to RMB26.6 million in 2012, primarily due to increases in interest on bank deposits and government grants. The increase in

interest on bank deposits from RMB7.5 million in 2011 to RMB14.4 million in 2012 was primarily due to increased balance of our bank deposits to secure our increased borrowings. The increase in government grants from RMB7.3 million in 2011 to RMB11.4 million in 2012 was primarily due to additional grants received by Naqu Pioneer and Xiantao Pioneer in respect of taxes paid in prior years pursuant to local government's policies to encourage local business operations.

Distribution and selling expenses

Our distribution and selling expenses increased by 34.1% from RMB68.7 million in 2011 to RMB92.1 million in 2012, primarily due to (i) an increase in our marketing and promotion expenses from RMB47.1 million in 2011 to RMB56.9 million in 2012, primarily due to our sales expansion, and (ii) an increase in salaries and employee benefits for our personnel engaged in sales, marketing and distribution activities from RMB8.1 million in 2011 to RMB15.7 million in 2012, resulting from increased compensation to our marketing and sales staff, as well as an increase in headcount. Distribution and selling expenses as a percentage of our revenue remained stable at 9.6% in 2011 and 9.5% in 2012.

Administrative expenses

Our administrative expenses increased by 56.4% from RMB18.3 million in 2011 to RMB28.7 million in 2012 primarily due to (i) an increase in salaries and benefits for our management and administrative staff as a result of an increase in headcount consistent with our expanded business activities and increased average salary and benefit levels, (ii) an increase in professional fees as part of our efforts to prepare for the Global Offering, and (iii) an increase in travelling and related expenses. Administrative expenses as a percentage of revenue increased from 2.5% in 2011 to 3.0% in 2012.

Finance costs

Our finance costs increased by 71.9% from RMB5.5 million in 2011 to RMB9.4 million in 2012 primarily due to increased average balance of our bank borrowings.

Income tax expense

Income tax expense decreased by 19.0% from RMB26.1 million in 2011 to RMB21.1 million in 2012. Our effective income tax rate in 2011 and 2012 was 21.2% and 10.2%, respectively. The decrease in our effective tax rate was because since the beginning 2012, we have been conducting our business primarily through Naqu Pioneer, which was subject to a reduced EIT rate of 9% in 2012. Please see "— Significant Factors Affecting Our Results of Operations — PRC Taxation" above.

Profit for the year

As a result of the above factors, our profit for the year increased by 91.4% from RMB97.0 million in 2011 to RMB185.7 million in 2012. Our net profit margin increased from 13.5% in 2011 to 19.4% in 2012.

Year ended 31 December 2011 compared to year ended 31 December 2010

Revenue

Our revenue increased by 25.8% from RMB570.6 million in 2010 to RMB717.8 million in 2011. Our revenue from products sold via the provision of comprehensive marketing, promotion and channel management services increased by 14.0% from RMB170.5 million in 2010 to RMB194.4 million in 2011, primarily due to (i) revenue generated by sales of new products such as Polimod, and

Macmiror Complex and Macmiror, which we began selling in May 2011 and June 2011, respectively, and (ii) revenue growth from some of our existing products, including Fluxum. These increases were partially offset by a decrease in revenue from sales of anti-biotics resulting from the introduction of a new policy to limit the use of anti-biotics by the PRC government. Our revenue from products sold via the provision of co-promotion and channel management services increased by 30.8% from RMB400.1 million in 2010 to RMB523.4 million in 2011, primarily due to an increase in the demand for Alcon products in 2011 mainly because of the positive impact from the inclusion of certain Alcon products in the Insurance Catalogues and certain reported quality issues of the products of a major competitor of Alcon.

Cost of sales

Our cost of sales increased by 29.1% from RMB404.6 million in 2010 to RMB522.1 million in 2011, primarily due to an increase in the purchase volume of our products from suppliers. Our cost of sales in products sold via the provision of comprehensive marketing, promotion and channel management services increased by 16.6% from RMB76.7 million in 2010 to RMB89.4 million in 2011. Our cost of sales in products sold via the provision of co-promotion and channel management services increased by 32.0% from RMB327.9 million in 2010 to RMB432.7 million in 2011.

Gross profit and gross profit margin

Our gross profit increased by 17.8% from RMB166.1 million in 2010 to RMB195.7 million in 2011. Our gross profit margin decreased from 29.1% in 2010 to 27.3% in 2011. The decrease was primarily due to higher proportional revenue contribution from products sold via the provision of co-promotion and channel management services, which generate lower margins. Our revenue from products sold via the provision of co-promotion and channel management increased by 30.8% from 2010 to 2011, and accounted for 72.9% of our total revenue in 2011 compared to 70.1% in 2010.

Our gross profit margin from products sold via the provision of comprehensive marketing, promotion and channel management services decreased from 55.0% in 2010 to 54.0%, primarily because we strategically priced some of our newly introduced products at lower prices to achieve market acceptance. Our gross profit margin from products sold via the provision of co-promotion and channel management services decreased from 18.0% in 2010 to 17.3% in 2011, primarily due to increases in purchase prices for Alcon products.

Other income

Other income increased by 10.3% from RMB14.5 million in 2010 to RMB15.9 million in 2011, primarily due to an increase in interest income on bank deposits. The increase in interest on bank deposits from RMB5.8 million in 2010 to RMB7.5 million in 2011 was primarily due to increased balance of our bank deposits to secure our increased borrowings.

Distribution and selling expenses

Our distribution and selling expenses increased by 7.6% from RMB63.8 million in 2010 to RMB68.7 million in 2011, primarily due to (i) an increase in inspection expenses from RMB5.0 million in 2010 to RMB7.1 million in 2011, as a result of an increase in our sales volume, and (ii) an increase in salaries and employee benefits for our personnel engaged in sales, marketing and distribution activities from RMB6.6 million in 2010 to RMB8.1 million in 2011. Our selling expenses as a percentage of our revenue for the year decreased to 9.6% in 2011 from 11.2% in 2010, mainly because certain of our products had become more established in the market and therefore required proportionally less marketing and promotion expenditure in order to generate corresponding revenue.

