創美藥業股份有限公司

CHUANGMEI PHARMACEUTICAL CO.,LTD.*

(A joint stock limited liability company established in the People's Republic of China)

Stock code：2289

GLOBAL OFFERING

Sole Sponsor

國泰君安國際
GUOTAI JUNAN INTERNATIONAL

Guotai Junan Capital Limited

Sole Global Coordinator, Sole Bookrunner and Sole Lead Manager

國泰君安國際
GUOTAI JUNAN INTERNATIONAL

Guotai Junan Securities (Hong Kong) Limited

** For identification purpose only*

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

CHUANGMEI PHARMACEUTICAL CO., LTD.*
創美藥業股份有限公司

(A joint stock limited liability company established in the People's Republic of China)

GLOBAL OFFERING

Number of Offer Shares under the Global Offering	:	**28,000,000 H Shares (subject to the Over-allotment Option)**
Number of International Offer Shares	:	**25,200,000 H Shares (subject to adjustment and the Over-allotment Option)**
Number of Hong Kong Offer Shares	:	**2,800,000 Shares (subject to adjustment)**
Maximum Offer Price	:	**HK$8.60 per H Share plus brokerage fee of 1.0%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005% (payable in full on application in Hong Kong dollars and subject to refund)**
Nominal value	:	**RMB1.00 per H Share**
Stock code	:	**2289**

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Guotai Junan Securities (Hong Kong) Limited

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

The Offer Price is expected to be fixed by agreement between the Sole Global Coordinator (on behalf of the Underwriters) and us on the Price Determination Date. The Price Determination Date is expected to be on or around Monday, 7 December 2015 (Hong Kong Time) and, in any event, not later than Thursday, 10 December 2015 (Hong Kong Time). The Offer Price will be not more than HK$8.60 and is currently expected to be not less than HK$7.60. If, for any reason, the Offer Price is not agreed by Thursday, 10 December 2015 (Hong Kong Time) between the Sole Global Coordinator (on behalf of the Underwriters) and us, the Global Offering will not proceed and will lapse. Investors applying for Offer Shares must pay, on application, the maximum Offer Price of HK$8.60 per H Share, unless otherwise announced, together with brokerage of 1%, SFC transaction levy of 0.0027% and Hong Kong Stock Exchange trading fee of 0.005% subject to refund if the Offer Price finally determined is lower than HK$8.60 per H Share.

The Sole Global Coordinator (on behalf of the Underwriters) may, with the consent of the Company, reduce the number of Offer Shares being offered under the Global Offering and/or the indicative Offer Price range below that stated in this Prospectus at any time on or prior to the morning of the last day for lodging applications under the Hong Kong Public Offering. In such a case, an announcement will be published in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) as well as of our website www.chmyy.com not later than the morning of the day which is the last day for lodging applications under the Hong Kong Public Offering. For further information, see "Structure of the Global Offering" and "How to Apply for Hong Kong Offer Shares."

We are established, and all of our businesses are located, in the PRC. Potential investors should be aware of the differences in legal, economic and financial systems between the PRC and Hong Kong and that there are different risk factors relating to investments in PRC-established companies. Potential investors should also be aware that the regulatory framework in the PRC is different from the regulatory framework in Hong Kong and should take into consideration the different market nature of our H Shares. Such differences and risk factors are set out in "Risk Factors," "Appendix V — Summary of Principal Legal and Regulatory Provisions" and "Appendix VI — Summary of Articles of Association." Prior to making an investment decision, potential investors should consider carefully all of the information set out in this Prospectus, including the risk factors set out in "Risk Factors."

The obligations of the Hong Kong Underwriters under the Hong Kong Underwriting Agreement are subject to termination by the Sole Global Coordinator (on behalf of the Hong Kong Underwriters) if certain grounds arise prior to 8:00 a.m. on the day that trading in our Shares commences on the Hong Kong Stock Exchange. See "Underwriting — Underwriting Arrangements and Expenses — Hong Kong Public Offering — Grounds for termination".

The Offer Shares have not been and will not be registered under the U.S. Securities Act or any state securities laws of the United States and may not be offered, sold, pledged or transferred within the United States. The Offer Shares may be offered, sold or delivered outside the United States in offshore transactions in the United States in reliance on Regulation S.

* *For identification purpose only*

2 December 2015

We will issue an announcement in Hong Kong to be published in South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) and on the Stock Exchange's website at **www.hkexnews.hk** and our website at **www.chmyy.com** if there is any change in the following expected timetable of the Hong Kong Public Offering.

Latest time to complete electronic applications under the **White Form eIPO** service through the designated website **www.eipo.com.hk**(2)	11:30 a.m. on Monday, 7 December 2015
Application lists open(3)	11:45 a.m. on Monday, 7 December 2015
Latest time for lodging **WHITE** and **YELLOW** Application Forms and giving **electronic application instructions** to HKSCC(4)	12:00 noon on Monday, 7 December 2015
Latest time to complete payment of **White Form eIPO** Applications by effecting internet banking transfer(s) or PPS payment transfer(s)	12:00 noon on Monday, 7 December 2015
Application lists close(3)	12:00 noon on Monday, 7 December 2015
Expected Price Determination Date(5)	Monday, 7 December 2015
Announcement of the final Offer Price	Friday, 11 December 2015

Announcement of:

- the level of indication of interest in the International Offering;
- the level of applications in the Hong Kong Public Offering; and
- the basis of allocation of the Hong Kong Offer Shares to be published (a) in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese); (b) on our website at **www.chmyy.com**(6) and the website of the Hong Kong Stock Exchange at **www.hkexnews.hk** on or before .... Friday, 11 December 2015

Results of allocations in the Hong Kong Public Offering (with successful applicants' identification document numbers, or business registration numbers, where appropriate) to be available through a variety of channels (see "How to Apply for Hong Kong Offer Shares — 11. Publication of Results" in this Prospectus) from	Friday, 11 December 2015

Results of allocations in the Hong Kong Public Offering will be available at **www.iporesults.com.hk** with a "search by ID" function	Friday, 11 December 2015
H Share certificates in respect of wholly or partially successful applications to be dispatched or deposited into CCASS on(7)	Friday, 11 December 2015
White Form e-Refund payment instructions/refund cheques in respect of wholly successful (if applicable) or wholly or partially unsuccessful applications to be dispatched on(7)(8)(9)	Friday, 11 December 2015
Dealings in H Shares on the Stock Exchange expected to commence on	Monday, 14 December 2015

Notes:

(1) All times refer to Hong Kong local time, except as otherwise stated. Details of the structure of the Global Offering, including conditions of the Hong Kong Public Offering, are set out in "Structure of the Global Offering."

(2) If you have already submitted your application and obtained an application reference number from the designated website at or before 11:30 a.m., you will be permitted to continue the application process (by completing payment of application monies) until 12:00 noon on the last day for submitting applications, when the application lists close. You will not be permitted to submit your application through the designated website at **www.eipo.com.hk** after 11:30 a.m. on the last day for submitting applications.

(3) If there is a "black" rainstorm warning or a tropical cyclone warning signal number 8 or above in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Monday, 7 December 2015, the application lists will not open or close on that day. See "How to Apply for Hong Kong Offer Shares — 10. Effect of Bad Weather on the Opening of the Application Lists." If the application lists do not open and close on Monday, 7 December 2015, the dates mentioned in "Expected Timetable" may be affected. A press announcement will be made by us in such event.

(4) Applicants who apply for Hong Kong Offer Shares by giving **electronic application instructions** to HKSCC should refer to "How to Apply for Hong Kong Offer Shares — 6. Applying by Giving **Electronic Application Instructions** to HKSCC via CCASS."

(5) The Price Determination Date is expected to be on or about Monday, 7 December 2015 and in any event will not be later than Thursday, 10 December 2015. If, for any reason, the Offer Price is not agreed on or before Thursday, 10 December 2015, the Global Offering (including the Hong Kong Public Offering) will not proceed and will lapse.

(6) None of the website or any of the information contained on the website forms part of this Prospectus.

(7) Applicants who apply for l,000,000 or more Hong Kong Offer Shares and have provided all information required by their Application Forms may collect refund cheques (where applicable) and/or H Share certificates (where applicable) in person from our H Share Registrar, Computershare Hong Kong Investor Services Limited, at Shops l 712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong from 9:00 a.m. to 1:00 p.m. on Friday, 11 December 2015.

Applicants being individuals who opt for personal collection must not authorise any other person to make collection on their behalf. Applicants being corporations who opt for personal collection must attend by their authorised representatives each bearing a letter of authorisation from his corporation stamped with the corporation's chop. Both individuals and authorised representatives (if applicable) must produce, at the time of collection, evidence of identity acceptable to Computershare Hong Kong Investor Services Limited. Uncollected refund cheques and H Share certificates will be dispatched promptly by ordinary post to the addresses as specified in the applicants' Application Forms at the applicants' own risk. Details of the arrangements are set out in "How to Apply for Hong Kong Offer Shares" in this Prospectus.

(8) Applicants who apply through the **White Form eIPO** service and paid their application monies through single bank accounts may have refund monies (if any) dispatched to the application payment account, in the form of e-Refund payment instructions. Applicants who apply through the **White Form eIPO** service and paid their application monies through multiple bank accounts may have refund monies (if any) dispatched to the address as specified in their application instructions to the **White Form eIPO** Service Provider, in the form of refund cheques, by ordinary post at their own risk.

(9) e-Refund payment instructions/refund cheques will be issued in respect of wholly or partially unsuccessful applications and in respect of successful applications if the Offer Price is less than the price payable on application.

The H Share certificates will only become valid certificates of title provided that: (i) the Global Offering has become unconditional in all respects; and (ii) neither of the Underwriting Agreements has been terminated in accordance with its respective terms prior to 8:00 a.m. on Monday, 14 December 2015. Investors who trade the H Shares on the basis of publicly available allocation details prior to the receipt of H Share certificates or prior to the H Share certificates becoming valid certificates of title do so entirely at their own risk.

IMPORTANT NOTICE TO INVESTORS

This Prospectus is issued by our Company solely in connection with the Hong Kong Public Offering and does not constitute an offer to sell or a solicitation of an offer to buy any security other than the Hong Kong Offer Shares pursuant to the Hong Kong Public Offering. This Prospectus may not be used for the purpose of, and does not constitute, an offer or invitation in any other jurisdiction or in any other circumstances. No action has been taken to permit a public offering of the Offer Shares or the distribution of this Prospectus in any jurisdiction other than Hong Kong.

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

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

There are risks associated with any investment. Some of the particular risks in investing in the Offer Shares are set out in "Risk Factors" section of this Prospectus. You should read that section carefully before you decide to invest in the Offer Shares.

OVERVIEW

We are one of the leading pharmaceutical distributors in Southern China. Our distribution network includes Southern China and other regions, such as Fujian Province. According to PICO, we are the third largest privately-owned pharmaceutical distribution company in Southern China in terms of revenue generated from pharmaceutical distribution business in 2014. The pharmaceutical distribution market of Southern China accounted for approximately 10.5% of the overall pharmaceutical distribution market of the PRC in 2014, according to PICO. For the years ended 31 December 2012, 2013 and 2014, our market share in the pharmaceutical distribution market accounts for approximately 2.3%, 2.2% and 2.4%, respectively, in Southern China, and accounts for approximately 0.2%, 0.2% and 0.3%, respectively, in the PRC, according to PICO. For details relating to our market position in Southern China, please refer to the section headed "Industry Overview — Pharmaceutical Distribution Industry in Southern China — Competitive Landscape".

We are accredited as a Leading Brand in Pharmaceutical Distribution Industry in the Guangdong Province (廣東省醫藥流通行業領軍品牌) by the Guangdong Pharmaceutical Professional Association (廣東省醫藥行業協會) in 2011. In addition, our trademark is awarded as a Renowned Trademark of Guangdong Province by the Administration for Industry and Commerce of Guangdong. We have also received awards and recognitions from various entities in the PRC. For example, in 2015, we were awarded the "Triple A Credit Rating Enterprise in China" ("中國AAA級信用企業") from the International Trade and Economic Cooperation Research Institute of the MOFCOM (商務部國際貿易經濟合作研究院) and the China Cooperate Trade Enterprises Association (中國合作貿易企業協會) and in 2014, we were awarded as the "Best Service to Suppliers" of the Pharmaceutical Distribution Industry in China for 2013 to 2014 (2013-2014年全國藥品流通行業"最佳對供應商服務獎") by the China Association of Pharmaceutical Commerce (中國醫藥商業協會).

We distribute pharmaceutical products to (i) pharmaceutical distributor customers, (ii) retail pharmacy stores, and (iii) hospitals, clinics, health centres and others. We have a wide and growing customer base and, as of 30 June 2015, we had approximately 4,495 customers, including approximately 672 pharmaceutical distributor customers, 2,807 retail pharmacy stores, and 1,016 hospitals, clinics, health centres and others. We also provide consultancy services on marketing strategies and related information services to our suppliers.

We have a variety of product offerings. For the six months ended 30 June 2015, we distributed 5,756 products including western medicines, Chinese patent medicines, healthcare products, Chinese medicine materials and decoction pieces, medical devices and cosmetic products.

In June 2015, we started a pilot run of our B2B e-commerce platform and we expect the platform will operate in full scale in the fourth quarter of 2015. The B2B e-commerce platform is currently used by our customers to make purchase orders through our online platform.

During the Track Record Period, we achieved continuous growth in turnover and gross profit. For the year ended 31 December 2014, our turnover reached RMB3,014.1 million, our gross profit reached RMB136.4 million, and our profit attributable to the owners of the Company reached RMB36.4 million. Between 2012 to 2014, our turnover and profit attributable to the owners of the Company grew at a CAGR of approximately 22.2% and 60.7%, respectively.

OUR COMPETITIVE STRENGTHS

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

- We are one of the leading and established pharmaceutical distributors in Southern China and we are well-positioned to benefit from industry consolidation opportunities and expansion of the pharmaceutical distribution market in the PRC;
- We have maintained strong and stable relationships with our major customers and suppliers;

- We possess effective distribution network and operation system; and
- We possess dedicated and experienced management team with a proven track record.

OUR BUSINESS STRATEGIES

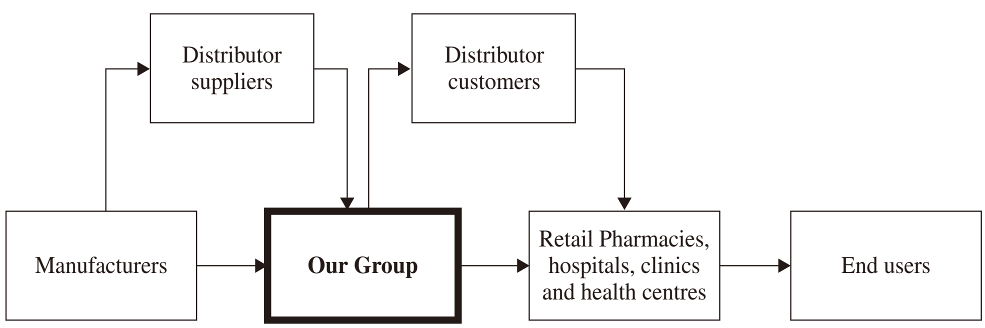
We intend to further strengthen our leading market position and profitability by pursuing the following principal strategies:

- We plan to strengthen, expand and integrate our existing distribution network and capabilities to increase distribution coverage, capacity and operating efficiencies and lower our cost;
- We plan to upgrade and promote our B2B e-commerce platform to enhance our market position;
- We will pursue acquisition opportunities; and
- We plan to expand our product offerings and enhance our product mix.

OUR BUSINESS AND REVENUE MODEL

Our principal business is pharmaceutical products distribution in the PRC which contributed substantially all of our turnover during the Track Record Period. We procure pharmaceutical products from (i) pharmaceutical manufacturers and (ii) distributor suppliers and then sell the products to (i) distributor customers, (ii) retail pharmacy stores, and (iii) hospitals, clinics, health centres and others.

The diagram below illustrates the business model of our distribution business:



We, as a pharmaceutical distributor, build the bridge between pharmaceutical manufacturers and our customers as we facilitate the pharmaceutical manufacturing enterprises to cover wider sales network in a more cost-efficient manner compared to establishing their own distribution network. On the other hand, we also provide broad product offerings to fulfil different needs of customers and ensure stable and timely supply of products to them through our distribution network. For details of the value of the pharmaceutical distribution business, please refer to the section headed "Industry Overview — Overview of Pharmaceutical Distribution Industry in China" of this Prospectus.

We also provide consultancy services on marketing strategies and related information services to our suppliers.

The following table sets forth the breakdown of our turnover during the Track Record Period:

	For the year ended 31 December						For the six months ended 30 June			
	2012		2013		2014		2014		2015	
	(RMB'000)	%	*(RMB'000)*	%	*(RMB'000)*	%	*(RMB'000)* (unaudited)	%	*(RMB'000)*	%
Turnover										
Sales of goods	2,010,946	99.7%	2,392,157	99.6%	3,004,747	99.7%	1,443,741	99.6%	1,626,237	99.4%
Services income	5,997	0.3%	9,074	0.4%	9,312	0.3%	5,785	0.4%	9,160	0.6%
Total Turnover	2,016,943	100.0%	2,401,231	100.0%	3,014,059	100.0%	1,449,526	100.0%	1,635,397	100.0%

During the Track Record Period, over 99.0% of our turnover was derived from pharmaceutical products distribution. The remaining turnover was derived from consultancy services on marketing strategies and related information services to our suppliers. Our turnover increased by approximately 19.1% from approximately RMB2,016.9 million in 2012 to RMB2,401.2 million in 2013, increased by 25.5% from approximately RMB2,401.2 million in 2013 to RMB3,014.1 million in 2014, and increased by approximately 12.8% from approximately RMB1,449.5 million for the six months ended 30 June 2014 to RMB1,635.4 million for the six months ended 30 June 2015. The increase in turnover from 2012 to 2013 was primarily attributable to the expansion of our distribution network coverage in Southern China following the commencement of business of our wholly-owned subsidiary Foshan Chuangmei in January 2012. The increase in turnover from 2013 to 2014 was primarily attributable to (i) the increase in sales of products to pharmaceutical distributor customers by 30.9% from approximately RMB1,694.5 million in 2013 to RMB2,218.4 million in 2014 which in turn was driven by the increase in sales volume as a result of an increase in the number of products which we are Primary Distributor from 3,105 products in 2013 to 3,461 products in 2014; and (ii) the increase in sales of products to retail pharmacy stores by 12.7% from approximately RMB613.9 million in 2013 to RMB691.9 million in 2014 which was primarily driven by our marketing effort to put more focus on sales of products to retail pharmacy stores in response to the Notice on Implementation of 2014 Medical Reform Keynote in Enhancement of Service Quality and Efficiency of Pharmaceutical Distribution (關於落實2014年度醫改重點任務提升藥品流通服務水平和效率工作的通知) promulgated by MOFCOM in September 2014 which encourages separation of prescription and pharmacies, and which directs users or consumers to purchase pharmaceutical products from Free Competition Market such as pharmacy stores rather than hospitals; as a result, the number of our retail pharmacy store customers increased from 1,483 in 2013 to 2,639 in 2014 in our distribution network. The increase in turnover from six months ended 30 June 2014 to six months ended 30 June 2015 was primarily attributable to our marketing effort on the expansion of retail pharmacy stores network to prepare for our future expansion of B2B e-commerce business as retail pharmacy store customers are our major target customers for B2B e-commerce business. For further details, please refer to the section headed "Financial Information — Components of Our Statements of Profit or Loss".

OUR DISTRIBUTION NETWORK, CUSTOMERS AND SUPPLIERS

Our distribution network

Historically, we first conducted our distribution operations primarily in Shantou and have gradually extended our distribution operations to the Eastern Guangdong. Since Foshan Chuangmei commenced business operation in January 2012, we have further extended our distribution business reach to the Pearl River Delta region and other regions of Southern China. The following table sets forth the breakdown of turnover by geographic region of which our customers locate for the periods indicated:

	For the year ended 31 December						**For the six months ended 30 June**			
Geographic Location	**2012**		**2013**		**2014**		**2014**		**2015**	
	Turnover (RMB'000)	*% of our total turnover*	*Turnover (RMB'000)*	*% of our total turnover*	*Turnover (RMB'000)*	*% of our total turnover*	*Turnover (RMB'000)* (unaudited)	*% of our total turnover*	*Turnover (RMB'000)*	*% of our total turnover*
Guangdong Province including:										
• Pearl River Delta region	708,885	35.2%	1,092,939	45.5%	1,265,772	42.0%	604,770	41.7%	688,611	42.1%
• Eastern Guangdong	571,532	28.3%	572,172	23.8%	895,692	29.7%	435,682	30.1%	508,226	31.1%
• Other region	94,972	4.7%	135,896	5.7%	214,586	7.1%	104,408	7.2%	130,114	8.0%
Guangdong Province subtotal	**1,375,389**	**68.2%**	**1,801,007**	**75.0%**	**2,376,050**	**78.8%**	**1,144,860**	**79.0%**	**1,326,951**	**81.2%**
Guangxi	39,417	2.0%	40,433	1.7%	37,273	1.2%	19,480	1.3%	20,130	1.2%
Hainan Province	36,939	1.8%	59,242	2.5%	93,078	3.1%	42,259	2.9%	38,245	2.3%
Southern China subtotal	**1,451,745**	**72.0%**	**1,900,682**	**79.2%**	**2,506,401**	**83.1%**	**1,206,599**	**83.2%**	**1,385,326**	**84.7%**
Fujian Province	173,542	8.6%	157,869	6.6%	171,640	5.7%	87,561	6.0%	81,934	5.0%
Others *(Note)*	391,656	19.4%	342,680	14.2%	336,018	11.2%	155,366	10.8%	168,137	10.3%
Total	**2,016,943**	**100.0%**	**2,401,231**	**100.0%**	**3,014,059**	**100.0%**	**1,449,526**	**100.0%**	**1,635,397**	**100.0%**

Note: Others include Guizhou Province, Hunan Province, Jilin Province, Jiangsu Province and Zhejiang Province, etc.

Our customers

Our customers for the pharmaceutical distribution business principally include (i) pharmaceutical distributor customers; (ii) retail pharmacy stores; and (iii) hospitals, clinics, health centres and others.

The following table sets forth the breakdown of turnover from sales of goods by customer types during the Track Record Period:

Customer type	For the year ended 31 December						For the six months ended 30 June			
	2012		2013		2014		2014		2015	
	Turnover (RMB'000)	*% of our turnover*	*Turnover (RMB'000)*	*% of our turnover*	*Turnover (RMB'000)*	*% of our turnover*	*Turnover (RMB'000)* (unaudited)	*% of our turnover*	*Turnover (RMB'000)*	*% of our turnover*
Distributors	1,373,356	68.3%	1,694,458	70.8%	2,218,354	73.8%	1,083,217	75.0%	1,165,757	71.7%
Retail pharmacy stores	560,405	27.9%	613,864	25.7%	691,930	23.0%	316,936	22.0%	419,657	25.8%
Hospitals, clinics, health centres and others	77,185	3.8%	83,835	3.5%	94,463	3.2%	43,588	3.0%	40,823	2.5%
Total sales of goods	2,010,946	100.0%	2,392,157	100.0%	3,004,747	100.0%	1,443,741	100.0%	1,626,237	100.0%

The following table sets forth the gross profit margin by customer types during the Track Record Period:

Customer type	For the year ended 31 December			For the six months ended 30 June	
	2012	2013	2014	2014	2015
	Gross profit margin	*Gross profit margin*	*Gross profit margin*	*Gross profit margin* (unaudited)	*Gross profit margin*
Distributors	3.7%	3.6%	4.0%	4.3%	4.3%
Retail pharmacy stores	4.0%	4.1%	4.1%	4.5%	4.6%
Hospitals, clinics, health centres and others	10.6%	11.0%	10.5%	12.3%	12.6%
Overall gross profit margin from sales of goods	4.0%	4.0%	4.2%	4.5%	4.6%

During the Track Record Period, our turnover mainly derives from sales to distributor customers. We have a seller/buyer relationship with our distributor customers who are primarily pharmaceutical trading companies. We believe that selling to distributor customers allows us to reach a broader consumer base and grow our business at relatively lower costs. Given our seller/buyer relationship with our pharmaceutical distributor customers, we do not have control over them, nor do we impose any policies on them beyond the point of the completion of our sales to them. As we distribute 5,756 products for the six months ended 30 June 2015, our distributor customers make purchases from us based on their own needs and different distributor customers usually purchase different mixes of products from us. The gross profit margin for sales to retail pharmacy stores and hospital, clinics, health centres and others are higher than that for sales to distributors because gross profit margin are generally higher for sales to downstream customers who are closer to the consumers. The gross profit margin of sales to distributors increased from approximately 3.6% in 2013 to 4.0% in 2014 primarily attributable to the increase in purchase discount as a result of the increase in procurement of products which we acted as Primary Distributor from 3,105 products in 2013 to 3,461 products in 2014. Overall, the gross profit margin was higher for the six months ended 30 June 2014 and 2015 as purchase discounts from manufacturer suppliers were relatively higher during the first half of the year after confirmation of annual sales from the previous year. The higher profit margin of hospitals, clinics, health centres and other customers is attributable to the higher procurement price of hospitals in general.

Normally we grant a credit period of not exceeding 180 days to our customers based on factors such as their scale of operations, business relationship with us and historical repayment records.

For the years ended 31 December 2012, 2013 and 2014 and the six months ended 30 June 2015, our sales to our five largest customers accounted for approximately 27.1%, 20.6%, 16.5% and 14.7% of our total turnover, respectively. In the same periods, our sales to our largest customer accounted for approximately 10.8%, 4.9%, 4.5% and 3.4% of our total turnover, respectively.

We have established stable and long-term relationships with a diverse customer base comprising pharmaceutical distributors, retail pharmacy stores, and hospitals and clinics, health centres and others, located mainly in Southern China. For the six months ended 30 June 2015, we have established business relationship with our five largest customers for more than 10 years on average. In addition, as of 30 June 2015, we have over 1,000 customers whom we have established business relationship for over 3 years.

Our suppliers

We source pharmaceutical products from pharmaceutical manufacturers and distributor suppliers. For the years ended 31 December 2012, 2013 and 2014 and six months ended 30 June 2015, we had transactions with 934, 966, 1,013 and 865 suppliers in total, of which we had 755, 799, 774 and 638 pharmaceutical manufacturer suppliers and 179, 167, 239 and 227 distributor suppliers, respectively. We have established stable business relationships with a broad network of pharmaceutical manufacturers and distributor suppliers of pharmaceutical products in the PRC. As of 30 June 2015, we had 865 suppliers and we had business relationships with our five largest suppliers for more than 10 years on average. In addition, as of 30 June 2015, approximately 60% of our suppliers have established relationship with us for over 3 years. For the years ended 31 December 2012, 2013 and 2014 and the six months ended 30 June 2015, our purchases from our five largest suppliers accounted for approximately 36.0%, 33.2%, 31.7% and 30.9% of our total procurement cost, respectively. In the same periods, our purchase from our largest supplier accounted for approximately 11.9%, 13.4%, 16.1% and 14.4% of our total procurement cost, respectively.

SHAREHOLDERS' INFORMATION

Immediately after the completion of Global Offering (assuming the Over-allotment Option is not exercised), Mr. Yao and Madam Yao will be directly beneficially interested in 64.81% and 6.01% respectively of the total issued share capital of our Company.

Our Directors are of the view that as of the Latest Practicable Date, none of our substantial shareholders or any of their respective associates had any interests in any business, apart from the business operated by members of our Group, that competes or is likely to compete, directly or indirectly, with the business of our Group.

SUMMARY OF HISTORICAL CONSOLIDATED FINANCIAL INFORMATION

Selected Consolidated Statements of Profit or Loss Information

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

	For the year ended 31 December			For the six months ended 30 June	
	2012	**2013**	**2014**	**2014**	**2015**
	(RMB'000)	*(RMB'000)*	*(RMB'000)*	*(RMB'000)* (unaudited)	*(RMB'000)*
Turnover	2,016,943	2,401,231	3,014,059	1,449,526	1,635,397
Cost of sales	(1,929,662)	(2,297,253)	(2,877,618)	(1,378,121)	(1,551,784)
Gross Profit	87,281	103,978	136,441	71,405	83,613
Other income	4,405	4,995	5,245	2,862	2,818
Selling and distribution expenses	(22,385)	(25,137)	(35,757)	(15,659)	(18,504)
Administrative expenses	(29,076)	(33,972)	(37,162)	(15,606)	(22,674)
Finance costs	(19,660)	(20,550)	(22,832)	(10,449)	(11,538)
Profit before taxation	20,565	29,314	45,935	32,553	33,715
Income tax expense	(6,454)	(7,095)	(9,490)	(6,104)	(8,481)
Profit for the year/period attributable to the owners of the Company	14,111	22,219	36,445	26,449	25,234

For the years ended 31 December 2012, 2013 and 2014 and the six months ended 30 June 2014 and 2015, our gross profit was approximately RMB87.3 million, RMB104.0 million, RMB136.4 million, RMB71.4 million and RMB83.6 million, respectively. Our gross profit margin was approximately 4.3%, 4.3%, 4.5%, 4.9% and 5.1%, respectively, for the same periods. Our gross profit margin was relatively stable during the Track Record Period as it is the nature of our industry to earn a stable margin on top of the purchase cost on products. The gross profit margin was higher for the six months ended 30 June 2014 and 2015 mainly attributable to purchase discounts from manufacturer suppliers which were relatively higher during the first half of the year after the confirmation of annual sales from the previous year. We generally earn the purchase discounts upon fulfilment of certain purchase target as stipulated on the annual purchase agreement with manufacturer suppliers. Such purchase discounts directly deduct the cost of procurement at the time we purchase their products. The purchase discounts are significant to our gross profit and, for the years ended 31 December 2012, 2013 and 2014 and the six months ended 30 June 2015, we earned approximately RMB17.8 million, RMB41.9 million, RMB79.9 million and RMB46.0 million purchase discounts, respectively, representing approximately 20.4%, 40.3%, 58.6% and 55.1% of our total gross profit of the same period. Our profit attributable to the owners of the Company for the years ended 31 December 2012, 2013 and 2014 and for the six months ended 30 June 2014 and 2015 amounted to approximately RMB14.1 million, RMB22.2 million, RMB36.4 million, RMB26.4 million and RMB25.2 million respectively. Our net profit margin was approximately 0.7%, 0.9%, 1.2%, 1.8% and 1.5%, respectively, for the same periods, which was low. For details of the risks associated with our gross and net profit margins, please refer to the section headed "Risk Factors — Risks Relating to Our Business — We may not be able to maintain our historical growth rates. Our gross and net profit margins were low. Our results of operations may be adversely affected if our gross and net profit margins decrease." of this Prospectus. The continuous increase in the net profit margin in 2012, 2013 and 2014 was mainly attributable to the expansion of our business scale. The decrease in net profit and net profit margin for the six months ended 30 June 2015 as compared with the same period in 2014 was mainly attributable to the listing expenses of approximately RMB5.4 million incurred in connection with the Global Offering, while no such listing expenses incurred for the six months ended 30 June 2014. Should such listing expenses and the relevant tax effects be excluded, our profit attributable to the owners of the Company for the six months ended 30 June 2015 would have been approximately RMB29.3 million.

Please refer to the section headed "Financial Information — Selected Consolidated Statements of Financial Position Information" in this Prospectus for further details.

Selected Consolidated Statements of Financial Position Information

The table below sets out our financial position as of the dates indicated:

	As of 31 December			As of 30 June
	2012	2013	2014	2015
	(RMB'000)	*(RMB'000)*	*(RMB'000)*	*(RMB'000)*
Non-current assets	212,086	204,603	196,964	191,427
Current assets	950,973	1,239,999	1,336,972	1,521,389
Total assets	1,163,059	1,444,602	1,533,936	1,712,816
Current liabilities	976,158	1,235,482	1,288,371	1,472,017
Net current (liabilities)/assets	(25,185)	4,517	48,601	49,372
Net assets	186,901	209,120	245,565	240,799

We recorded net current liabilities of approximately RMB25.2 million as of 31 December 2012 mainly attributable to (i) our long-term bank borrowings of approximately RMB94.9 million for the establishment of our business in Foshan were classified as current liabilities as they are repayable on demand; and (ii) the set up of logistic centre in Foshan in 2012 reduced our current assets for non-current assets, particularly the property, plant and equipment. Our net current assets position has improved since 2013.