Administrative expenses

Our administrative expenses increased by 17.8% from RMB15.6 million in 2010 to RMB18.3 million in 2011 primarily due to (i) an increase in salaries and benefits for our management and administrative staff as a result of an increase in headcount consistent with our expanded business activities and increased average salary and benefit levels, and (ii) an increase in depreciation and amortisation expenses. Administrative expenses as percentage of revenue decreased from 2.7% in 2010 to 2.5% in 2011.

Finance costs

Our finance costs increased by 10.3% from RMB5.0 million in 2010 to RMB5.5 million in 2011 primarily due to (i) increased interest rates, and (ii) increased average balance of our bank borrowings.

Income tax expense

Income tax expense increased by 19.6% from RMB21.8 million in 2010 to RMB26.1 million in 2011. Our effective income tax rates in 2010 and 2011 were 22.5% and 21.2%, respectively. The decrease in our effective tax rate was primarily because we began conducting our core business operations through Naqu Pioneer, which was subject to a reduced EIT rate of 15% in 2011. Please see "— Significant Factors Affecting Our Results of Operations — PRC Taxation" above.

Profit for the year

As a result of the above factors, our profit for the year increased by 29.2% from RMB75.1 million in 2010 to RMB97.0 million in 2011. Our net profit margin increased from 13.2% in 2010 to 13.5% in 2011.

LIQUIDITY AND CAPITAL RESOURCES

Our primary uses of cash are to fund working capital and other recurring expenses and service our indebtedness. During the Track Record Period, we funded our cash requirements principally from cash generated from operations and funds raised from bank borrowings.

The following table is a condensed summary of our combined statements of cash flows for the periods indicated and analysis of balances of cash and cash equivalents as of the dates indicated:

	For the year ended 31 December			For the six months ended 30 June	
	2010	2011	2012	2012	2013
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Net cash from (used in) operating activities	71,205	(21,777)	120,758	41,727	159,325
Net cash from (used in) investing activities	45,912	(147,341)	(27,498)	(41,643)	(25,729)
Net cash from (used in) financing activities	(84,642)	106,334	(85,082)	2,694	(97,574)
Net increase (decrease) in cash and cash equivalents	32,475	(62,784)	8,178	2,778	36,022
Cash and cash equivalent at beginning of the year/period	81,861	114,336	51,356	51,356	59,559
Effect of foreign exchange rate changes	-	(196)	25	609	560
Cash and cash equivalents at end of the year/period, represented by bank balances and cash	114,336	51,356	59,559	54,743	96,141

Cash Flows from (Used in) Operating Activities

In the six months ended 30 June 2013, our net cash from operating activities was RMB159.3 million, reflecting cash generated from operations of RMB177.7 million, net of income tax paid of RMB14.5 million and interest paid of RMB3.7 million.

Our cash generated from operations during the six months ended 30 June 2013 was RMB177.7 million, while our profit before tax was RMB124.9 million. The difference represents adjustments for non-cash and non-operating items and a net increase relating to working capital adjustments. The working capital adjustments primarily included: (i) an increase in trade and other payables of RMB64.0 million; and (ii) an increase in amount due to a related party of RMB9.3 million; partially offset by (i) an increase in trade and other receivables of RMB20.6 million; and (ii) an increase in financial lease receivables of RMB10.7 million.

In 2012, our net cash from operating activities was RMB120.8 million, reflecting cash generated from operations of RMB160.8 million, net of income tax paid of RMB29.4 million and interest paid of RMB8.9 million.

Our cash generated from operations in 2012 was RMB160.8 million, while our profit before tax was RMB206.8 million. The difference represents adjustments for non-cash and non-operating items and a net decrease relating to working capital adjustments, which generally reflected the overall increase in our business volume. The working capital adjustments primarily included: (i) an increase in inventories of RMB56.3 million; and (ii) an increase in trade and other receivables of RMB30.1 million; partially offset by an increase in trade and other payables of RMB46.9 million.

In 2011, our net cash used in operating activities was RMB21.8 million, reflecting cash generated from operations of RMB3.5 million, net of income tax paid of RMB19.5 million and interest paid of RMB5.3 million.

Our cash generated from operations in 2011 was RMB3.5 million, while our profit before tax was RMB123.1 million. The difference represents adjustments for non-cash and non-operating items and a net decrease relating to working capital adjustments. The working capital adjustments primarily included: (i) an increase of RMB135.3 million in inventories, and (ii) an increase of RMB40.7 million in trade and other receivables; partially offset by an increase of RMB72.2 million in trade and other payables. The increase in inventories was primarily due to (i) our intentional accumulation of inventory of products whose registration certificates were due for renewal in order to ensure we held sufficient supply in case the renewal was delayed, (ii) the change in shipping method of Alcon products from airborne to seaborne as initiated by Alcon to reduce shipping costs, (iii) the overall increase in our business volume, and (iv) a change in our inventory policy pursuant to which we increased our overall inventory levels in order to accommodate the increasing number of hospitals covered by our network.

In 2010, our net cash from operating activities was RMB71.2 million, reflecting cash generated from operations of RMB102.1 million, net of income tax paid of RMB25.9 million and interest paid of RMB5.0 million.

Our cash generated from operations in 2010 was RMB102.1 million, while our profit before tax was RMB96.9 million. The difference represents adjustments for non-cash and non-operating items and a net decrease relating to working capital adjustments. The working capital adjustments primarily included: (i) a decrease of RMB18.0 million in trade and other payables, and (ii) a decrease of RMB2.7 million in inventories.

Please see "— Certain Balance Sheet Items" above for detailed discussions regarding changes in inventories, trade and other receivables and trade and other payables.

Cash Flows from (Used in) Investing Activities

In the six months ended 30 June 2013, our net cash used in investing activities was RMB25.7 million, primarily due to cash outflows relating to placements of pledged bank deposits of RMB312.6 million to secure offshore short-term banking facilities and our investment in an associate of RMB20.1 million, relating to our investment in Q3 and its subsidiary QualiMed (see note 19 to the accountants' report in Appendix I to this prospectus). Our cash outflows were partially offset by withdrawals of pledged and restricted bank deposits of RMB294.7 million and withdrawals of restricted bank deposits of RMB11.9 million.

In 2012, our net cash used in investing activities was RMB27.5 million, primarily due to cash outflows relating to our purchase of other investments and warrants of RMB15.7 million, relating to our investment in NovaBay, and our purchases of intangible assets of RMB11.7 million, relating to an upfront payment of licence fees to secure marketing, promotion and sales rights for products manufactured by Novabay. Our cash outflows were partially offset by interest received of RMB11.9 million.

In 2011, our net cash used in investing activities was RMB147.3 million, primarily due cash outflows relating to placements of pledged bank deposits of RMB289.4 million to secure an offshore short-term banking facility, which were partially offset by withdrawals of pledged bank deposits of RMB143.3 million as a result of the settlement of our previous facilities.

In 2010, our net cash from investing activities was RMB45.9 million, primarily due to withdrawals of pledged bank deposits of RMB183.6 million as a result of the settlement of an offshore short-term banking facility, which were partially offset by placements of pledged bank deposits of RMB143.3 million to secure new off-shore facilities.

Cash Flows from (Used in) Financing activities

In the six months ended 30 June 2013, our net cash used in financing activities was RMB97.6 million, primarily due to a dividend payment of RMB137.0 million, which was partially offset by a net increase in borrowings resulting from RMB274.1 million in new bank loans raised, and RMB244.4 million in repayments of bank borrowings.

In 2012, our net cash used in financing activities was RMB85.1 million, primarily due to a dividend payment of RMB147.6 million and RMB16.2 million deemed distributions to shareholders, which was partially offset by a net increase in borrowings resulting from RMB416.2 million in new bank borrowings raised and RMB338.0 million in repayments of bank borrowings.

In 2011, our net cash from financing activities was RMB106.3 million, primarily due to a net increase in borrowings resulting from RMB338.0 million in new bank borrowings raised and RMB142.9 million in repayments of bank borrowings, which were partially offset by a dividend payment of RMB90.0 million.

In 2010, our net cash used in financing activities was RMB84.6 million, primarily due to a net decrease in borrowings resulting from RMB191.5 million in repayments of bank borrowings and RMB142.9 million in new bank borrowings raised and a dividend payment of RMB36.0 million.

NET CURRENT ASSETS/LIABILITIES

The following table sets out the data of our current assets and current liabilities as of the dates indicated:

	As of 31 December			As of 30 June	As of 31 August
	2010	2011	2012	2013	2013
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)
Current Assets					
Inventories	109,582	242,632	295,862	299,696	324,466
Finance lease receivables	-	-	1,323	2,829	2,829
Trade and other receivables	124,101	167,054	200,097	221,159	257,729
Amount due from a related party	-	-	-	34,646	28,181
Tax recoverable	-	-	875	59	2,916
Prepaid lease payments	52	52	52	52	52
Derivative financial instruments	-	2,221	2,618	-	-
Pledged bank deposits	143,312	289,409	294,726	312,618	279,107
Restricted bank deposits	3,470	5,300	11,862	-	-
Bank balances and cash	114,336	51,356	59,559	96,141	62,712
	494,853	758,024	866,974	967,200	957,992
Current Liabilities					
Trade and other payables	169,599	241,832	290,840	356,968	371,247
Amounts due to related parties	-	-	460	222,889	117,656
Tax liabilities	2,077	9,894	3,823	2,651	501
Bank and other borrowings	158,929	338,011	416,220	445,955	493,457
Derivative financial instruments	3,548	1,952	1,162	3,890	3,890
Provision	1,909	2,797	3,223	3,685	3,804
Deferred revenue	-	-	-	7,801	9,567
	336,062	594,486	715,728	1,043,839	1,000,122
Net Current Assets (Liabilities)	158,791	163,538	151,246	(76,639)	(42,130)

CERTAIN BALANCE SHEET ITEMS

Inventories

As our core business is the marketing, promotion and sale of pharmaceutical products and medical devices, our inventories comprise finished goods, which include our stock of products in our warehouses; products under inspection, which generally takes approximately a month; and goods in transit. The following table sets out our inventories as of the dates indicated:

	As of 31 December			As of 30 June
	2010	2011	2012	2013
	RMB'000	RMB'000	RMB'000	RMB'000
Finished goods	110,538	242,879	295,935	299,279
Less: Allowance for inventories	(956)	(247)	(73)	-
Reversal of allowance for inventories	-	-	-	417
Total	109,582	242,632	295,862	299,696

	For the year ended 31 December			For the six months ended 30 June
	2010	2011	2012	2013
Average inventory turnover days[(1)]	101.6	123.1	150.7	140.4
Average inventory turnover days[(2)] (excluding goods in transit[(3)])	81.6	93.4	107.7	94.2

Notes:

(1) Calculated using the average of the beginning and ending inventory balances of the period, divided by cost of goods sold for the period and multiplied by 365 days for a year or 183 days for the six months ended 30 June 2013.

(2) Calculated using the average of the beginning and ending inventory balances of the period (excluding goods in transit), divided by cost of goods sold for the period and multiplied by 365 days for a year or 183 days for the six months ended 30 June 2013.

(3) Goods in transit represent goods that have been shipped from our suppliers that have not yet arrived at our warehouses. The amount of goods in transit was RMB36.7 million, RMB48.2 million, RMB105.5 million and RMB90.3 million as of 31 December 2010, 2011, 2012 and as of 30 June 2013, respectively.

Our inventory balances increased from RMB109.6 million as of 31 December 2010 to RMB242.6 million as of 31 December 2011, RMB295.9 million as of 31 December 2012 and RMB299.7 million as of 30 June 2013. The increase in inventories from 31 December 2011 to 31 December 2012 was primarily due to the overall increase in our business volume. The increase in inventories from 31 December 2010 to 31 December 2011 was primarily due to (i) our intentional accumulation of inventory of products whose registration certificates were due for renewal in order to ensure we held sufficient supply in case the renewal was delayed, (ii) a change in the shipping method of Alcon products from airborne to seaborne as initiated by Alcon to reduce shipping costs, (iii) the overall increase in our business volume, and (iv) a change in 2011 in our inventory policy pursuant to which we increased our overall inventory levels in order to accommodate the increasing number of hospitals covered by our network. As a result, in 2010, 2011, 2012 and the six months ended 30 June 2013, our average inventory turnover days were 101.6 days, 123.1 days, 150.7 days and 140.4 days, respectively, and our average inventory turnover days (excluding goods in transit) were 81.6 days, 93.4 days, 107.7 days and 94.2 days. The decrease of our inventory turnover days in the six months ended 30 June 2013 was primarily due to decreased inventory levels of certain Alcon products. We intentionally maintained higher inventory levels in 2012 for certain Alcon products whose registration certificates were due for renewal in order to ensure we held sufficient supply in case the renewal was delayed.