Please refer to the section headed "Financial Information — Selected Consolidated Statement of Financial Position Information" in this Prospectus for further details.

Selected Cash Flow Statement Information

The table below is a summary of our consolidated cash flows during the Track Record Period.

	For the year ended 31 December			For the six months ended 30 June	
	2012	2013	2014	2014	2015
			(RMB'000)		
				(unaudited)	
Net cash inflow/(outflow) from operating activities	61,700	45,104	(14,826)	323	134,379
Net cash inflow/(outflow) from investing activities	(104,218)	(61,705)	40,903	20,403	(67,835)
Net cash inflow/(outflow) from financing activities	41,854	21,016	(20,542)	(26,009)	(64,138)
Net increase/(decrease) in cash and cash equivalent	(664)	4,415	5,535	(5,283)	2,406
Cash and cash equivalents at the beginning of the year/period	13,010	12,346	16,761	16,761	22,296
Cash and cash equivalents at the end of the year/period	12,346	16,761	22,296	11,478	24,702

We have recorded net cash outflow from operating activities of approximately RMB14.8 million for the year ended 31 December 2014 primarily attributable to the increase in trade and other receivables primarily as a result of (i) our increase in turnover; and (ii) our increase in prepayment to our suppliers for the procurement of popular pharmaceutical products near year end of 2014.

For details of fluctuation of our cash flow from operating activities, please refer to the section headed "Financial Information — Liquidity and Capital Resources" of this Prospectus.

KEY FINANCIAL RATIOS

The table below sets out our key financial ratios as of the dates or for the period indicated.

	For the year ended 31 December			For the six months ended 30 June
	2012	2013	2014	2015
Return on equity (%)	7.5	10.6	14.8	21.0
Return on total assets (%)	1.2	1.5	2.4	3.0
Interest coverage ratio (times)	2.2	2.8	3.5	4.6

	As of 31 December			As of 30 June
	2012	2013	2014	2015
Gearing ratio (times)	1.4	1.4	1.2	1.2
Net debt to equity ratio (times)	1.3	1.4	1.1	1.1
Current ratio (times)	1.0	1.0	1.0	1.0
Quick ratio (times)	0.8	0.8	0.8	0.9

Please refer to the section headed "Financial Information — Key Financial Ratios" in this Prospectus for further details.

Our Directors confirm that we have sufficient working capital for our present requirements and for at least the next 12 months from the date of this Prospectus, taking into account the financial resources presently available to us, including the estimated net proceeds from the Global Offering, available banking facilities and cash flows from our operations.

RECENT DEVELOPMENTS SUBSEQUENT TO THE TRACK RECORD PERIOD

In July 2015, we entered into a sales and purchase agreement with Shantou Municipal Bureau of Land and Resources (汕頭市國土資源局), to acquire the land use right for the parcel of land on which our logistic centre in Shantou is situated ("Shantou Land") at the consideration of approximately RMB27.3 million which was duly paid in July 2015. The Company has obtained the land use right certificate for Shantou Land in September 2015.

Based on the unaudited consolidated management accounts of our Group for the ten months ended 31 October 2015, our turnover increased moderately while our gross profit margin remained stable compared with the same over the corresponding period in 2014. After reviewing the operating data for the ten months ended 31 October 2015, our Directors have confirmed that there has been no material change in the product mix and customer mix of the Group compared to the same period in 2014.

As listing expenses of approximately RMB16.2 million (equivalent to approximately HK$20.3 million) are expected to be charged to our consolidated statement of profit and loss and other comprehensive income subsequent to 30 June 2015, we expect that there may be a decrease in the profit attributable to the owners of the Company for the year ending 31 December 2015 when compared with the same over the corresponding period in 2014.

No audited financial statements of our Group, our Company or our subsidiary have been prepared in respect of any period subsequent to 30 June 2015. Our Directors have confirmed that save for the listing expenses as disclosed in the paragraph "Listing expenses" below, since 30 June 2015 and up to the date of this Prospectus, there has been no material adverse change in our financial or trading position or prospects of our Group and there is no event which would materially affect the information shown in our consolidated financial statements included in the Accountant's Report.

FUTURE PLANS AND USE OF PROCEEDS

We estimate that we will receive net proceeds of approximately HK$185.2 million (or RMB148.2 million) from the Global Offering, after deducting the underwriting commissions and other estimated expenses payable by us in connection with the Global Offering, assuming that the Over-allotment Option is not exercised and assuming an Offer Price of HK$8.10 per H Share, being the mid-point of the indicative Offer Price range of HK$7.60 to HK$8.60. We intend to use such net proceeds from the Global Offering for the purposes and in the amounts set forth below:

- approximately HK$64.8 million (or RMB51.8 million, equivalent to approximately 35%), to be used to strengthen, expand and integrate our existing distribution network and capabilities;
- approximately HK$18.5 million (or RMB14.8 million, equivalent to approximately 10%), to be used to enhance and promote our B2B e-commerce platform;
- approximately HK$55.6 million (or RMB44.5 million, equivalent to approximately 30%), to be used to repay bank borrowings;
- approximately HK$27.8 million (or RMB22.3 million, equivalent to approximately 15%), to be used to acquire pharmaceutical distribution business in Southern China region; and
- approximately HK$18.5 million (or RMB14.8 million, equivalent to approximately 10%), to be used for working capital and general corporate purposes.

For more details, please refer to the section headed "Future Plans and Use of Proceeds" of this Prospectus.

DIVIDEND POLICY AND DISTRIBUTION PRIOR TO THE LISTING

In June 2015, we paid a cash dividend of RMB30.0 million and we did not declare any other dividend during the Track Record Period. We further declared and paid a special cash dividend of RMB16.0 million in October 2015, satisfied by internal resources of our Group. Dividends paid in prior years shall not be indicative of future dividend payment. Following the completion of the Global Offering, we plan to distribute not less than 20% of our distributable and accumulated undistributed profits of each financial year beginning from the year ending 31 December 2016. As at the Latest Practicable Date, we do not have plan to distribute any of our distributable and accumulated undistributed profits for the year ending 31 December 2015. After completion of the Global Offering, we may distribute dividends by way of cash or by other means that we consider appropriate. Any proposed distribution of dividends shall be formulated by our Board and will be subject to our Shareholders' approval. A decision to declare or to pay any dividends in the future, and the amount of any dividends, will depend on a number of factors, including our results of operations, cash flows, financial conditions, operating and capital expenditure requirements, distributable profits as determined under the PRC GAAP and other applicable laws and regulations and other factors that our Board may consider important. For more details, please see the section headed "Financial Information — Dividend Policy" of this Prospectus.

GLOBAL OFFERING STATISTICS

We have prepared the following offer statistics on the basis of indicative Offer Prices without taking into account the 1% brokerage fee, 0.0027% SFC transaction levy and 0.005% Stock Exchange trading fee. We have also assumed the Over-allotment Option has not been exercised.

	Based on an Offer Price of HK$7.60 per H Share	Based on an Offer Price of HK$8.60 per H Share
Market capitalisation *(Note 1)*	HK$820.8 million	HK$928.8 million
Unaudited pro forma adjusted net tangible assets per Share *(Note 2)*	RMB3.55 (HK$4.44)	RMB3.75 (HK$4.69)

Notes:

(1) The calculation of our market capitalisation upon completion of the Global Offering is based on the assumption that 108,000,000 Shares will be in issue immediately following the completion of the Global Offering.

(2) The unaudited pro forma adjusted net tangible asset per Share is calculated after the adjustments referred to section headed "Appendix II — Unaudited Pro Forma Financial Information" to this Prospectus and on the basis of a total of 108,000,000 Shares in issue immediately following the Global Offering. In October 2015, we further declared and paid a special cash dividend of RMB16.0 million (the "Special Dividend"). The unaudited pro forma adjusted consolidated net tangible assets and the unaudited pro forma adjusted consolidated net tangible assets per Share have not taken into account the Special Dividend. If the Special Dividend has been accounted for, the unaudited pro forma adjusted consolidated net tangible assets as at 30 June 2015 would have been reduced by RMB16.0 million. Based on the Offer Price range of HK$7.60 and HK$8.60 per H Share, the unaudited pro forma adjusted consolidated net tangible assets per Share would have been reduced to RMB3.41 (with equivalent to HK$4.26) per Share and RMB3.61 (with equivalent to HK$4.51) per Share respectively.

OUR PROPERTIES

We have two logistic centres, one located in Foshan and another located in Shantou.

As of the Latest Practicable Date, we had not obtained the building ownership certificates for our logistic centre in Shantou comprising the warehouse and ancillary office and the employee dormitory located on the Shantou Land. As advised by our PRC Legal Advisers, there is no legal impediment for us to obtain the relevant building ownership certificates. To remedy the situation, we are now in the course of applying for the relevant certificates and we will enhance our internal control measures in this regard by setting up a project team. For details, please refer to the section headed "Business — Properties — Owned Properties — Properties with defective titles in the PRC" of this Prospectus.

HISTORICAL NON-COMPLIANCE

During the Track Record Period, we did not fully comply with the laws and regulations in respect of the housing provident fund contribution. Please refer to the section headed "Business — Legal and compliance matters" in this Prospectus for detailed information of these non-compliance incidents.

NEW PHARMACEUTICAL REGULATIONS ISSUED IN 2015

New pharmaceutical regulations have been issued in 2015, including Notice on Relevant Matters of Full Implementation of Electronic Monitoring of Drugs on Pharmaceutical Manufacturers (2015 No.1) (關於藥品生產經營企業全面實施藥品電子監管有關事宜的公告(2015年第1號)) issued by the CFDA, Guiding Opinions of General Office of the State Council on Enhancing Centralised Procurement of Pharmaceutical Products by Public Hospitals" (《國務院辦公廳關於完善公立醫院藥品集中採購工作的指導意見》) issued by the General Office of the State Council on 28 February 2015, The decision of Standing Committee of the National People's Congress on amending Pharmaceutical Administration Law of the People's Republic of China (2015) (《全國人大常委會關於修改〈中華人民共和國藥品管理法〉的決定(2015)》) issued by the Standing Committee of the National People's Congress (全國人民代表大會常務委員會) on 24 April 2015, Circular on Issuing the Opinions on Promoting Drug Price Reform (關於印發推進藥品價格改革意見的通知) promulgated on 4 May 2015 and implemented since 1 June 2015, Circular on Strengthening the Supervision of the Medicine Market Price Behaviour (《關於加強藥品市場價格行為監管的通知》) implemented by the NDRC on 4 May 2015, Good Supply Practice for Pharmaceutical Product amended on 18 May 2015 and became effective on 25 June 2015, Circular on Publishing Clinical Data Onsite Authentication of Pharmaceutical Products (《關於發佈藥物臨床試驗數據現場核查要點的公告》) (CFDA Circular 2015 No. 228) published by CFDA on 10 November 2015, Circular on Certain Policies Regarding Review and Approval for Pharmaceutical Products Registration (《關於藥品註冊審評審批若干政策的公告》) (CFDA Circular 2015 No. 230) published by CFDA on 11 November 2015 and Circular on Publication of Comments Regarding the General Evaluation on Quality and Efficacy of Generic Drugs (Consultation Paper) (《關於發布〈關於開展仿製藥質量和療效一致性評價的意見(徵求意見稿)〉意見的公告》) (CFDA Circular 2015 No. 231) published by CFDA on 18 November 2015. The Directors confirmed that overall speaking, the aforementioned new pharmaceutical regulations issued in 2015 would not have material impacts on the Group's operations and financial performance. Please refer to the section headed "Business — New Pharmaceutical Regulations Issued in 2015" for a summary of these regulations as well as the detailed Directors' views on the impacts on the Group's operations and financial performance of such regulations.

LISTING EXPENSES

The total estimated listing expenses incurred in relation to the Listing (including the estimated underwriting commission) are approximately RMB33.2 million (equivalent to approximately HK$41.5 million) (assuming an Offer Price of HK$8.10 per Offer Share, being the mid-point of the indicative Offer Price range of HK$7.60 to HK$8.60), of which approximately RMB11.4 million (equivalent to approximately HK$14.2 million) is directly attributable to the issue of H Shares is to be accounted for as a deduction from equity upon Listing and approximately RMB21.8 million (approximately HK$27.3 million) is to be charged as administrative expenses to our consolidated statement of profit or loss and other comprehensive income in the periods in which the expenses are incurred. We charged approximately RMB0.2 million (equivalent to approximately HK$0.2 million) and RMB5.4 million (equivalent to approximately HK$6.8 million) to our consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2014 and the six months ended 30 June 2015 respectively. The remaining estimated listing expenses of approximately RMB16.2 million (equivalent to approximately HK$20.3 million) are expected to be charged to our consolidated statement of profit or loss and other comprehensive income subsequent to 30 June 2015 and will be reflected in our administrative expenses for the year ending 31 December 2015. The estimated listing expenses are subject to adjustments based on the actual amount incurred or to be incurred. We expect that the listing expenses to be incurred in connection with the Global Offering for the year ending 31 December 2015 will have a material adverse impact on our results of operations.

RISK FACTORS

There are risks associated with our business and investment in the Global Offering. These risks include (i) risks relating to our business; (ii) risks relating to our industry; (iii) risks relating to conducting business in the PRC; and (iv) risks relating to our Global Offering. We believe the most significant risks involved in our business and results of operations include:

- We have limited or no control over our suppliers and the quality of the products supplied to us. If their performance does not meet our expectations, we could be exposed to liabilities and our business operations and reputation could suffer. Our business may also be adversely affected by product recalls, defects, scandals or any other incidents that may have a negative impact on the reputation and public perception of the pharmaceutical industry as a whole.
- We may not be able to maintain our historical growth rates. Our gross and net profit margins were low. Our results of operations may be adversely affected if our gross and net profit margins decrease.
- We operate in a highly competitive industry and we may face even more intense competition as a result of government's policies in encouraging the expansion of large pharmaceutical distributors through acquisition of smaller ones. Our business, financial condition and results of operations may be materially and adversely affected if we are unable to compete effectively. We may even become an acquisition target of large national and regional distributor, in which case we may be exposed to uncertainties in forms of the acquisition price and future prospects.
- Our turnover has been significantly dependent on sales in Southern China and any decrease in sales in Southern China or other factors affecting the region would materially and adversely affect our business, financial condition and results of operations.
- Our customers may delay and/or default in their payments to us.
- We rely on suppliers to supply all of our pharmaceutical products and failure to maintain our business relationships with them may adversely affect us.

Please see the section headed "Risk Factors" of this Prospectus for detailed discussion of these and other risks.

In this prospectus, unless the context otherwise requires, the following terms shall have the meanings set out below.

"affiliate(s)"	any other person(s), directly or indirectly, controlling or controlled by or under direct or indirect common control with such specified person(s)
"Administrative Measures on Drug Recalls"	the Administrative Measures on Drug Recalls (藥品召回管理辦法) issued by the SFDA on 10 December 2007
"Application Form(s)"	**WHITE** Application Form(s), **YELLOW** Application Form(s) and **GREEN** Application Form(s), or where the context so requires, any of them, relating to the Hong Kong Public Offering
"Articles of Association"	the articles of association of the Company, conditionally adopted on 8 August 2015 and as amended from time to time, a summary of which is set out in "Appendix VI — Summary of Articles of Association"
"associate(s)"	has the meaning ascribed thereto under the Listing Rules
"Board of Supervisors"	our supervisory committee established pursuant to the PRC Company Law, as described in "Appendix VI — Summary of Articles of Association" to this Prospectus
"Board" or "Board of Directors"	the board of directors of the Company
"Business Day"	any day on which banks in Hong Kong are generally open for normal banking business to the public and which is not a Saturday, Sunday or public holiday in Hong Kong
"CAGR"	compound annual growth rate
"CCASS"	Central Clearing and Settlement System established and operated by HKSCC
"CCASS Clearing Participant"	a person admitted to participate in CCASS as a direct clearing participant or general clearing participant
"CCASS Custodian Participant"	a person admitted to participate in CCASS as a custodian participant
"CCASS Investor Participant"	a person admitted to participate in CCASS as an investor participant who may be an individual or joint individuals or a corporation

"CCASS Participant"	a CCASS Clearing Participant, a CCASS Custodian Participant or a CCASS Investor Participant
"CFDA"	the China Food and Drug Administration of the PRC (中華人民共和國國家食品藥品監督管理總局)
"Chairman"	the chairman of the Company, being Mr. Yao
"Chief Executive Officer"	chief executive officer of our Group
"Chief Financial Officer"	chief financial officer of our Group
"Chief Marketing Officer"	chief marketing officer of our Group
"Chief Technical Officer"	chief technical officer of our Group
"China" or "PRC"	the People's Republic of China, but for the purpose of this Prospectus and for geographical reference only and except where the context requires, references in this Prospectus to "China" and the "PRC" do not apply to Taiwan, Macau Special Administrative Region and Hong Kong
"Companies Ordinance" or "Hong Kong Companies Ordinance"	the Companies Ordinance, Chapter 622 of the Laws of Hong Kong, as amended, supplemented or otherwise modified from time to time
"Companies (Winding Up and Miscellaneous Provisions) Ordinance," "Hong Kong Companies (Winding Up and Miscellaneous Provisions) Ordinance"	the Companies (Winding Up and Miscellaneous Provisions) Ordinance, Chapter 32 of the Laws of Hong Kong, as amended, supplemented or otherwise modified from time to time
"Company" or "our Company"	Chuangmei Pharmaceutical Co., Ltd.* (創美藥業股份有限公司), a company established on 18 February 1984 in the PRC as an enterprise owned by whole people (全民所有制企業) and subsequently converted into a joint stock limited liability company on 28 May 2015
"connected person(s)"	has the meaning ascribed thereto under the Listing Rules
"Controlling Shareholder"	has the meaning ascribed thereto under the Listing Rules and in case of the Company, means Mr. Yao
"CSRC"	the China Securities Regulatory Commission (中國證券監督管理委員會)

"Deed of Indemnity"	the deed of indemnity dated 26 November 2015 entered into by Mr. Yao in favour of our Company
"Deed of Non-competition"	the deed of non-competition dated 26 November 2015 entered into by our Controlling Shareholder with and in favour of our Company
"Director(s)"	the director(s) of the Company
"Domestic Shares"	ordinary share in our capital, with a nominal value of RMB1.00 each, which are subscribed for and paid up in Renminbi by PRC nationals and/or PRC-incorporated entities
"Eastern Guangdong"	Chaozhou, Shantou, Jieyang, Shanwei and Meizhou
"EIT"	the PRC enterprise income tax
"EIT Law"	the *PRC Enterprise Income Tax Law* (中華人民共和國企業所得稅法)
"Foshan Chuangmei"	Foshan Chuangmei Pharmaceutical Co., Ltd.* (佛山創美藥業有限公司), a limited liability company incorporated in the PRC on 21 July 2011 and our direct wholly-owned subsidiary
"GDP"	gross domestic product
"Global Offering"	the Hong Kong Public Offering and the International Offering
"**Green** Application Form(s)"	the application form(s) to be completed by **White Form eIPO** Service Provider, Computershare Hong Kong Investor Services Limited
"Group,", "our Group," "we" or "us"	the Company and its subsidiary at the relevant time or, where the context so requires in respect of the period before the Company became the holding company of our present subsidiary, the present subsidiary of the Company and the businesses carried on by such subsidiary or (as the case may be) their predecessors
"Guangdong FDA"	Guangdong Food and Drug Administration (廣東省食品藥品監督管理局)

"Guangxi"	Guangxi Zhuang Autonomous Region of the PRC
"H Share Registrar"	Computershare Hong Kong Investor Services Limited
"H Shares"	overseas listed foreign shares in the share capital of the Company with nominal value of RMB1.00 each, which are to be subscribed for and traded in Hong Kong dollars and are to be listed on the Hong Kong Stock Exchange
"HKFRS"	Hong Kong Financial Reporting Standards
"HKSCC"	Hong Kong Securities Clearing Company Limited, a wholly owned subsidiary of Hong Kong Exchanges and Clearing Limited
"HKSCC Nominees"	HKSCC Nominees Limited, a wholly owned subsidiary of HKSCC
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"Hong Kong dollars" or "HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"Hong Kong Offer Shares"	the 2,800,000 H Shares (subject to adjustment) being offered by us for subscription pursuant to the Hong Kong Public Offering
"Hong Kong Public Offering"	the offer of the Hong Kong Offer Shares for subscription by the public in Hong Kong at the Offer Price and on, and subject to, the terms and conditions of this Prospectus and the Application Forms, as further described in "Structure of the Global Offering"
"Hong Kong Stock Exchange" or "Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Hong Kong Underwriters"	the underwriters of the Hong Kong Public Offering listed in "Underwriting — Hong Kong Underwriters"
"Hong Kong Underwriting Agreement"	the underwriting agreement dated 1 December 2015 relating to the Hong Kong Public Offering and entered into by, among others, the Sole Global Coordinator, the Hong Kong Underwriters, the covenantors named therein and us, as further described in "Underwriting — Underwriting Arrangements and Expenses"
"IIT"	the PRC individual income tax

"Independent Third Party(ies)"	an individual(s) or a company(ies) who or which, as far as the Directors are aware after having made all reasonable enquiries, is/are not a connected person(s) of the Company within the meaning of the Listing Rules
"International Offer Shares"	the 25,200,000 H Shares offered by the Company pursuant to the International Offering, together with, where relevant, any additional H Shares to be sold pursuant to the exercise of the Over-allotment Option
"International Offering"	the conditional placing by the International Underwriters of the International Offer Shares outside the United States to institutional and professional investors in offshore transactions as defined in and in accordance with Regulation S, as further described in "Structure of the Global Offering"
"International Underwriters"	the underwriters of the International Offering
"International Underwriting Agreement"	the international underwriting agreement relating to the International Offering and to be entered into by, among others, us, the Sole Global Coordinator and the International Underwriters on or about 7 December 2015, as further described in "Underwriting — Underwriting Arrangements and Expenses — International Offering"
"km"	kilometre
"Latest Practicable Date"	25 November 2015, being the latest practicable date for the purpose of ascertaining certain information in this Prospectus prior to its publication
"Listing"	the listing of the H Shares on the Main Board
"Listing Committee"	the Listing Committee of The Stock Exchange of Hong Kong Limited
"Listing Date"	the date, expected to be on Monday, 14 December 2015, on which dealings in the H Shares first commence on the Hong Kong Stock Exchange
"Listing Rules"	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, as amended, supplemented or otherwise modified from time to time

"Madam Yao"	Yao Xizhen (姚惜真), one of our Shareholders and the mother of Mr. Yao
"Main Board"	the stock exchange (excluding the option market) operated by the Stock Exchange which is independent from and operated in parallel with the Growth Enterprise Market of the Stock Exchange
"Mandatory Provisions"	the *Mandatory Provisions for Articles of Association of Companies to be Listed Overseas** (到境外上市公司章程必備條款), as amended, supplemented or otherwise modified from time to time, for inclusion in the articles of association of companies incorporated in the PRC to be listed overseas (including Hong Kong), which were promulgated by the former Securities Commission of the State Counsel and the former State Commission for Restructuring the Economic Systems on 29 September 1994
"Meizhi Investment"	Shantou Meizhi Investment Management Limited Partnership* (汕頭市美智投資管理合夥企業(有限合夥)), a limited partnership established in the PRC on 25 December 2014. The general partner is Mr. Lin Zhixiong, our executive Director. The limited partners include two Supervisors and other 45 individuals who are employees or ex-employee of our Group
"Ministry of Finance"	the Ministry of Finance of the PRC (中華人民共和國財政部)
"Ministry of Health" or "MOH"	Ministry of Health of the PRC (中華人民共和國衛生部), one of the predecessors of the NHFPC
"MOFCOM"	the Ministry of Commerce of the PRC (中華人民共和國商務部)
"Mr. Yao"	Mr. Yao Chuanglong (姚創龍), our Controlling Shareholder, the chairman of our Company, an executive Director and Chief Executive Officer
"National Bureau of Statistics"	the National Bureau of Statistics of the PRC (中華人民共和國國家統計局)
"NDRC"	the National Development and Reform Commission of the PRC (中華人民共和國國家發展和改革委員會)

"NHFPC"	National Health and Family Planning Commission of the PRC (中華人民共和國國家衛生和計劃生育委員會), which was reorganised from the former MOH and National Population and Family Planning Commission in March 2013
"Offer Price"	the final Hong Kong dollar price per H Share (exclusive of brokerage fee, Hong Kong Stock Exchange trading fee and SFC transaction levy) at which the Offer Shares are to be subscribed pursuant to the Global Offering
"Offer Shares"	the Hong Kong Offer Shares and the International Offer Shares together, where relevant, with any additional H Shares sold pursuant to the exercise of the Over-allotment Option
"Over-allotment Option"	the option to be granted by us to the Sole Global Coordinator on behalf of the International Underwriters under the International Underwriting Agreement pursuant to which the Company may be required to sell up to an additional aggregate of 4,200,000 H Shares (in aggregate representing approximately 15% of the Offer Shares initially being offered under the Global Offering) at the Offer Price
"PBOC"	the People's Bank of China (中國人民銀行), the central bank of the PRC
"Pearl River Delta region"	Zhaoqing, Foshan, Guangzhou, Huizhou, Dongguan, Shenzhen, Zhongshan, Jiangmen and Zhuhai
"PICO"	Guangzhou PICO Medicine Information Co., Ltd (廣州標點醫藥信息有限公司), being an Independent Third Party controlled by Southern Medicine Economic Research Institute (南方醫藥經濟研究所) under the CFDA
"PICO Report"	the Pharmaceutical Industry Market Study in China, 2015 complied by PICO
"PRC Company Law"	the Company Law of the PRC (中華人民共和國公司法)
"PRC GAAP"	the Accounting Standards for Business Enterprises (企業會計準則) promulgated by the Ministry of Finance

"PRC government"	the central government of the PRC and all governmental subdivisions (including provincial, municipal and other regional or local government entities) and organisations of such government or, as the context requires, any of them
"PRC Legal Advisers"	Jingtian & Gongcheng, legal advisers to our Company as to the PRC laws in connection with the Global Offering
"Price Determination Date"	the date, expected to be on or around Monday, 7 December 2015 but no later than Thursday, 10 December 2015, on which the Offer Price is fixed for the purposes of the Global Offering
"Promoters"	Mr. Yao, Madam Yao, Meizhi Investment, Youran Investment and Zhichuang Investment
"Prospectus"	this prospectus issued in connection with the Hong Kong Public Offering
"Province"	an administrative division within China
"Regulation S"	Regulation S under the U.S. Securities Act
"Renminbi" or "RMB"	the lawful currency for the time being of the PRC
"Reorganisation"	the reorganisation arrangements undergone by our Company in preparation for the Listing as described in "History, Development and Reorganisation — Reorganisation" in this prospectus
"SAFE"	the State Administration of Foreign Exchange of the PRC (中華人民共和國國家外匯管理局)
"SAIC"	the State Administration for Industry & Commerce of the PRC (中華人民共和國國家工商行政管理總局)
"SAT"	the State Administration of Taxation of the PRC (中華人民共和國國家稅務總局)
"SCNPC"	the Standing Committee of National People's Congress (全國人民代表大會常務委員會)
"Securities and Futures Commission" or "SFC"	the Securities and Futures Commission of Hong Kong
"Securities Law"	the Securities Law of the PRC (中華人民共和國證券法)

"SFDA"	the State Food and Drug Administration (中華人民共和國國家食品藥品監督管理局), now known as CFDA
"SFO"	the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong, as amended, supplemented or otherwise modified from time to time
"Share(s)"	Domestic Share(s) and/or H Share(s)
"Shareholder(s)"	holder(s) of the Share(s)
"Sole Global Coordinator" or "Sole Bookrunner" or "Sole Lead Manager"	Guotai Junan Securities (Hong Kong) Limited, a licensed corporation under the SFO permitted to engage in type 1 (dealing in securities) and type 4 (advising on securities) regulated activities
"Sole Sponsor"	Guotai Junan Capital Limited, a licensed corporation under the SFO permitted to engage in type 6 (advising on corporate finance) regulated activity under the SFO, acting as the sole sponsor to the Listing
"Southern China"	The southern region of China, including Guangdong Province, Guangxi and Hainan Province
"Special Regulations"	the *Special Regulations of the State Council on the Overseas Offering and Listing of Shares by Joint Stock Limited Companies* (國務院關於股份有限公司境外募集股份及上市的特別規定), promulgated by the State Council on 4 August 1994
"sq.m"	square metre
"Stabilising Manager"	Guotai Junan Securities (Hong Kong) Limited, a licensed corporation under the SFO permitted to engage in type 1 (dealing in securities) and type 4 (advising on securities) regulated activities
"State Council"	the State Council of the PRC (中華人民共和國國務院)
"substantial shareholder(s)"	has the meaning ascribed thereto in the Listing Rules
"Supervisor(s)"	member(s) of the Board of Supervisors
"Takeovers Code"	The Codes on Takeovers and Mergers and Share Buy-backs, as amended, supplemented or otherwise modified from time to time

"Track Record Period"	the three financial years ended 31 December 2012, 2013 and 2014 and the six months ended 30 June 2015
"Underwriters"	the Hong Kong Underwriters and the International Underwriters
"Underwriting Agreements"	the Hong Kong Underwriting Agreement and the International Underwriting Agreement
"United States" or "U.S."	the United States of America, its territories, its possessions and all areas subject to its jurisdiction
"U.S. dollar"	the lawful currency of the U.S.
"U.S. Securities Act"	the U.S. Securities Act of 1933, as amended, and the rules and regulations promulgated thereunder
"**White Form eIPO**"	the application for Hong Kong Offer Shares to be issued in the applicant's own name, submitted online through the designated website of the **White Form eIPO** Service Provider, **www.eipo.com.hk**
"**White Form eIPO** Service Provider"	Computershare Hong Kong Investor Services Limited
"Youran Investment"	Shantou Youran Investment Management Limited Partnership* (汕頭市悠然投資管理合夥企業(有限合夥)), a limited partnership established in the PRC on 25 December 2014. The general partner is Ms. Li Zhenhua, our employee. The limited partners include Ms. Zheng Yuyan, our executive Director, and other 38 individuals who are employees or ex-employees of our Group
"Zhichuang Investment"	Shantou Zhichuang Investment Management Limited Partnership* (汕頭市智創投資管理合夥企業(有限合夥)), a limited partnership established in the PRC on 25 December 2014. The general partner is Ms. You Zeyan, our non-executive Director and the wife of Mr. Yao. The limited partners include Mr. Fan Jianbo, our executive Director, and other 14 individuals who are employees of our Group

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

In this Prospectus, unless otherwise stated, certain amounts denominated in Hong Kong dollars have been translated into Renminbi at the exchange rate of HK$1.00 = RMB0.80. The exchange rates used in this Prospectus is for illustration purpose only. Such conversions shall not be construed as representations that amounts in Hong Kong dollars were or could have been or could be converted into Renminbi at such rates or any other exchange rates on such date or any other date.

The English names of PRC nationals, enterprises, entities, departments, facilities, licences, permits, certificates, titles, awards and the like are translations of their Chinese names and for identification purpose only.

This glossary of technical terms contains terms used in this Prospectus in connection with us and our business. Some of these terms and their meanings may not correspond to standard industry meanings or usage of such terms.