Each year, we adopt a product purchase plan that includes projected purchase volumes for each month. We regularly review each product's sales performance, inventory level and projected sales, and adjust our sales and purchase plans accordingly to minimise the risk of inventory shortage or accumulation. Please see the section headed "Business — Our Services — Co-Promotion and Channel Management Services — Channel Management Services — Inventory Management" of this prospectus.

Costs of inventories are calculated using the first-in-first-out method. Net realisable value represents the estimated selling price for inventories less all estimated costs necessary to make the sale. Our pharmaceutical products generally have a shelf life ranging from one-and-a-half years to five years. We make allowance for obsolete inventory items and slow-moving inventory items based on our review of the ageing of our inventories at the end of each reporting period. We carry out an inventory review on a product-by-product basis at the end of the reporting period. Please see "— Critical Accounting Policies, Estimates and Judgements — Inventories" above for further details. For the year ended 31 December 2010, 2011 and 2012, we made allowance for impairment to our inventories due to slow moving or obsolete inventories of RMB1.0 million, RMB0.2 million and RMB0.1 million, respectively. For the six months ended 30 June 2013, we recorded a reversal of allowance for inventories amounting to RMB0.4 million. All obsolete inventory items, including expired and damaged items, once identified,

are stored separately from regular inventory items, and are destroyed under the supervision of the local CFDA agencies periodically. We bear the losses and expenses arising out of obsolete inventory items, except that the expenses relating to disposal of obsolete inventory items supplied by Alcon are born by Alcon.

Trade and Other Receivables

Our trade and other receivables primarily consist of trade receivables, bill receivable and other receivables. Trade receivables primarily represent the balances due from our distributors. Before accepting any new customer, we assess the potential customer's credit quality and define credit limits by customer. Bill receivables represent bank bills received from our customers, in lieu of cash payments. The following table sets out our trade, bill and other receivables as of the dates indicated:

	As of 31 December			As of 30 June
	2010	2011	2012	2013
	RMB'000	RMB'000	RMB'000	RMB'000
Trade receivables	78,619	97,598	122,234	164,914
Less: Allowance for doubtful debts	(424)	(543)	(107)	(324)
	78,195	97,055	122,127	164,590
Bill receivables	36,632	37,826	55,988	36,772
Other receivables	4,841	2,269	4,531	6,890
Less: Allowance for doubtful debts	(260)	(122)	(136)	(46)
Interest receivable	1,454	3,655	6,156	6,227
Advance payment to suppliers	3,042	7,223	3,864	5,521
Other tax recoverable	197	19,148	7,567	1,205
Total	124,101	167,054	200,097	221,159

	For the year ended 31 December			For the year ended 30 June
	2010	2011	2012	2013
Average trade receivables turnover days[(1)]	54.6	44.8	41.8	47.7

Note:

(1) Calculated using the average of beginning and ending trade receivables balances (before allowances for bad and doubtful debts) of the period, divided by turnover for the period and multiplied by 365 days for a year and 183 days for the six months ended 30 June 2013.

The typical credit terms we grant to our distributors are 30 to 120 days, with limited exceptions for certain medical devices where payment terms range from cash on delivery to two-year installment plans. For selected customers, we may allow extended credit period of up to 180 days. In 2010, 2011, 2012 and the six months ended 30 June 2013, our trade receivable turnover days were 54.6 days, 44.8 days, 41.8 days and 47.7 days, respectively. The decrease in 2011 and 2012 primarily reflected our enhanced collection efforts, including requiring some of our distributors to pay upon delivery and shortening their credit periods. The increase in the six months ended 30 June 2013 was primarily due to the relatively longer credit terms for the sale of medial devices.

As part of our risk management efforts, our marketing, promotion and sales team monitors the credit quality of our trade receivables and closely follow up with any outstanding receivables. In determining impairment losses, we conduct regular reviews of ageing analyses and evaluate collectibles on an individual basis. Our provision for bad and doubtful debts as of 31 December 2010, 2011, 2012 and 30 June 2013 was RMB0.4 million, RMB0.5 million, RMB0.1 million and RMB0.3 million, representing 0.5%, 0.6%, 0.1% and 0.2% of our trade receivables balance (before allowances for bad and doubtful debts), respectively.

The following is an ageing analysis of our trade receivables net of allowance for doubtful debts presented based on invoice date at the end of the reporting dates, which approximated the respective revenue recognition dates:

	As of 31 December			As of 30 June
	2010	2011	2012	2013
	RMB'000	RMB'000	RMB'000	RMB'000
0 day to 60 days	67,191	83,555	105,701	129,966
61 days to 180 days	10,855	12,670	15,080	31,035
181 days to 1 year	127	600	1,321	3,416
1 year to 2 years	22	230	25	173
Total	78,195	97,055	122,127	164,590

Included in our trade receivable balance are receivables with aggregate carrying amount of RMB11.0 million, RMB13.5 million, RMB14.0 million and RMB19.8 million, as of 31 December 2010, 2011, 2012 and 30 June 2013, respectively, which are past due as of the reporting date. Considering the credit quality of the relevant customers, we made allowance for doubtful debts of RMB0.4 million, RMB0.5 million, RMB0.1 million and RMB0.3 million, in 2010, 2011 and 2012, respectively.

As of 30 September 2013, approximately 76.0% of our net trade receivables as of 30 June 2013 was subsequently settled.

In 2010, we had an arrangement with a bank to transfer to the bank our contractual rights to receive cash from bills receivables. The arrangement was made through discounting certain bills receivables to the bank on a full recourse basis. Specifically, if the bills receivables are not paid at maturity, the bank has the right to request our Group to pay the unsettled balance. As we had not transferred significant risks and rewards relating to these receivables, we continued to recognise the full carrying amount of the receivables and had recognised the cash received on the transfer as a secured borrowing. As at 31 December 2010, the relevant discounted bills receivables amounted to RMB16.1 million.

Trade and Other Payables

Our trade payables primarily consist of payments due to suppliers for our purchases of pharmaceutical products and medical devices. The following table sets out our trade payables as of the dates indicated:

	As of 31 December			As of 30 June
	2010	2011	2012	2013
	RMB'000	RMB'000	RMB'000	RMB'000
Trade payables	141,903	207,500	244,356	303,227
Payroll and welfare payables	820	1,576	3,393	2,729
Advance from customers	2,593	2,897	15,841	4,425
Other tax payables	10,744	5,201	2,166	12,299
Marketing service fee payables	8,289	10,453	9,094	17,850
Interest payables	1,779	1,919	2,450	113
License fee payables	-	-	2,200	-
Deposits received from distributor	891	4,038	4,731	5,904
Construction cost payable	-	-	-	2,804
Accrued IPO charges	-	-	-	2,806
Other payables and accrued charges	2,580	8,248	6,609	4,811
Total	169,599	241,832	290,840	356,968

	For the year ended 31 December			For the six months ended 30 June
	2010	2011	2012	2013
Average trade payable turnover days[(1)]	144.2	122.1	126.5	129.1

(1) Calculated using the average of beginning and ending trade payable balances of the period, divided by cost of goods sold for the period and multiplied by 365 days for a year and 183 days for the six months ended 30 June 2013.

The increase in our trade and other payables during the Track Record Period was generally in line with our business expansion and the increase in our inventories. Our trade payables turnover days remained stable, with 144.2 days, 122.1 days, 126.5 days and 129.1 days in 2010, 2011, 2012 and the six months ended 30 June 2013, respectively.

The following is an ageing analysis of trade payables presented based on the invoice date at the end of the reporting dates, which approximated the delivery dates:

	As of 31 December			As of 30 June
	2010	2011	2012	2013
	RMB'000	RMB'000	RMB'000	RMB'000
0-90 days	70,037	163,049	196,030	237,128
91 days to 180 days	71,866	44,451	48,326	66,099
Total	141,903	207,500	244,356	303,227

The average credit period on purchases of goods ranges from 30 days to 180 days.

WORKING CAPITAL

Taking into account expected cash from operating activities, the estimated net proceeds from the Global Offering and available bank credit facilities, our Directors are of the opinion that the working capital available to our Group is sufficient for our present requirements for at least the next 12 months from the date of this prospectus.

INDEBTEDNESS

The following table sets out our bank borrowings, all of which constitute bank borrowings repayable within one year, as of the dates indicated:

	As of 31 December			As of 30 June
	2010	2011	2012	2013
	RMB'000	RMB'000	RMB'000	RMB'000
Carrying amount of bank borrowings repayable within one year and shown under current portion	158,929	338,011	416,220	445,955
Analysed as:				
Secured	158,929	286,227	391,078	445,955
Unsecured	-	51,784	25,142	-
	158,929	338,011	416,220	445,955

Our secured bank borrowings as at 30 June 2013 were secured by bank deposits and buildings located in Hainan Province. Such buildings are owned by Pioneer Pharma, which does not form part of the Group, and the pledges secured by such buildings were fully released subsequent to 30 June 2013.

Our secured bank borrowings include onshore bank borrowings denominated in Renminbi and offshore bank borrowings denominated in U.S. dollars.

Our onshore bank borrowings were fixed rate borrowings and carried interest at market rates ranging from 1.79% to 3.36%, from 3.28% to 6.70%, from 1.26% to 6.90% and from 1.20% to 6.90% per annum as of 31 December 2010, 2011, 2012 and 30 June 2013, respectively.

For 2010, our offshore bank borrowings were fixed rate banking borrowings. For 2011 and 2012, our offshore bank borrowings were floating rate bank borrowings with concurrent interest rate swaps. The interest rate swaps match the floating rate offshore bank borrowings in amounts and terms and we entered into interest rate swaps to swap floating rates to fixed rates to substantively convert the floating rate bank borrowings to fixed rate bank borrowings. For 2010, 2011, 2012 and the six months ended 30 June 2013, our offshore bank borrowings were secured by on-shore pledged bank deposits denominated in Renminbi, which would be released upon the settlement of the relevant offshore bank borrowings. As of 31 December 2010, 2011, 2012 and 30 June 2013, our pledged bank deposits were RMB143.3 million, RMB289.4 million, RMB294.7 million and RMB312.6 million. Our pledged bank deposits carried interest rates higher than the effective interest rates of the corresponding offshore bank borrowings. We believe that this arrangement allows us to pay for our purchase costs denominated in foreign currencies in a more cost-effective manner.

Our gearing ratio, calculated as bank borrowings divided by total assets, was 30.5%, 42.9%, 44.8% and 42.5% as of 31 December 2010, 2011, 2012 and 30 June 2013, respectively. The increase in gearing ratio from 2010 to 2012 was primarily due to our increased off-shore bank borrowings. As of the Latest Practicable Date, we were not subject to any covenants relating to our outstanding debt which would materially restrict our business operations.

As at 31 August 2013, being the latest practicable date for the purpose of the statement of indebtedness, we had aggregate outstanding borrowings which consisted of approximately RMB611.6 million comprising secured bank and other borrowings of approximately RMB397.1 million, guaranteed bank and other borrowing of approximately RMB30.9 million, unsecured bank and other borrowing of RMB65.5 million and unsecured amounts due to related parties of approximately RMB118.1 million.

Except as described above and apart from intra-group liabilities, as at 31 August 2013, 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.

We currently have no plans to raise any material external debt financing after the Listing.

CAPITAL EXPENDITURE

The following table sets out our capital expenditure for the periods indicated:

	For the year ended 31 December			For the six months ended 30 June
	2010	**2011**	**2012**	**2013**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**
Purchases of property, plant and equipment	1,339	1,927	757	6,284
Purchases of intangible assets	-	2,780	11,709	-
Total	1,339	4,707	12,466	6,284

Our capital expenditure consisted primarily of the purchase of property, plant and equipment primarily comprising office equipment and intangible assets primarily comprising licences. We financed our capital expenditure primarily through our cash flows from operations.