"B2B"	business-to-business e-commerce model
"cardiovascular"	relating to or affecting heart and blood vessels, or circulatory systems
"endocrine system"	the collection of glands of an organism that secrete hormones directly into the circulatory system to be carried towards distant target organs
"Free Competition Market"	sales that is not subject to the centralised tendering process of the government, and usually made by organisations such as retail pharmacies and private clinics
"gastrointestinal"	relating to or affecting the stomach and intestines, which comprise the digestive system
"GMP"	"Good Manufacturing Practices" (藥品生產質量管理規範), guidelines and regulations issued from time to time pursuant to Pharmaceutical Administration Law of the PRC (中華人民共和國藥品管理法) to provide quality assurance and ensure that pharmaceutical manufacturing enterprises manufacture pharmaceutical products in compliance with the guidelines and regulations
"GSP"	"Good Supply Practices" (藥品經營質量管理規範), guidelines and regulations issued from time to time pursuant to Pharmaceutical Administration Law of the PRC (中華人民共和國藥品管理法) to provide quality assurance and ensure that pharmaceutical products supply enterprises supply pharmaceutical products in compliance with the guidelines and regulations
"gynaecological"	relating to the female reproductive system
"hepatobiliary"	pertaining to or emanating from the liver, bile ducts and gallbladder

"National Basic Medical Insurance Drugs Catalogue"	a catalogue of the list of pharmaceutical products under the National Basic Medical Insurance, Work-Related Injury Insurance and Maternity Insurance of the PRC (國家基本醫療保險、工傷保險和生育保險藥品目錄) as determined by the Ministry of Human Resources and Social Security of the People's Republic of China for general application throughout the PRC, as amended, supplemented or otherwise modified from time to timee
"National List of Essential Drugs"	a list of drugs promulgated by MOH to promote essential medicines to be sold to consumers at fair prices and to ensure equal access to basic drugs by the general public
"orthopaedic"	a medical specialty that focuses on injuries and diseases of the musculoskeletal system
"OTC Products"	over the counter pharmaceutical products, which can be sold without prescriptions from medical practitioners or assistant medical practitioners
"phlegm"	a liquid secreted by the mucous membranes of mammals
"Primary Distributor"	distributors which purchase products directly from pharmaceutical manufacturers (regardless of whether they have obtained an exclusive distribution right or not) or their pharmaceutical distributor companies
"Provincial Medical Insurance Drugs Catalogue"	the basic medical insurance, work injury insurance and maternity insurance drugs catalogue, issued by the provincial, municipal or autonomous region's human resource and social security agency

We have included in this Prospectus forward-looking statements. Statements that are not historical facts, including statements about our intentions, beliefs, expectations or predictions for the future, are forward-looking statements. These forward-looking statements include, without limitation, statements relating to:

- any changes in the laws, rules and regulations of the central and local governments in the PRC and the rules, regulations and policies of the relevant government authorities relating to all aspects of our business and our business plans;
- our ability to control our risks;
- our business and operating strategies and our ability to implement such strategies;
- future developments, trends, conditions and the competitive environment in the industry and markets in which we operate or into which we intend to expand;
- our expansion plan;
- financial market developments;
- our financial condition and performance;
- our future debt levels and capital needs;
- changes in economic conditions in the cities in which we operate, including a downturn in the industry in which we operate and general economy in China;
- our ability to reduce costs;
- our dividend policy;
- our capital expenditure plans;
- our business prospects;
- changes or volatility in interest rates, foreign exchange rates, equity prices or other rates or prices, including those pertaining to the PRC and the industry and markets in which we operate;
- the actions and developments of our competitors;
- certain statements in the section headed “Financial Information” in this Prospectus with respect to trends in prices, operations, margins, overall market trends, risk management and exchange rates; and
- other statements in this Prospectus that are not historical facts.

In some cases, we use the words "aim," "anticipate," "believe," "can," "continue," "could," "estimate," "expect," "going forward," "intend," "ought to," "may," "might," "plan," "potential," "predict," "project," "seek," "should," "will," "would" and similar expressions to identify forward-looking statements. In particular, we use these forward-looking statements in "Business" and "Financial Information" in relation to future events, our future financial, business or other performance and development, the future development of our industry and the future development of the general economy of our key markets.

These forward-looking statements are based on current plans and estimates, and speak only as of the date they were made. We undertake no obligation to update or revise any forward-looking statements in light of new information, future events or otherwise. Forward-looking statements involve inherent risks and uncertainties and are subject to assumptions, some of which are beyond our control. We caution you that a number of important factors could cause actual outcomes to differ, or to differ materially, from those expressed in any forward-looking statements.

Our Directors confirm that the forward-looking statements are made after reasonable care and due consideration. By their nature, however, forward-looking statements require us to make assumptions that are subject to inherent risks and uncertainties. As such, the forward-looking events and circumstances discussed in this Prospectus might not occur in the way we expect, or at all. Accordingly, you should not place undue reliance on any forward-looking information. All forward-looking statements contained in this Prospectus are qualified by reference to this cautionary statement.

An investment in our H Shares involves various risks. You should consider carefully all the information set out in this Prospectus and, in particular, the risks and uncertainties described below before making an investment in the H Shares. You should be aware that our business and operations in China are governed by a legal and regulatory environment that in some respects differs significantly from that in other countries.

The occurrence of any of the following events could harm us. If any of these events occur, the trading price of the H Shares could decline and you may lose all or part of your investment.

We believe that there are certain risks and uncertainties involved in our operations; some of which are beyond our control. We have categorised these risks and uncertainties into (i) risks relating to our businesses; (ii) risks relating to our industry; (iii) risks relating to conducting business in the PRC; and (iv) risks relating to our Global Offering.

RISKS RELATING TO OUR BUSINESS

We have limited or no control over our suppliers and the quality of the products supplied to us. If their performance does not meet our expectations, we could be exposed to liabilities and our business operations and reputation could suffer. Our business may also be adversely affected by product recalls, defects, scandals or any other incidents that may have a negative impact on the reputation and public perception of the pharmaceutical industry as a whole.

We have limited or no control over the operations and product quality of our suppliers. They may not be able to provide us with quality products in a timely manner and sufficient quantities at a commercially acceptable price. In addition, our suppliers may not always provide us with products free of defects and that meet our quality standards. According to PICO, the quality control measures adopted by pharmaceutical distributors over the goods supplied by their suppliers are mainly two folded, including (1) pre-transaction qualification inspection: in general as long as the enterprises have obtained (i) the permit for production of pharmaceutical products as well as the GMP certification and other necessary documents or (ii) the pharmaceutical operation permit, the GSP certification and other necessary documents, and there are no records of contravening laws and regulations, it is deemed the products produced by such manufacturers qualified product; and (2) the examination of goods during transaction: the GSP only requires distributor to verify the relevant invoice, inspection report as well as doing batch sampling for each shipment of pharmaceutical products, for which our inspection personnel are only required to check the appearance, packaging, labelling, product description and other relevant supporting documents of such sampling products, and there is no mandatory requirement for pharmaceutical distributor to examine the internal components and quality of the pharmaceutical products. Moreover, since pharmaceutical distributors usually have large number of suppliers and distributed large number of products, it would be difficult for distributor to check the internal quality of each product. As such, in the case that there are no damage in packaging and relevant documentation including inspection report are properly attached, the distributors would not be able to know whether there are any problem in the internal quality of the products and hence pharmaceutical distributors (including us) could be subject to administrative punishment for selling inferior drugs if our suppliers fail to supply goods that meet the quality standard.

During the Track Record Period, we had one major incident of product recall, which was related to poisonous capsules and such product recall was requested by the office of CFDA. The poisonous capsule incident was a nationwide incident and was caused by the use of sub-standard gelatin by the raw material manufacturer. Upon the pharmaceutical manufacturers initiated a product recall and sent us the recall notice on the affected products in April and May 2012, our staff started reaching out to our customers to recall the relevant products in the same months. The manufacturers of the capsules bore all the liabilities and provided replacement. The incident did not have a material adverse effect on our sales, results of operations, business operations or reputation. Other than this incident, we did not have any other significant incidents of product recall during the Track Record Period. We were also involved in 11 incidents of selling inferior drugs that the Company sourced from manufacturer suppliers during 2012 to 2013, in which 3 of them were related to the poisonous capsule incidents which subjected to product recall as described above. The reason for such 11 incidents were primarily due to the failure of our suppliers in supplying drugs that meet the quality standard. Such incident individually or in the aggregate have not had or may not have in the future, a material financial or operational impact on the Group taken as a whole as the administrative punishment for a single incident did not exceed RMB90,000 and the aggregate administrative punishment did not exceed RMB260,000. As advised by the PRC Legal Advisers, the penalty to the Company as a result of the quality issues of the drugs supplied shall be borne by the suppliers. The Directors confirmed that the Company has paid the penalty and has recovered the relevant penalty paid from the relevant suppliers. The turnover derived from selling of inferior drugs and products related to the poisonous capsules amounted to approximately RMB0.4 million, RMB0.1 million, nil and nil, respectively, for the years ended 31 December 2012, 2013 and 2014 and the six months ended 30 June 2015, representing approximately 0.02%, 0.004%, nil and nil of our total turnover during the same periods. However, we cannot assure you that similar incidents will not occur in the future, nor that such incidents will not materially and adversely affect us. If the products provided by our suppliers are defective, of poor quality, fail to meet the requisite standard, or fail to meet our customers' expectations, we will need to find suitable replacement products, which may lower our profit margins and result in delays to our customers. There can be no assurance that we will be able to find suppliers operating at a standard acceptable to us.

Our suppliers are also subject to extensive laws and regulations. If our suppliers violate applicable laws and regulations, our reputation or procurement may be materially and adversely affected. In addition, we may be exposed to liabilities for defective goods provided by our suppliers, which may damage our reputation.

Furthermore, any incident that reflect doubt as to the quality or safety of pharmaceutical products manufactured, distributed or retailed by other participants in the pharmaceutical industry, including our competitors, have been, and in the future may continue to be, subject to widespread media attention. Such incidents may damage the reputation of both the parties involved as well as the pharmaceutical industry as a whole, even if such parties or incidents have no relation to us, our suppliers or our customers.

Similarly, the pharmaceutical industry may be negatively impacted by incidents not related to product quality or safety. For example, in July 2013, the PRC Ministry of Public Security announced that, GlaxoSmithKline had allegedly funnelled a substantial amount of money to individual government officials, doctors, hospitals and others in connection with the promotion and sales of its drugs. The ongoing investigation has resulted in multiple arrests, including some of GlaxoSmithKline's executives in China. Although none of the findings or allegations involve us or, to our knowledge, our suppliers or distribution customers, the incident has received widespread negative media coverage and may lead to public distrust of the pharmaceutical industry as a whole in the near future. As a result of the GlaxoSmithKline scandal, or any other past or future incident involving a pharmaceutical industry participant with or without any relation to us, we may experience reduced demand for our pharmaceutical products, which may have a material adverse effect on our business, reputation, financial condition and results of operations.

We may not be able to maintain our historical growth rates. Our gross and net profit margins were low. Our results of operations may be adversely affected if our gross and net profit margins decrease.

You should not rely on our historical operating results as an indication of our future performance. From 2012 to 2014, our turnover grew from approximately RMB2,016.9 million to RMB3,014.1 million, representing a CAGR of approximately 22.2%, and our profit attributable to the owners of the Company grew from approximately RMB14.1 million to RMB36.4 million, representing a CAGR of approximately 60.7%. For the years ended 31 December 2012, 2013 and 2014 and the six months ended 30 June 2015, our gross profit margin was approximately 4.3%, 4.3%, 4.5% and 5.1%, respectively, and our net profit margin was approximately 0.7%, 0.9%, 1.2% and 1.5%, respectively, for the same period, which were low, and hence any increase in our procurement cost or decrease in our price will significantly affect our profits. Our operating results may fluctuate significantly or our profit margins may decrease as a result of many factors which are outside of our control. These factors include:

- our service and reputation perceived by our customers and suppliers;
- the success of our procurement team to secure supplies of fast selling high margin products;
- fluctuations in demand for our products as a result of changes in our or our competitors' pricing policies; and
- the amount and timing of capital and other expenditures relating to the maintenance and expansion of our businesses.

Furthermore, we earn purchase discounts directly or indirectly from our manufacturer suppliers and such purchase discounts are significant to our gross profit. For the years ended 31 December 2012, 2013 and 2014 and the six months ended 30 June 2015, purchase discount amounted to approximately 20.4%, 40.3%, 58.6% and 55.1% of our total gross profit of the same period, respectively. If there is a decrease in the amount of purchase discounts we received, our financial condition and results of operation could be materially and adversely affected.

These and other factors may slow or stall our revenue and profit growth, and may also cause our operating results to fluctuate significantly, which may result in substantial volatility in the trading price of our H Shares or difficulties in predicting our operating results.

We operate in a highly competitive industry and we may face even more intense competition as a result of government's policies in encouraging the expansion of large pharmaceutical distributors through acquisition of smaller ones. Our business, financial condition and results of operations may be materially and adversely affected if we are unable to compete effectively. We may even become an acquisition target of large national and regional distributor, in which case we may be exposed to uncertainties in forms of the acquisition price and future prospects.

We face intense competition because pharmaceutical distribution industry in the PRC is highly fragmented and competitive. According to PICO, there were approximately 2,350 distribution enterprises in Southern China in 2014. Our key competitors, which include large national and regional distributors of pharmaceutical products in our existing markets, may have substantially greater resources than we do, such as financial, managerial or technical resources or stronger distribution or marketing capability. Moreover, the PRC government has issued policies encouraging the consolidation in the pharmaceutical industry and supports the expansion of large pharmaceutical distributors through acquisitions of smaller ones. As a result of such policy, our key competitors, which include large national and regional distributors may expand their market shares and hence we may face even more intense competition. We may even become an acquisition target of large national and regional distributors, in which case we may be exposed to uncertainties in forms of the acquisition price and future prospects. In addition, the PRC government encourages foreign investors to invest in pharmaceutical distribution enterprise. As a result, foreign competitors may enter the markets where we currently operate.

We cannot assure you that we will be able to remain competitive by sourcing products at favourable prices compared to our competitors, maintain our supplier and customer relationships, expand our distribution coverage or build up our brand reputation, nor can we assure you that we will be able to maintain our existing market share or profit margin in our distribution business.

We expect to continue to face a highly competitive market environment. If we are unable to compete effectively against our existing or new competitors, react to the rapidly changing market conditions, control product procurement or allocate resources efficiently over our business expansion, our business, financial condition, results of operations and prospects may be materially and adversely affected.

Our turnover has been significantly dependent on sales in Southern China and any decrease in sales in Southern China or other factors affecting the region would materially and adversely affect our business, financial condition and results of operations.

We derive the majority of our turnover from Southern China, in particular the Guangdong Province. For the years ended 31 December 2012, 2013 and 2014 and the six months ended 30 June 2015, turnover derived from Southern China amounted to approximately RMB1,451.7 million, RMB1,900.7 million, RMB2,506.4 million and RMB1,385.3 million, respectively, accounting for approximately 72.0%, 79.2%, 83.1% and 84.7%, respectively, of our total turnover.

If our sales in Southern China decline due to any reasons, some of which may be unforeseeable and beyond our control, our business, financial condition and results of operations could be materially and adversely affected. Such reasons include, but are not limited to, changes in laws and regulations governing the PRC pharmaceutical industry as promulgated by the national, provincial or local government, changes in preference and spending patterns of local consumers, economic downturns in the relevant regions, natural disasters and significant man-made incidents.

Due to the concentrated geographic coverage with respect to our business, we may fail to effectively manage increased costs or absorb potential losses resulting from adverse events occurred in the markets we operate in. Such events may materially and adversely affect our business, financial condition and results of operations.

Furthermore, our existing logistic facilities are operated in Shantou and Foshan of the Guangdong Province. Any disruption of our operation in our logistic facilities may materially and adversely affect our business, financial condition and results of operations.

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

We grant our customers credit periods of up to 180 days from date of delivery. We may adjust our credit terms according to the customer's credit history and worthiness. Our trade and bill receivables turnover days for the years ended 31 December 2012, 2013 and 2014 and the six months ended 30 June 2015 were approximately 87.7 days, 100.0 days, 96.3 days and 100.2 days, respectively. If one or more of our large customers were to become insolvent or otherwise unable to pay for the products sold by us, our business, financial condition and results of operations would be materially and adversely affected.

As of 30 June 2015, out of the total amount of trade receivables net of provision for doubtful debts, approximately RMB74.0 million had past due. We perform reviews of trade receivables on a case-by-case basis. Our impairment of trade receivables mainly reflects provisions for trade receivables related to customers whose debts have been outstanding without subsequent settlement received and our management assessed that these receivables are not expected to be recovered. As of 31 December 2012, 2013 and 2014 and 30 June 2015, provision for impairment of trade receivables were approximately RMB0.8 million, RMB0.7 million, RMB2.9 million and RMB2.4 million, respectively. We monitor trade receivables collection and ageing. Our sales team also help communicating with our customers regarding settlement of trade receivables. For further details, see section headed "Financial Information — Selected Consolidated Statement of Financial Position Information — Trade and other receivables" of this Prospectus.

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

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

We rely on suppliers to supply all of our pharmaceutical products and failure to maintain our business relationships with them may adversely affect us.

We do not engage in the manufacturing of pharmaceutical products. All of the pharmaceutical products we distribute are supplied by either pharmaceutical distributors or manufacturers. Furthermore, our purchases from our five largest suppliers represented approximately 36.0%, 33.2%, 31.7% and 30.9% of our total procurement in 2012, 2013 and 2014 and the six months ended 30 June 2015, respectively. Our business is dependent to a large extent upon the stable supply of products from our suppliers. If we fail to maintain stable relationships with our suppliers, we may not be able to secure a stable supply of products, which, in turn, may materially and adversely affect our business, financial condition and results of operations.