We currently expect to incur capital expenditures of approximately RMB8.6 million in the six months ending 31 December 2013, which will be funded through our cash on hand and cash from operations. Of that amount, we expect that approximately RMB7.6 million, or 88.4%, will be incurred for upgrading and constructing new warehousing and logistics facilities and the remainder for purchasing vehicles and other equipment. Based on our current business plans and market conditions and assuming the completion of the Global Offering at an Offer Price equal to the mid-point of the indicative range of the Offer Price, we currently expect to incur a total amount of approximately RMB130.0 million in capital expenditures in 2014, which we expect to fund through the net proceeds from the Global Offering. Of that amount, we currently expect that approximately 64% will be incurred for purchasing office space and establishing training and conference centres to continue expanding our business operations, approximately 31% for upgrading and constructing warehousing and logistics facilities and the remainder for upgrading our information management systems. Our current capital expenditure plans for any future period are subject to change, and we may adjust our capital expenditures according to our business plans, the net proceeds to be received from the Global Offering, market conditions and various other factors we believe to be appropriate.

FINANCIAL RATIOS

The following table sets forth certain financial ratios of our Group during the Track Record Period:

Financial Ratios	Formulae	For the year ended 31 December			For the six months ended 30 June
		2010	2011	2012	2013
Return on equity[(1)]	Net profit[(2)] / Average shareholders' equity x 100%	n.a.	52.3%	92.2%	206.3%
Return on total assets	Net profit[(2)] / Average total assets x 100%	n.a.	14.8%	21.6%	22.5%
Current ratio	Current assets / Current liabilities	1.5	1.3	1.2	0.9
Quick ratio	Current assets — Inventories / Current liabilities	1.1	0.9	0.8	0.6
Debt to equity ratio[(3)]	Net debt[(4)] / Total equity x 100%	(55.3%)	(4.2%)	23.5%	n.m.

Notes:

(1) The significant increase in return on equity from 52.3% in 2011 to 92.2% in 2012 was due to a 91.4% increase in our profit combined with a 10.6% increase in our average shareholders' equity. Please see "— Results of Operations — Year ended 31 December 2012 compared to year ended 31 December 2011" above for further details.

(2) Using actual net profit for the years ended 2010, 2011 and 2012, and annualised net profit for the six months ended 30 June 2013.

(3) Debts are defined to include all bank borrowings. The significant fluctuations of the debt to equity ratio in 2010, 2011 and 2012 reflect the increasing level of debt we incur as we expand our business operations and, in particular, increase our purchases of products to meet the increasing market demand. The debt to equity ratio as of 30 June 2013 is not meaningful due to a significant decrease of our total equity from RMB212.8 million as of 31 December 2012 to RMB5.7 million as of 30 June 2013, mainly because we recorded RMB209.2 million payable to Pioneer Pharma as of 30 June 2013 in connection with a dividend payment and Naqu Pioneer's acquisition of Pioneer Pharma's business operations in the six months ended 30 June 2013. Please see note 29 to the accountants' report set out in Appendix I to this prospectus.

(4) Net debts are defined to include all bank borrowings net of bank balances and cash, restricted bank deposits and pledged bank deposits.

CONTRACTUAL OBLIGATIONS AND CONTINGENT LIABILITIES

Other than minimum lease payments in respect of premises rented under non-cancellable operating leases of RMB1.0 million which fall due within one year and of RMB2.0 million which fall due in the second to fifth years inclusive, we did not have any long-term debt obligations, capital lease obligations, operating lease obligations, purchase obligations or other long-term liabilities as at 30 June 2013.

OFF-BALANCE SHEET ARRANGEMENTS

We have not entered into any off-balance sheet arrangements or commitments to guarantee the payment obligations of any third parties. We do not have any variable interest in any unconsolidated entity that provides financing, liquidity, market risk or credit support to us or engages in leasing, hedging or research and development services with us.

RELATED PARTY TRANSACTIONS

Our Directors confirm that all transactions with related parties described in note 29 of the accountants' report set out in Appendix I to this prospectus were conducted on normal commercial terms and/or on terms not less favourable than terms available from independent third parties, which are considered fair, reasonable and in the interest of the Shareholders of our Company as a whole.

QUALITATIVE AND QUANTITATIVE DISCLOSURE ABOUT MARKET RISKS

We are exposed to various types of market risks, including foreign exchange risk, credit risk, interest rate risk and liquidity risk in the normal course of business. Our financial department and internal control department monitor our exposure to these risks on a regular basis and, if a material risk is identified, will report the risk to our management. Our Chief Financial Officer is a qualified accountant with extensive experience in corporate financing and is responsible for approving foreign currency forward contracts and interest rate swap contracts and ensuring that they are within such trading limits as to serve hedging purposes and not for speculation purposes.

Foreign Exchange Risk

Our purchases of Alcon products, which accounted for 80.6%, 84.6%, 79.7% and 79.6% of our total purchases of products in 2010, 2011, 2012 and the six months ended 30 June 2013, are denominated in RMB. Our purchases of products from the other overseas suppliers are denominated in foreign currencies, primarily the U.S. dollar and Euro, and all of our sales are denominated in the functional currency of the relevant member of our Group making the sale, primarily the RMB, which exposes us to foreign currency risk. We may enter into foreign currency forward contracts to hedge currency risk arising from our purchases that are denominated in foreign currencies if we expect such foreign currencies to appreciate against Renminbi in the near term. The terms of the foreign exchange forward contracts are negotiated to match the terms of the respective designated hedged items. However, the effectiveness of these transactions may be limited and we may not be able to successfully hedge all of our exposure.