As of 30 June 2015, we have had business relationships with our five largest suppliers for more than 10 years on average. However, we cannot assure you that our suppliers will continue to sell products to us on commercially reasonable terms, or at all. We typically enter into agreements with suppliers, for a term of one year. We cannot assure that we will be able to renew our agreement with existing suppliers when such agreement expires as we may lose key suppliers, or such key suppliers may decide to directly sell their products themselves. Furthermore, we have limited control over our suppliers' business operations. If our suppliers fail to comply with any regulatory requirements or infringe third parties' intellectual property rights, they may not be able to obtain the requisite certificates, permits and licences required under the applicable laws to conduct their manufacturing or other business activities, which could affect their supply of products to us. In the event that there is any disruption, termination or material change in the supply of products to us and we are not able to find suitable substitutes on a timely basis, our business, reputation, financial condition and results of operations may be materially and adversely affected.

We experienced net cash outflow from operating activities for the year ended 31 December 2014.

We had net cash outflow from our operating activities of approximately RMB14.8 million for the year ended 31 December 2014 primarily attributable to an increase in trade and other receivables as a result of, among other things, our growth in sales, the granting of longer credit period to customers for business in Foshan and the decrease in number of customers who were required to pay in advance. Please refer to the section headed "Financial information — Liquidity and capital resources — Cash flows — Cash flows from operating activities" for details. We cannot assure that we will not experience periods of net cash outflow from operating activities in the future, if we are unable to finance our operations continuously from funds generated from operating activities, we may have to fund our operating costs by additional bank borrowings and thus incur additional finance costs which may adversely affect our business, financial position and results of operations. Moreover, we cannot assure you that we will always be able to obtain the required bank borrowings as the availability of which is subject to the condition of the capital and credit markets and our financial condition at the material time.

We do not have retail channel, we rely on our customers to sell the products to ultimate consumers, and we generally do not enter into long-term sales agreements with our customers. Failure to maintain our business relationship with them may adversely affect us.

We do not have our own retail channel and we rely on our customers to sell the products to ultimate users of our products. We normally enter into one-year framework agreements with our customers. We cannot guarantee that any of our existing customers will renew such framework agreements upon expiration or continue to place purchase orders with us in the future at the same level as in the current or prior periods, or at all. If any customer ceases to place or reduces purchase orders with us and we are not able to secure replacements for the lost customer or purchase orders in a timely fashion or at all, our turnover and profitability for that financial period may be negatively impacted. Any unexpected cessation of, or substantial reduction in, the volume of orders from any of our major customers may have a material and adverse impact on our business, financial condition and results of operations.

We may not be able to avoid the occurrence of channel stuffing and cannibalisation among our distributor customers, which could reduce the number of our distributor customers and hence adversely affecting our financial and operating results.

We prevent the occurrence of channel stuffing through adopting a strict product return policy that we generally do not accept product return from our customers (including distributor customers) except for quality issues and damages in packaging. For the years ended 31 December 2012, 2013 and 2014, and six months ended 30 June 2015, sales returns by all customers (including distributor customers) accounted for only less than 0.5% of our total turnover for each of such period. We cannot guarantee that such strict product return policy will be effective in the future at the same level as in the Track Record Period. The failure in avoiding the occurrence of channel stuffing may result in reduction of the number of distributor customers and hence adversely affecting our financial condition and results of operation.

We generally do not, by ourselves, implement measures to avoid cannibalisation and competition among our distributor customers. According to PICO, it is the industry norm for manufacturing enterprises to control (including but not limited to controlling geographic or other exclusivity or the subsequent selling price) their downstream distributors; while downstream distributors (such as our Company) which do not rely on exclusive distributors right of any particular pharmaceutical product generally would not manage their subsequent downstream distributors. For the details of the reason, please refer to the section headed "Business — Distribution Network and Customers — Management of our distributor customers" of this Prospectus. If our upstream manufacturing enterprises suppliers fail to control their downstream distributors (including our distributor customers), unhealthy competition among our distributor customers may occur, which may result in reduction of the number of distributor customers and hence adversely affecting our financial condition and results of operation.

We may not be able to promptly and adequately respond to rapid changes in the PRC pharmaceutical industry as a result of PRC government policies and regulations, customer preferences and medical treatment needs, which could adversely affect our business, financial condition and results of operations.

The PRC pharmaceutical industry is subject to extensive government regulation and supervision, and additional rules and regulations may be implemented in the future. In recent years, the PRC government has introduced and implemented certain regulatory measures, and announced plans to implement additional rules and regulations in respect of the PRC pharmaceutical industry, including those relating to (i) changes in legislation or regulations governing the distribution or pricing of pharmaceutical products; (ii) additional quality control, licensing and certification requirements; (iii) changes in legislation or regulations governing the pricing, procurement, prescription and dispensing of essential and other medicines by public hospitals and other healthcare institutions, and (iv) changes in governmental funding for individual healthcare and pharmaceutical services These PRC government policies and regulations initiatives may lead to, among other things, (i) increased costs and lower profit margins for us, (ii) limitations on the types and amount of products that we sell, and (iii) price controls over our products. Any of the above may require us to rapidly adapt our business operations to remain competitive and profitable. We cannot assure you that we will be able to adapt to such changes, nor can we assure you that our business, financial condition and results of operations will not be adversely affected. The pharmaceutical industry of the PRC is also characterised by rapid advances in science and technology and the mutation or emergence of bacteria and viruses that result in pharmaceutical manufacturers discovering and developing innovative new medicines and other pharmaceutical products. As we do not manufacture our own products, our future success would depend on our ability to improve and diversify our product portfolio by securing supplies from pharmaceutical manufacturers and distributors for new and reasonably priced pharmaceutical products that meet the requirements of a constantly changing market and are effective in curing new diseases and illnesses. We cannot assure you that we will be able to respond to emerging trends by improving our product portfolio or distributing new products in a timely fashion, or at all.

In addition, our customers' preferences and purchasing patterns in respect of pharmaceutical products may change rapidly. Our success hinges on our ability to anticipate procurement lead-time, identify customer preferences, and adapt our product offerings in accordance with such preferences in a timely manner. We must also monitor general sales trends and market data, new product developments and other conditions in the PRC pharmaceutical market. We cannot assure you that we will be able to accurately respond to such changes in customer preferences and purchasing trends and our customers may not respond favourably to our product selection due to various reasons, including but not limited to, price, perceived shortcomings in safety or efficacy or ineffective marketing, and if such circumstances happen, our business, financial condition and results of operations may be adversely affected.

We recorded net current liabilities as of 31 December 2012, and we cannot assure you that we will not experience any net current liability position in future.

Our Group had net current liabilities position of approximately HK$25.2 million as of 31 December 2012. The net current liabilities position was primarily attributable to the fact that (i) our long-term bank borrowings of approximately RMB94.9 million for the establishment of our Foshan business were classified as current liabilities as they are repayable on demand; and (ii) the set up of logistic centre in Foshan in 2012 reduced our current assets for non-current assets. For details of our Group's bank borrowings, please refer to the section headed "Financial Information — Indebtedness and Contingencies" in this prospectus and for a detailed analysis on our current assets and liabilities, please refer to the section headed "Financial Information — Selected Consolidated Statement of Financial Position Information — Net Current Assets/(Liabilities)" in this prospectus.

There is no assurance that our Group will not experience net current liabilities position in future. Our Group may not have sufficient working capital to meet our current liabilities or expand our Group's operations as anticipated. In such circumstances, our business, financial condition and prospects may be materially and adversely affected.

Our business and expansion plans require significant working capital and capital investments, and we may not be able to obtain the necessary capital at acceptable terms, or at all.

Our business and expansion plans require significant working capital and capital investments. During the Track Record Period, our capital expenditures have been primarily financed by proceeds raised from debt financing and cash generated from our operations. In the future, we intend to fund our capital expenditures and acquisitions through net proceeds from the Global Offering, proceeds raised from debt financing and cash generated from our operations. However, we cannot guarantee that we will be able to secure sufficient additional funding for planned capital expenditures. In particular, the availability of external funding is subject to various factors, some of which are beyond our control, including the prevailing market conditions, government policies and regulations, the availability of credit, interest rates and investors' or lenders' perception of our business and our future results of operations. If we are unable to obtain sufficient funding in a timely manner or on terms that are acceptable to us, our business, financial condition and results of operations may be materially and adversely affected.

System interruption and security risks may result in reduced use by our customers of our B2B e-commerce platform, and exposed us to the risk of litigation which could adversely and materially affect our financial and operating results and damage our reputation.

We may experience occasional system interruptions and delays that make our B2B e-commerce platform and its services unavailable or difficult to access, and prevent us from promptly responding or executing the purchase orders of our customers, which may reduce the attractiveness of our e-commerce platform. If we are unable to continue to effectively upgrade our network infrastructure and take steps to improve the efficiency of our systems, there may be system interruptions or delays which may adversely affect our operating results. In addition, our e-commerce businesses may subject to security risks, including security breaches and identity theft. In order to succeed, our B2B e-commerce business must be able to provide secured transmission of confidential information over public networks. Any penetration of network security and other misappropriation or misuse of personal information could cause interruptions in the operations of our business and subject us to increased costs, litigation and other liabilities, which could adversely and materially affect our financial and operating results and damage our reputation.

We may not be able to successfully identify acquisition targets, complete acquisitions or integrate the acquired businesses.

We may undertake acquisitions of independent pharmaceutical distribution companies in the future. Historically, we expand our business by organic growth and we do not have the experience in acquiring and integrating target companies to our Group.

Acquisitions in general involve numerous risks and uncertainties, including but not limited to:

- the suitability of the acquisition targets;
- our ability to complete acquisitions on commercially reasonable terms;
- the availability, terms and costs of financing required to complete an acquisition;
- delays in securing or inability to secure necessary governmental approvals, third-party consents and land use rights;
- potential unforeseen or hidden legal disputes or financial liabilities or obligations of the acquisition targets;
- our failure to deliver the expected synergies, to achieve the intended objectives or benefits, or to generate sufficient revenue to recover the costs and expenses of an acquisition;
- potential impairment of acquired goodwill or other intangible assets; and
- potential dilution of our earnings per share or decreases in our margins due to the lower profitability of acquired businesses.

In addition, we may experience difficulties in integrating the acquired businesses and personnel with ours due to differences in business models and cultures. Our management's time and attention may be diverted from other business concerns and we may experience difficulties in retaining key employees and customers of the acquired business and their expertise. Furthermore, we may incur higher capital expenditure and integration costs than we initially anticipated.

As of the Latest Practicable Date, we had not entered into any letter of intent or agreement for such acquisition nor identified any definite acquisition target. We cannot assure you that we will be successful in identifying a suitable target and in realising all of the anticipated benefits in the acquisitions that we will make in the future. The occurrence of any of the above may materially and adversely affect our business, financial condition and results of operations.

We rely on information and data management systems in managing our operations and any system failures or breakdowns may cause interruption to our business operations and have a material adverse effect on our business, financial condition and results of operations.

We have adopted electronic information systems for our operation so that we can rapidly obtain, process, analyse and manage data on our operations. We use these systems to, among other things, monitor the daily operations of our business and maintain operating and financial data for compilation of management and financial reports, which are critical to maintaining our efficiency and competitiveness. Any failure or breakdown of any part of our information system, or other damages from unforeseen events, which causes delays or interruptions to the input, retrieval and transmission of data could disrupt our business operations. Despite no failure or breakdown had occurred during the Track Record Period, we cannot assure you that our information system recovery plan can effectively resolve all system failures, or that we can restore our operational capacity in a timely manner to avoid disrupting our business. In addition, if the capacity of our information systems fails to meet the increasing needs of our expanding operations, our ability to expand may be constrained. The occurrence of any of these events could have a material adverse effect on our business, financial condition and results of operations.

We may incur losses and our reputation may be adversely affected by potential product liabilities arising from product defects or recalls or misuse by end-users of certain products that we distribute.

Our business is exposed to risks inherent in the distribution of pharmaceutical products, such as distributing unsafe, defective, ineffective or counterfeit products and product spoilage during transportation or in storage. Under PRC laws and regulations, pharmaceutical product manufacturers have strict liability for substandard or defective products. While we do not manufacture pharmaceutical products, if we promote and distribute such products, our reputation and customers' perception of our product safety can also be damaged. Further, under PRC laws and regulations, we have the right to recover from the relevant manufacturers any compensation that we are required to make to our customers or end users in connection with a product liability claim. However, we cannot assure you that we will be able to recover the relevant amount from these manufacturers, or at all. In addition, we may be required to recall defective products or take other remedial measures. Furthermore, customers may institute product liability claims against us. Any of these actions could lead to considerable expense, negatively affecting our reputation and our financial performance as a whole.

Product liability claims may arise from defective products, product recalls, insufficient or improper labelling of products, inadequate or misleading warnings or disclosures relating to side effects or improper consumption of product by end-users. Any claims against us, regardless of their merits, could damage our reputation and consumer confidence in our products, and strain our financial resources in addition to consuming the time and attention of our management.

Third parties may infringe upon our intellectual property rights, or we may be subject to claims of alleged infringement of the intellectual property rights of others.

We have certain registered trademarks in Hong Kong and the PRC. For details, please see "Appendix VII — Statutory and General Information — B. Further Information About Our Business —

2. Intellectual Property Rights" to this Prospectus. Our trademarks are important to our business operations. We rely on trademark and copyright laws and confidentiality agreements with our employees, suppliers, customers and business partners to protect our intellectual property rights. However, infringement of intellectual property rights by legal entities or individuals occurs frequently in the PRC and it may be possible for third parties to infringe and misappropriate our intellectual property. Any unauthorised use or infringement of our intellectual property by third parties may tarnish our reputation, weaken our competitive position and have a material adverse effect on our business, financial condition and results of operations and consequently our business, financial conditions and results of operations could be materially and adversely affected.

Conversely, we may be subject to claims of alleged infringement or violations of the intellectual property rights of others. During the Track Record Period, we did not receive any claims against us of violations of third party intellectual property rights. However, we cannot assure you that this will not occur in the future. If we are unable to resolve such claims through negotiations, we may face litigations or legal proceedings which may be costly, causing the efforts of our senior management team to be diverted away from our business and adversely affecting our reputation, financial condition and results of operations. Furthermore, an adverse determination in any such litigation or proceeding to which we may become a party could cause us to (i) pay damage awards, (ii) seek licences from third parties, (iii) pay ongoing royalties, (iv) redesign our product offerings, or (v) be restricted by injunctions. Any such litigation or proceeding involving us, with or without merit, may be costly and unpredictable, and cause a material and adverse effect on our business, financial condition and results of operations.

Delays, losses or damages in delivery by Independent Third Party logistics providers or our own logistics team may affect our sales and damage our reputation.

We rely on a number of Independent Third Party logistics providers for the transportation and delivery of our pharmaceutical products mainly to our customers outside approximately 150km radius of our logistic centres in Shantou and Foshan. The services provided by these logistics providers could be interrupted by unforeseen events beyond our control, including poor handling by logistics providers, transportation bottlenecks, adverse weather conditions, natural disasters, social unrest and labour strikes. Occurrence of any of such events may result in loss of turnover and damage to our reputation and hence may materially and adversely affect our reputation, business, financial condition and results of operations.

Certain pharmaceutical products distributed by us is subject or may become subject to government price controls or other price restrictions in the PRC.

In the past, many pharmaceutical products were subject to government price controls. Pursuant to the newly amended Pharmaceutical Administration Law of the People's Republic of China (中華人民共和國藥品管理法) passed at the 14th meeting of the 12th session of the Standing Committee of the National People's Congress (全國人民代表大會常務委員會) promulgated on and effective from 24 April 2015, the original Article 55 which stipulated, among others, that for drugs the prices of which are fixed or guided by the government, the competent pricing department of the government shall, in accordance with the pricing principle stipulated in the Pricing Law of the People's Republic of China and base on average social cost, supply and demand in the market, and public affordability, rationally fix and adjust the prices, was deleted, thus the government has decided to stop directly fixing and guiding most of the drug's prices. While the government no longer directly fixes or guides most of the drugs' prices, the prices of drugs shall still comply with the regulations concerning the control on prices of drugs prescribed by the competent authority under the State Council.