Further, we are exposed to currency risk attributable to bank balances, trade payables and bank borrowings that are denominated in currencies other than the functional currency of the entity to which they relate (mainly the U.S. dollar and Euro). Please see note 26 of the accountants' report set out in Appendix I to this prospectus for further details of the foreign currency forward contracts. The following table sets forth the carrying amounts of monetary assets and monetary liabilities denominated in currencies other than the respective group entities' functional currencies:

	Assets				Liabilities			
	As of 31 December			As of 30 June	As of 31 December			As of 30 June
	2010	2011	2012	2013	2010	2011	2012	2013
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
RMB	-	7,262	-	-	-	-	-	-
USD	-	18,987	1,204	44,622	161,661	64,623	67,081	49,377
EUR	1	1	23,984	601	13,659	15,792	24,987	9,690
Singapore dollars ("SGD")	-	155	1,512	1,435	-	67	162	222
Hong Kong dollars ("HKD")	-	-	808	491	-	-	24	5,287
Total	1	26,405	27,508	47,149	175,320	80,482	92,254	64,257

Sensitivity analysis

The sensitivity analysis includes outstanding foreign currency denominated monetary items and inter-company balances denominated in foreign currencies and adjusts their translation at the year end for a 5% change in foreign currency rates. The sensitivity rate of 5% represents management's assessment of the reasonably possible change in foreign exchange rates. It did not take into consideration the foreign currency forward contracts outstanding at the end of the reporting period as the directors of the Company consider that the relevant currency risk exposure is minimal.

If the relevant foreign currency weakens by 5% against the functional currency of the respective group entity, profit for the year would increase by:

	As of 31 December			As of 30 June
	2010	2011	2012	2013
	RMB'000	RMB'000	RMB'000	RMB'000
The Group				
USD	6,062	1,711	2,470	178
EUR	512	592	38	341

If the relevant foreign currency strengthens by 5% against the functional currency of the Group entity, there would be an equal and opposite impact on the post-tax profit.

No sensitivity analysis for RMB against SGD or HKD is presented as the directors of the Company consider the foreign currency risk exposure of the Group arising from these two currencies minimal.

Additionally, as at 31 December 2010, 2011 and 2012 and 30 June 2013, inter-company receivables denominated in RMB, which is not the functional currency of the respective group entities, were approximately nil, RMB232,391,000, RMB256,224,000 and RMB335,335,000, respectively. If RMB weaken or strengthen by 5% against the functional currency of the respective group entity, profit

for the year would decrease/increase by approximately nil, RMB8,715,000, RMB9,608,000 and RMB12,575,000, for the years ended 31 December 2010, 2011 and 2012 and 30 June 2013 respectively.

Credit Risk

Credit risk arises mainly from the risk that counterparties may default on the terms of their agreements. The carrying amounts of bank balances and cash, pledged bank deposits, trade and other receivables and amount due from jointly controlled entity as stated in the consolidated statement of financial position represent our maximum exposure to credit risk in relation to financial assets.

In order to minimise credit risk, our management has delegated a team 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, we review the recoverable amount of each individual trade debt at the end of the reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider the Group's credit risk significantly reduced.

We have concentration of credit risk as 6%, 7%, 5% and 5% of the total trade receivables was due from the our largest customer as at 31 December 2010, 2011 and 2012 and 30 June 2013, respectively, whereas 24%, 24%, 17% and 19% of the total trade receivables was due from our five largest customers in the same periods.

We have concentration of credit risk by geographic location as majority of our customers are located in China as at 31 December 2010, 2011 and 2012 and 30 June 2013. The credit risk on liquid funds is limited because the counterparties are banks with good reputation and good credit rating.

Interest Rate Risk

Our fair value interest rate risk relate primarily to our fixed-rate bank borrowings. We keep certain borrowings at variable rates and we are also exposed to cash flow interest rate risk in relation to variable-rate bank borrowing, pledged bank deposit, restricted bank deposit and bank balances. Our cash flow interest rate risk is mainly concentrated on the fluctuation of London Interbank Offered Rate arising from our U.S. dollar loans.

We use interest rate swaps to minimise our exposure to interest expenses of certain of our floating-rate U.S. dollar bank borrowings by swapping fixed interest rate for floating interest rates. Please see note 26 and note 30 of the accountants' report set out in Appendix I to this prospectus for further details of the interest rate swaps and for further details of the floating rate and fixed rate borrowings, respectively. In relation to interest bearing bank balances and deposits, we consider the interest rate risk to be insignificant.

Interest rate sensitivity analysis

The following sensitivity analysis is based on the Group's exposure to interest rates for variable-rate bank borrowing at the end of the reporting period. No sensitivity analysis is presented for variable-rate bank deposits and bank balances as the Directors considered the relevant interest rate fluctuation minimal. For bank borrowings, the analysis is prepared assuming the amount of liability outstanding at the end of reporting period was outstanding for the whole year without considering the interest rate swaps outstanding at the end of the reporting period as the directors of the Company consider the relevant interest rate risk minimal.

A 50 basis points increase or decrease is used and represents management's assessment of the reasonably possible change in interest rates. If interest rates had been 50 basis points higher/lower and

all other variables were held constant, the Group's post-tax profit for the years ended 31 December 2010, 2011 and 2012 and for the period ended 30 June 2013 would decrease/increase by approximately nil, RMB633,000, RMB543,000 and RMB128,000, respectively.

Liquidity Risk

We monitor and maintain a level of cash and cash equivalents deemed adequate by the management to finance our operations and mitigate the effects of fluctuations in cash flows. We have implemented an appropriate liquidity risk management framework for the management of our funding and liquidity requirements.

DISTRIBUTABLE RESERVES

As at 30 June 2013, our Company had no distributable reserves available for distribution to our Shareholders.

PRO FORMA ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS

The following is an illustrative pro forma statement of adjusted net tangible assets of the Company and its subsidiaries (collectively the **"Group"**) which has been prepared on the basis of the notes set out below for the purpose of illustrating the effect of the Global Offering as if it had taken place on 30 June 2013.

This pro forma statement of adjusted net tangible assets has been prepared for illustrative purposes only and because of its hypothetical nature, it may not give a true picture of the net tangible assets (liabilities) of the Group attributable to the owners of the Company as of 30 June 2013 or at any future dates following the Global Offering.