On 4 May 2015, the NDRC, the NHFPC, the Ministry of Human Resources and Social Security of the People's Republic of China (中華人民共和國人力資源和社會保障部), the Ministry of Industry and Information Technology of the People's Republic of China (中華人民共和國工業和信息化部), the Ministry of Finance of the People's Republic of China (中華人民共和國財政部), the MOFCOM and the CFDA, jointly promulgated the Circular on Issuing the Opinions on Promoting Drug Price Reform (關於印發推進藥品價格改革意見的通知). Meanwhile, the NDRC issued the Circular on Announcing the Abolishment of Drug Price Files (關於公佈廢止藥品價格文件的通知) and the Circular on Strengthening the Supervision of the Medicine Market Price Behavior (關於加強藥品市場價格行為監管的通知). Pursuant to such circulars, since 1 June 2015, except that the prices of narcotic drugs and psychotropic drugs in category I will still be governed by the NDRC through fixing the ex-factory ceiling price and retail ceiling price, prices of other drugs will not be fixed by the government. In addition, the government will also supervise drug pricing by improving the drug procurement mechanism, strengthening the cost control function of medical insurance system, and strengthening the supervision of medical behaviours and pricing behaviours, to establish a market-oriented drug price formulating mechanism. For the six months ended 30 June 2015, 24 out of 5,756 products that we distributed fell into the category of narcotic drugs and psychotropic drugs in category I which were subject to price controls. For the years ended 31 December 2012, 2013 and 2014 and for the six months ended 30 June 2015, the turnover attributed to the sales of narcotic and psychotropic drugs subject to price controls accounted for approximately 0.01%, 0.02%, 0.11% and 0.13% of our total turnover, respectively.

If there are additional price controls or government-mandated price regulations in respect of future products that we distribute, our business, financial condition and results of operations may be materially and adversely affected.

Our success depends on the continued service of our management team.

Our success depends on the continued service of our management team. The expertise, industry experience and contributions of our management team are important to our success. In particular, our Chairman, executive Director and Chief Executive Officer, Mr. Yao, has approximately 25 years of experience in the PRC pharmaceutical industry. If one or more of our key management members becomes unable or unwilling to continue their service with us, we may not be able to replace them with persons of comparable experience and expertise within a reasonable period of time and at a cost acceptable to us, or at all. Moreover, if any of our key management members joins a competitor, we may lose our technical know-how, customers and suppliers. In addition, the implementation of our business strategies and expansion plans may be adversely affected.

Our future success also depends on our ability to attract and retain qualified and skilled managerial, logistics, sales and marketing, procurement and other personnel. We cannot assure you that we will be able to hire and retain an adequate number of qualified and skilled personnel to develop and grow our business. The inability to recruit and retain a sufficient number of such skilled personnel could limit our ability to grow or our plan to expand our distribution network. In addition, fierce competition for these skilled personnel could cause us to offer higher compensation and other fringe benefits in order to attract and retain them and consequently adversely affect our financial condition and results of operations.

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

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

During the Track Record Period, we did not involve in any sales of counterfeit pharmaceutical products. However, we cannot assure that we would not involve in any sales of counterfeit pharmaceutical products or there would not be counterfeit pharmaceutical products perceived to be sold by us. If such event happens, especially if such events result in adverse side effects to consumers, may subject us to negative publicity, fines and other administrative penalties or even result in litigation against us. Moreover, the continued proliferation of counterfeit pharmaceutical products in recent years may reinforce the negative image of distributors and retailers among consumers in China, and may severely harm the reputation of companies like us. Furthermore, consumers may buy counterfeit pharmaceutical products that are in direct competition with the pharmaceutical products of our suppliers. As a result of these factors, the continued proliferation of counterfeit pharmaceutical products in China could have a material and adverse effect on our business, financial condition, results of operations and prospects.

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

We consider a number of factors in managing the inventory levels for our pharmaceutical distribution operations, including inventory holding cost, maintaining the variety of products available to our customers and ensuring prompt delivery of products to our customers' demand. In the year ended 31 December 2012, 2013 and 2014 and the six months ended 30 June 2015, our inventory turnover days were approximately 39.9 days, 40.8 days, 31.1 days and 28.1 days, respectively. The volatile economic environment and rapidly evolving customers' demand and preferences bring increasingly significant challenges towards making accurate projections of optimal inventory levels. Inventory levels in excess of customer demand may result in inventory write-downs, expiration of products or increasing inventory holding cost. Conversely, if our suppliers are not able to supply adequate products in timely fashion or we underestimate customer demand for our products, we may experience inventory shortages and hence loss of sales and reputational damage. We cannot assure you that we will be able to maintain proper inventory levels for our pharmaceutical distribution operation at all times and such failure may have an adverse effect on our business, financial condition and results of operations.

Our business is subject to seasonal fluctuation.

We have historically experienced and expect to continue to experience seasonal fluctuations in our business. Historically our sales were generally relatively higher in the last quarter and relatively lower in the first quarter of each year. Sales tend to be higher in the last quarter primarily attributable to (i) demands for products we distribute tend to be higher in the winter season as there are higher incidences of certain diseases when the weather is cold; (ii) the prices of the pharmaceutical products for the purpose of curing diseases incurred in winter tend to be higher; and (iii) stocking of inventory prior to Chinese New Year holidays as pharmaceutical production and distribution process would be interrupted. Sales tend to be relatively low in the first quarter primarily as a result of reduced business activities around Chinese New Year holidays and the advance purchases by our customers in the last quarter of the previous year. In addition, we earn purchase discounts upon fulfilment of certain purchase target as stipulated on the annual purchase agreement with manufacturer suppliers and such purchase discounts provided were relatively higher during the first half of the year after the confirmation of annual sales from the previous year and therefore our profit margin is generally relatively higher in the first half of the year. As our revenue fluctuates seasonally, comparisons of revenue and operating results between different periods in a single financial year are not necessarily meaningful and should not be relied on as indicators of our future performance.

We may suffer losses for which may not be covered in whole or in part by our insurance policies.

Our business operations are subject to a number of operational risks, some of which are beyond our control. We maintain general business insurance, such as property insurance. However, in line with industry practice, we do not currently maintain product liability insurance for any of the products that we distribute as the pharmaceutical manufacturers are usually responsible for pharmaceutical product liability. Accordingly, in the event of a successful product liability claim against us, we will be liable for damages and may be ordered to suspend or cease our distribution businesses by the relevant government authorities. This may result in negative publicity and a loss of customer confidence and goodwill, which could lead to a reduction in sales, cancellation of major contracts or cessation of our business.

In addition, our pharmaceutical distribution businesses may be affected by potential business interruptions caused by transportation delays, natural disasters, civil or labour unrest or other events, for which we do not have any insurance coverage as is customary in the PRC pharmaceutical distribution industry. Loss or liability arising from interruptions to our business operations caused by any such events may have a material adverse effect on our business, financial condition and results of operations. There are certain types of losses and liabilities, such as those caused by acts of God or man-made disasters, for which we cannot obtain insurance at a reasonable cost, or at all.

In the event that we incur substantial losses or liabilities and our insurance does not adequately cover such losses or liabilities, or at all, our financial condition and results of operations may be materially and adversely affected.

We may face difficulty managing our expansion into new markets and such difficulty may materially affect our results of operation.

Historically, we have primarily operated in Southern China. Given suitable opportunities, we may consider expanding our operations into other parts of the PRC. The expansion of the geographical coverage of our pharmaceutical distribution businesses may involve investments in our distribution and marketing network and acquisitions of suitable targets in other regions in the PRC, which may strain our financial, managerial and operational resources.

Should we choose to expand into other provinces or regions, we cannot assure you that we would be able to overcome challenges posed by such new markets, including different customer preferences, supplier practices and regulatory environment. As a result, we may not be able to manage such growth in a cost effective manner or maintain our profit margins. Failure to effectively manage our growth could have a material adverse effect on our business, financial condition and results of operations and could jeopardise our ability to implement our business strategies and maintain our market position.

We may experience increases in labour costs, which would materially and adversely affect our business and results of operations.

While we believe we have a satisfactory working relationship with our employees, we remain subject to the risk of labour disputes and adverse employee relations. We may also have difficulty recruiting and retaining skilled employees, such as sales and procurement personnel. Furthermore, our labour costs may increase for various reasons, such as changes in PRC labour laws. These potential disputes, adverse relations, and increases in labour costs could result in work stoppages or other events that could disrupt our business operations, which could materially and adversely affect our business, financial condition and results of operations.

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

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

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

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

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

We are subject to potential adverse consequences due to our lack of valid building ownership in respect of certain properties we occupied in the PRC.

As of the Latest Practicable Date, the requisite building ownership certificates of the warehouse and ancillary office of 11,348.52 sq.m. as well as the employee dormitory of 2,541.8 sq.m. on the Shantou Land, which are crucial to the Company's operation, had not been obtained in accordance with the relevant PRC laws and regulations. Before we purchased the Shantou Land from Shantou Municipal Bureau of Land and Resources (汕頭市國土資源局) in July 2015, we rented the same from Rulong Economy Community of Longxiang Street, Longhu District, Shantou (汕頭市龍湖區龍祥街道如龍經濟聯合社) ("Rulong Economy Community"), which had completed the application procedures and obtained the approval for the construction use of land, construction use of land planning permit, project approval, environmental impact appraisal approval, environmental protection acceptance approval, approval of fire control design upon review, fire control design acceptance approval and planning acceptance approval for the warehouse, ancillary office and employee dormitory, as well as the formal construction works planning permit and construction works commencement permit for the employee dormitory. However, Rulong Economy Community had not applied to the competent construction authority for the formal construction works planning permits and construction works commencement permits for the warehouse and ancillary office. Although the construction acceptance procedures of the warehouse, ancillary office and employee dormitory have been completed, the relevant filings have not been submitted to the relevant competent construction authority. As a result, Rulong Economy Community may be subject to a fine up to RMB4.065 million. Since we are the investor financing the construction of the properties, we are also subject to the risk of being fined by the competent authority as mentioned above. However, after our interview with and/or confirmation by the relevant competent authorities, as advised by our PRC Legal Advisers, the risk of being penalised due to lack of permits is remote. Nevertheless, we cannot assure you that we will not be fined by the competent construction authority. Further, the annual depreciation expenses to be incurred for the Shantou Land will amount to approximately RMB562,000. For details, please refer to the section headed "Business — Properties — Owned property — Properties with defective titles in the PRC" in this Prospectus.

Dividends declared in the past may not be indicative of our dividend policy in the future.

In June 2015, we paid cash dividends of RMB30.0 million and we did not declare any other dividend during the Track Record Period. We further declared and paid a special cash dividend of RMB16.0 million in October 2015. Our ability to pay dividends will depend on whether we are able to generate sufficient earnings. Distribution of dividends shall be formulated by our Board of Directors at their discretion and will be subject to our Shareholders' approval. A decision to declare, or to pay, any dividends and the amount of any dividends will also depend on various factors, including, but not limited to, our results of operations, cash flows and financial condition, operating and capital expenditure requirements, distributable profits as determined under PRC GAAP, requirements of our Articles of Association, the PRC Company Law and any other applicable PRC laws and regulations and other factors that our Directors may consider relevant. Accordingly, there can be no assurance whether, when and in what form we will pay dividends in the future. Subject to any of the above constraints, we may not be able to pay dividends in accordance with our dividend policy. Please see the section headed "Financial Information — Dividend Policy" for more details of our dividend policy. Potential investors should be aware that the amount of dividends paid previously should not be used as a reference or basis upon which future dividends are determined.

Our English company name is a trade name and for identification purpose only and it may be subject to alleged claims or proceedings of infringement by third parties

Our English company name "Chuangmei Pharmaceutical Co., Ltd." is a trade name and for identification purpose only and it is not duly registered under the PRC Company Law or approved by the relevant authority. Accordingly, we may not be fully protected from any alleged claims or proceedings of infringement by third parties in using "Chuangmei Pharmaceutical Co., Ltd." as our trade name. In case of any alleged claims or proceedings of infringement against us, if we are unable to resolve the matter through negotiation and settlement, we may incur substantial costs in defending such claims. In addition, we may be ordered to cease to use such trade name. Any such claims or proceedings may be costly and unpredictable and cause an adverse effect on our business, financial condition and operation.

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

Under the relevant PRC laws and regulations, we are required to contribute to housing provident funds for our employees.

We have started to make contribution to the employee housing provident fund since December 2014. Prior to December 2014, we did not register with the relevant housing provident fund authority and make adequate contributions to the housing provident funds for our employees located in the PRC. Pursuant to the Administrative Regulations on the Administration of Housing Provident Fund, a local managing centre of the housing provident fund may require us to make contribution to the employee housing provident fund within a specified period. Up to the Latest Practicable Date, we had not received any notifications from the relevant authorities requiring us to repay our outstanding contribution to the housing provident fund. However, we cannot assure you that none of the local managing centres of the housing provident fund will order us to make such outstanding contribution in the future. If the relevant authority order us to pay such outstanding contribution, we may be required to pay all outstanding housing provident fund in full within a specified period and this may adversely affect our business, financial condition and results of operations. For details relating to the non-compliance of housing provident fund, please refer to the section headed "Business — Legal and compliance matters".

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

RISKS RELATING TO OUR INDUSTRY

The PRC pharmaceutical industry is highly regulated, and the regulatory framework, requirements and enforcement trends may constantly change.

The PRC pharmaceutical industry is subject to extensive government regulation and supervision. Our operations are governed by various national, regional and local regulatory regimes, including approvals and certificates required for pharmaceutical distributors, and pricing of pharmaceutical products. Violations of these laws, rules and regulations may constitute a criminal offence under certain circumstances, and could also have a material adverse effect on our business, reputation, financial condition, results of operations and prospects. In addition, we cannot assure you that the legal framework, approval, licencing and certification requirements and enforcement trends in the PRC pharmaceutical industry will not change, or that we will be successful in responding to such changes. Such changes may result in increased costs of compliance and operational delays in bringing non-compliant operations into compliance, which could adversely affect our business, financial condition and results of operations.

All pharmaceutical distribution companies in the PRC are required to obtain certain permits and licences from various PRC governmental authorities. As a pharmaceutical distributor, we are required to obtain GSP certifications along with certain other key permits and licences, such as pharmaceutical operation permit and medical device operation permit. These permits and licences held by us are generally valid for a certain period and are subject to periodic renewal and reassessment by the relevant PRC governmental authorities. The reassessment criteria are subject to reviews and may change from time to time and generally become more stringent.

Going forward, we intend to apply for the renewal of permits, licences and certifications as required by applicable laws and regulations. However, we cannot assure you that we will be able to obtain or renew all such permits, licences and certifications necessary for our business operations, and any failure or inability to do so could result in fines, confiscation of income or assets, suspension of business operations, and in severe cases, criminal penalties and loss of our pharmaceutical distribution operation permit, which in turn could severely disrupt our business, and prevent us from continuing to carry on our operations.

Any changes in the standards used by governmental authorities in considering whether to renew or reassess our business licences, permits and certifications, as well as any enactment of new regulations that may restrict the conduct of our business, may also decrease our revenue and increase our costs, which in turn could materially and adversely affect our profitability and prospects. Furthermore, if the interpretation or implementation of existing laws and regulations changes, or new regulations come into effect, so as to require us to obtain any additional permits, licences or certifications that were previously not required for our business, we cannot assure you that we will be able to fully comply with the new requirements in a timely manner, or at all.

In order to retain or renew our permits, licences and certificates required for our distribution of pharmaceutical products, we are subject to regular inspections, examinations or inquiries by the regulatory authorities. In the event that any of our products or facilities fails such inspections, our business, profitability and reputation may be negatively impacted.

Any non-compliance with the anti-bribery and anti-corruption laws by our employees or parties who have a business relationship with us may materially and adversely affect our reputation and business operation.

We are subject to risks in relation to actions taken by us, our employees or other parties with whom we have a business relationship that constitute violations of the PRC anti-bribery and anti-corruption laws. Failure to comply with these measures or to effectively manage our employees and affiliates could have a material adverse impact on our reputation, results of operations and business prospects.