	Audited consolidated net tangible liabilities of the Group attributable to the equity holders of the Company as of 30 June 2013[1]	Estimated net proceeds from the Global Offering[2]	Pro forma net tangible assets of the Group attributable to the owners of the Company as of 30 June 2013	Pro forma net tangible assets of the Group attributable to the owners of the Company value per Share as of 30 June 2013[3][5]	
	RMB'000	RMB'000	RMB'000	RMB	HK$
Based on an Offer Price of HK$4.10 per Offer share	(9,525)	1,025,290	1,015,765	0.76	0.96
Based on an Offer Price of HK$5.00 per Offer share	(9,525)	1,255,108	1,245,583	0.93	1.18

Notes:

(1) The audited consolidated net tangible liabilities of the Group attributable to owners of the Company as of 30 June 2013 is extracted from the accountants' report set out in Appendix I to this prospectus, which is based on the audited consolidated net assets of the Group attributable to owners of the Company as of 30 June 2013 of RMB6.1 million less the intangible assets of the Group as at 30 June 2013 of approximately RMB15.6 million.

(2) The estimated net proceeds from the Global Offering are based on 333,334,000 Offer Shares of an indicative Offer Prices of HK$4.10 (equivalent to RMB3.25) and HK$5.00 (equivalent to RMB3.96) per Offer Share, respectively (after deducting the underwriting fees and other related expenses), and takes no account of any Shares which may be allotted and issued or repurchased by the Company pursuant to the general mandates. For the purpose of the estimated net proceeds from the Global Offering, the amount stated in Hong Kong dollars has been converted into Renminbi at the rate of RMB0.7922 to HK$1. No representation is made that the Renminbi amounts have been, could have been or may be converted to Hong Kong dollars, or vice versa, at that rate or at all.

(3) The pro forma adjusted net tangible assets of the Group attributable to owners of the Company as at 30 June 2013 per Share is arrived at after the adjustments referred to in note 2 in the preceding paragraph and on the basis that 1,333,334,000 Shares were in issue assuming the Global Offering and the Capitalisation Issue had been completed on 30 June 2013. It takes no account of any Shares which may be allotted and issued or repurchased by the Company pursuant to the general mandates.

(4) No adjustment has been made to the pro forma adjusted net tangible liabilities of the Group attributable to owners of the Company as of 30 June 2013 to reflect any trading result or other transaction of the Group entered into subsequent to 30 June 2013.

(5) For the purpose of this pro forma adjusted net tangible assets, the balance stated in Renminbi are converted into Hong Kong dollars at the rate of RMB 0.7922 to HK$1. No representation is made that the Renminbi amounts have been, could have been or may be converted to Hong Kong dollars, or vice versa, at that rate or at all.

DIVIDEND POLICY

For each of the coming years, our Directors currently intend to pay dividends in the amount representing no less than 30% of our distributable profit for the year. Any amount of dividends we pay will be at the discretion of our Directors and will depend on our future operations and earnings, our development pipeline, capital requirements and surplus, general financial conditions, contractual restrictions and other factors that our Directors consider relevant. Any declaration and payment as well as the amount of dividends will be subject to our Articles of Association. Our Company may in a general meeting declare dividends but no dividends shall exceed the amount recommended by our Board. Our Board may also from time to time pay interim dividends as appear to our Board to be justified by the profits of our Company, as well as special dividends on shares of any class of such amounts and on such dates as they think fit. No dividend shall be declared or payable except out of our profits and reserves lawfully available for distribution. Our future declarations of dividends may or may not reflect our historical declarations of dividends and will be at the absolute discretion of our Directors.

As we are a holding company, our ability to declare and pay dividends will depend on the availability of dividends received from our subsidiaries, particularly those in the PRC. PRC laws require that dividends be paid only out of the net profit calculated according to PRC accounting principles, which differ in many aspects from generally accepted accounting principles in other jurisdictions, including IFRS. PRC laws also require foreign-invested enterprises, such as all of our subsidiaries in China, to set aside part of their net profit as statutory reserves, and such statutory reserves are not available for distribution as cash dividends. Distributions from our subsidiaries may also be restricted if they incur debt or losses or in accordance with any restrictive covenants in bank credit facilities or other agreements that we or our subsidiaries may enter into in the future.

Prior to the Reorganisation, in 2010, 2011, 2012 and the six months ended 30 June 2013, Pioneer Pharma declared and paid dividends of RMB36.0 million, RMB90.0 million, RMB147.6 million and RMB163.0 million, respectively. Other than that, no dividend was paid or declared by the Company since its incorporation or by other group entities to external parties during the Track Record Period.

DISCLOSURE UNDER RULES 13.13 TO 13.19 OF THE LISTING RULES

Our Directors have confirmed that, as of the Latest Practicable Date, there were no circumstances that would give rise to a disclosure requirement under Rules 13.13 to 13.19 of the Listing Rules.

RECENT DEVELOPMENT

Both our revenue and gross profit have continued to grow since 30 June 2013, and, based on unaudited consolidated financial information prepared by our Directors, our revenue and gross profit

were RMB760.6 million and RMB220.6 million, respectively, for the eight months ended 31 August 2013. As of 30 June 2013, our Group owed RMB209.2 million to Pioneer Pharma. Of that amount, we have paid RMB110.6 million to Pioneer Pharma as of 31 August 2013 (which was funded through borrowings from Independent Third Parties in an aggregate amount of RMB50.2 million, as well as cash on hand and cash from operations), and with respect to the remaining balance of RMB98.6 million that was due to Pioneer Pharma as at 30 June 2013, we expect to settle it prior to the Listing (which we expect to fund by our cash on hand, cash from operations and borrowings). As of 30 June 2013, our Group owed RMB4.5 million to Mr. Li. This amount was subsequently fully settled and recorded as part of Mr. Li's indirect capital contributions to Pioneer Pharma (HK) through Pioneer Pharma (BVI) and our Company in September 2013. As far as we are aware, there was no material change in the general conditions in the Chinese healthcare market that had affected our business operations or financial conditions materially and adversely.

NO MATERIAL ADVERSE CHANGE

Our Directors confirm that there has been no material adverse change in our financial, operational or trading position or prospects since 30 June 2013, being the date of our latest audited financial results as set out in the Accountants' Report in Appendix I to this prospectus, up to the date of this prospectus.