In the pharmaceutical industry, corrupt practices include, among others, acceptance of kickbacks, bribes or other illegal gains or benefits by pharmacies, hospitals and medical practitioners from pharmaceutical manufacturers and distributors in connection with the prescription of certain pharmaceutical products. While we have internal controls and procedures in place to monitor internal and external compliance with anti-corruption laws, regulations and policies, we cannot assure you that such internal controls and procedures will always protect us from violations committed by our employees or other parties with whom we have a business relationship. If we, our employees or other parties with whom we have a business relationship violate these laws, rules or regulations, we could be required to pay damages or fines. In the case of our distribution operations, the products involved may be seized and our operations may be suspended, which could materially and adversely affect our business, financial condition and results of operations. Actions by PRC regulatory authorities or the courts to provide an interpretation of PRC laws and regulations that differs from our own or to adopt additional anti-bribery and anti-corruption laws and regulations could also require us to make alterations to our operations. Our reputation and our sales activities could be adversely affected if we become the target of any negative publicity as a result of actions taken by us, our employees or other parties.

Our pharmaceutical products may be removed or excluded from the National Basic or Provincial Medical Insurance Drugs Catalogues.

Eligible patients in the governmental basic medical insurance programme, who purchase drugs listed in the National Basic or Provincial Medical Insurance Drugs Catalogues are entitled to reimbursement from the social medical insurance fund. As a result, such drugs are generally more competitive in terms of price, and hospitals and end-users in the PRC frequently order them to utilise the reimbursement scheme. At the same time, drugs removed or excluded from the National Basic or Provincial Medical Insurance Drugs Catalogues may be less popular to customers due to the lack of reimbursement for the purchase costs of such drugs.

The PRC central and provincial governmental authorities review and adjust the medicines included in the National Basic and Provincial Medical Insurance Drugs Catalogues. For the years ended 31 December 2012, 2013 and 2014 and for the six months ended 30 June 2015, the revenue contributed by the sales of products included in the National Basic or Provincial Medical Insurance Drugs Catalogues accounted for approximately 55.6%, 59.3%, 57.5% and 58.0% of our turnover from sales of goods, respectively. We cannot assure you that our existing procured products that are admitted in the National Basic or Provincial Medical Insurance Drugs Catalogues will continue to be included. If any of our existing pharmaceutical products are removed from any of the National Basic or Provincial Medical Insurance Drugs Catalogues or new major products that we procure in the future are not included in them, our sales of such affected products may significantly decline, which in turn will materially and adversely affect our business, financial condition and results of operations.

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

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

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

Our growth relies partly on the development of the PRC pharmaceutical industry. Although the healthcare reform plan is expected to be beneficial to our business, the full effect of the healthcare reform plan on our operations is unclear, and our business may not be benefited as much as we anticipate.

RISKS RELATING TO CONDUCTING BUSINESS IN THE PRC

We are vulnerable to adverse changes in economic, political and social conditions and government policies in China.

We are established, and all of our operations and assets are located, in China. Accordingly, our financial condition, results of operations and prospects are subject, to a significant degree, to the economic, political and social conditions and government policies in China. The PRC economy differs from the economies of most developed countries in a number of aspects, including the extent of government involvement, level of development, growth rate, and control of foreign exchange. Before its adoption of reform and open-door policies beginning in 1978, China was primarily a planned economy. Since that time, the PRC economy has reformed from a planned economy to a market economy with socialist characteristics.

For over three decades, the PRC Government has implemented economic reform measures to utilise market forces in the development of the PRC economy. Many of the reform measures are unprecedented or experimental and are expected to be modified from time to time. Other political, economic and social factors may also lead to further readjustment or introduction of other reform measures. This reform process and any changes in laws and regulations or the interpretation or implementation thereof in China may have a material impact on our operations or may adversely affect our financial condition and results of operations.

While the PRC economy has grown significantly over the past few decades, this growth has been uneven, both geographically and among various sectors of the economy. We cannot assure you that the PRC economy will continue to grow, or that if there is growth, such growth will be steady and uniform. Any economic slowdown may have a negative effect on our business. For example, according to the International Monetary Fund world outlook in April 2015, the PRC growth rate has decelerated from 7.8% in 2013 to 7.4% in 2014 and to an estimate of 6.8% in 2015. The PRC Government and PBOC adopted a number of measures, including lowering the benchmark lending rate to stimulate the economy. We cannot assure you that the various macroeconomic measures and monetary policies adopted by the PRC Government to guide economic growth and the allocation of resources will be effective in improving the growth rate of the PRC economy. In addition, such measures, even if they benefit the overall PRC economy in the long term, may materially adversely affect us if they reduce demand for our services and products.

The PRC legal system is evolving and has inherent uncertainties that could limit the legal protection available to us or our Shareholders.

As all of our operations are conducted in China, we are principally governed by PRC laws and regulations. The PRC legal system has inherent uncertainties that could limit the legal protection available to us or our Shareholders. Based on a civil law system, the PRC legal system comprises written statutes and their interpretation by the Supreme People's Court, while prior legal decisions and judgements have limited significance for guidance. Since 1979, the PRC Government has promulgated laws and regulations in relation to economic matters such as foreign investment, corporate organisation and governance, commerce, taxation, finance, foreign exchange and trade, with a view to developing a comprehensive system of commercial law. However, due to the fact that these laws and regulations have not been fully developed, and because of the limited volume of published cases and their non-binding nature, interpretation of PRC laws and regulations involves a degree of uncertainty and can be inconsistent. Even where adequate laws exist in China, the enforcement of existing laws or contracts based on existing laws may be uncertain or sporadic, and it may be difficult to obtain swift and equitable enforcement of a judgement by a court. In addition, the PRC legal system is based in part on government policies and administrative rules (some of which are not published on a timely basis or at all) that may have a retroactive effect. Since China is in the process of improving the legal systems, there is no assurance that the changes in laws regulations, their interpretation on enforcement will not adversely affect our business, financial condition and results of operations. Furthermore, the legal protection available to us under these laws, rules and regulations may be limited. Any litigation or regulatory enforcement action in China may be protracted and may result in substantial costs and diversion of resources and management attention. In addition, we cannot predict future developments in the PRC legal system or the effects of such developments. The materialisation of all or any of these uncertainties could have a material and adverse effect on our financial condition and results of operations.

The PRC Government's control of foreign currency conversion may limit our foreign exchange transactions, including dividend payments on our H Shares.

Current foreign exchange regulations have reduced the PRC government's foreign exchange control on routine transactions under the current account, including trade and service-related foreign exchange transactions and payment of dividends. Under existing foreign exchange regulations, following the completion of the Global Offering, we will be able to pay dividends in foreign currencies without prior approval from the SAFE by complying with certain procedural requirements. However, there is no assurance that these foreign exchange policies regarding payment of dividends in foreign currencies will continue in the future. In addition, any insufficiency of foreign currencies may restrict our ability to obtain sufficient foreign currencies for dividend payments to our Shareholders or to satisfy any other foreign exchange requirements. Foreign currency transactions under our capital account, including principal payments in respect of foreign currency-dominated obligations, continue to be subject to significant foreign exchange controls and must be approved in advance by the SAFE or its delegated authority at provincial, municipal or other local level. Pursuant to the Circular on Reforming the Management Approach Regarding the Foreign Exchange Capital Settlement of Foreign-invested Enterprises ("Circular 19"), foreign-invested enterprises shall be allowed to settle foreign exchange capitals on a discretionary basis. Furthermore, where the foreign-invested enterprises engaged in equity investment in the PRC, it shall follow the regulations on reinvestment in territory of PRC. Even though Circular 19 loosens the restriction on foreign exchange capital settlement, there are uncertainties regarding its practice procedure and practicability. These limitations could affect our ability to obtain foreign exchange through debt or equity financing, or to obtain foreign exchange for capital expenditures.

Fluctuations in exchange rates and the value of the Renminbi could have material adverse effect on our financial condition and results of operations.

We collect all of our turnover in RMB, some of which will need to be converted into foreign currencies to pay dividends to holders of our H Shares. The value of RMB against foreign currencies fluctuates, and is subject to changes resulting from the PRC government's policies, domestic and international economic and political developments as well as supply and demand in the monetary market.

Since July 2005, the PRC government has adopted a managed floating exchange rate system to allow the value of the RMB to fluctuate within a regulated band based on market supply and demand and with reference to a basket of currencies. In April 2012, the PBOC enlarged the floating band for the trading price of RMB against the U.S. dollar on the interbank spot exchange market to 1.0% around the central parity rate. In March 2014, PBOC further enlarged the floating band for the trading price of RMB against the U.S. dollar on the interbank spot exchange market to 2.0% around the central parity rate. There remains significant international pressure on the PRC government to adopt more flexible currency policies. In the event of significant change in the exchange rates of Hong Kong and U.S. dollars against RMB, our ability to pay dividends in foreign currencies may be adversely affected.

In addition, since dividends in respect of our H Shares will be declared in RMB and paid in Hong Kong dollars, holders of our H Shares in countries other than China are subject to risks arising from adverse movements in the value of the RMB against the Hong Kong dollar, which may reduce any dividends paid in respect of the H Shares. Furthermore, following the Global Offering, our exposure to risks associated with foreign currency fluctuations may further increase as the net proceeds from the Global Offering are expected to be denominated in currencies other than RMB. To date, we have not entered into any hedging transactions in an effort to reduce our exposure to foreign currency exchange risk. We cannot predict how the RMB will fluctuate in the future. The fluctuation in the exchange rate between the RMB and other currencies could have a material and adverse effect on our business, financial condition and results of operations.

It may be difficult to effect service of legal process and enforce judgements obtained from non-PRC courts against us or our Directors, Supervisors or senior management residing in China.

The Company is based in China. All of our assets are located in China and the majority of our Directors, Supervisors and executive officers reside in China. Therefore, it may not be possible to effect service of process within Hong Kong or elsewhere outside China upon us or our Directors, Supervisors or executive officers. Moreover, China has not entered into a treaty for the reciprocal recognition and enforcement of court judgements with the United Kingdom, Japan and many other countries. As a result, recognition and enforcement in China of a court judgement obtained in other jurisdictions may be difficult or impossible.

In addition, on 14 July 2006, China and Hong Kong signed the "Arrangement on Reciprocal Recognition and Enforcement of Judgements in Civil and Commercial Matters by the Courts of the Mainland and of the Hong Kong Special Administrative Region Pursuant to Choice of Court Agreements between Parties Concerned." Pursuant to such arrangement, a party with a final court judgement rendered by a Hong Kong court requiring payment of money in a civil and commercial case according to a choice of court agreement in writing may apply for recognition and enforcement of the judgement in China. Similarly, a party with a final judgement rendered by a PRC court requiring payment of money in a civil and commercial case pursuant to a choice of court agreement in writing may apply for recognition and enforcement of such judgement in Hong Kong. A choice of court agreement in writing is defined as any agreement in writing entered into between parties after the effective date of the arrangement in which a Hong Kong court or a PRC court is expressly designated as the court having sole jurisdiction for the dispute. However, there are limitations on such arrangement on reciprocal recognition and enforcement, and specific conditions and requirement have to be satisfied for such arrangement. Therefore, it may not be possible to enforce a judgement rendered by a Hong Kong court in China if the parties in the dispute do not agree to enter into a choice of court agreement in writing, or the conditions and requirement for the PRC courts to recognise and enforce the judgement of the Hong Kong court are not satisfied. As a result, it may be difficult or impossible for investors to enforce a Hong Kong court judgement against us, our assets or our Directors, Supervisors or executive officers in China.

Payment of dividends is subject to restrictions under the PRC laws.

Under the PRC laws and our Articles of Association, we may only pay dividends out of distributable profits. Distributable profits are our after-tax profits as determined under PRC GAAP or HKFRS, whichever is lower, less any recovery of accumulated losses and appropriations to statutory and other reserves that we are required to make. As a result, we may not have sufficient or any distributable profits to enable us to make dividend distributions to our Shareholders, including in periods for which our financial statements indicate we are profitable. Any distributable profit not distributed in a given year is retained and available for distribution in subsequent years.

You may subject to PRC taxation.

Foreign individual holders of our H Shares may become subject to PRC income tax and the PRC tax obligations of foreign enterprises that are holders of our H Shares remain uncertain. Under current PRC tax laws, regulations and rules, non-PRC resident individuals and non-PRC resident enterprises are subject to different tax obligations with respect to the dividends paid to them by us or the gains realised upon the sale or other disposition of H Shares. In general, non-PRC resident individuals are required to pay PRC individual income tax at a 20% rate under China's Individual Income Tax Law. We are required to withhold such tax from dividend payments, unless applicable tax treaties between the PRC and the jurisdictions in which the foreign individuals reside reduce or provide an exemption for the relevant tax obligations. Meanwhile, in accordance with the applicable PRC tax laws and regulations, for companies issuing H shares, a tax rate of 10% shall generally apply to the dividends paid to foreign individuals. When the 10% tax rate does not apply due to the application of tax treaties between the PRC and the country of citizenship of such foreign individual, we shall (i) return the excessive tax amount if the tax rate provided under the applicable tax treaty is lower than 10%, (ii) withhold such foreign individual income tax at the tax rate provided under the applicable tax treaty if such tax rate is between 10% and 20%, or (iii) withhold such foreign individual income tax at the rate of 20% under all other circumstances.

For non-PRC resident enterprises that do not have establishments or premises in the PRC, or have establishments or premises in the PRC but their income is not related to such establishments or premises, under the PRC EIT Law, dividends paid by us and the gains realised by such foreign enterprises upon the sale or other disposition of H Shares are ordinarily subject to PRC enterprise income tax at a 20% rate. In accordance with the Notice of the State Administration of Taxation on the Issues concerning Withholding the Enterprise Income Tax on the Dividends Paid by Chinese Resident Enterprises to H-share Holders Which Are Overseas Non-resident Enterprises《國家稅務總局關於中國居民企業向境外H股非居民企業股東派發股息代扣代繳企業所得稅有關問題的通知》(國稅函[2008]897號) issued by the State Administration of Taxation, such tax rate has been reduced to 10%, subject to a further reduction under a special arrangement or applicable treaty between the PRC and the jurisdiction of the residence of the relevant non-PRC resident enterprise. There remains uncertainty as to the interpretation and application of the EIT Law and its implementation rules by the PRC tax authorities, including the taxation of capital gains by non-PRC resident enterprises, individual income tax on dividends to non-PRC resident individual holders of H Shares and on gains realised on the sale or other disposition of H Shares. The PRC tax laws, rules and regulations may also change. If there is any change to applicable tax laws and interpretation or application with respect to such laws, the value of your investment in our H Shares may be materially affected.

The national and regional economies in China and our business may be adversely affected by the occurrence of epidemics.

Any future occurrences of epidemics, such as the Ebola virus, severe acute syndrome, or SARS, strains of avian influenza, the human swine influenza A (H1N1), the human swine influenza A (H5N1) and the human swine influenza A (H7N9), may severely disrupt our business and materially and adversely affect our business, financial condition and results of operations. An outbreak of a health epidemic could hinder business activities in affected areas, slowing the regional and national economies, which could severely disrupt our operations. Further, measures taken by the PRC government or other countries in response to such health epidemics may also interrupt our operations or the operations of our customers, which could have a material and adverse effect on our financial condition and results of operations.

We cannot guarantee the accuracy of facts, forecasts and other statistics with respect to China, the PRC economy and the pharmaceutical distribution industry contained in this Prospectus.

Certain facts, forecasts and other statistics in this Prospectus relating to China, the PRC economy and the pharmaceutical distribution industry, have been derived from information provided or published by PRC and other government agencies, industry associations, independent research institutions or other third-party sources and we can guarantee neither the quality nor the reliability of such source materials. They have not been prepared or independently verified by us, the Sole Sponsor and the Underwriters or any of its or their respective affiliates or advisers and, therefore, we make no representation as to the accuracy of such facts, forecasts and statistics, which may not be consistent with other information compiled within or outside China. Due to possibly flawed or ineffective collection methods or discrepancies between published information and market practice and other problems, the statistics herein may be inaccurate or may not be comparable to statistics produced for other economies and should not be relied upon. Furthermore, there is no assurance that they are stated or compiled on the same basis, or with the same degree of accuracy, as similar statistics presented elsewhere. In all cases, investors should give consideration as to how much weight or importance they should attach to or place on such facts, forecasts or statistics.

RISKS RELATING TO OUR GLOBAL OFFERING

There has been no prior market for our H Shares, and their liquidity and market price following the Global Offering may be volatile.

Prior to the Global Offering, there has been no public market for our H Shares. The initial Offer Price range for our H Shares was the result of negotiations among us and the Sole Bookrunner (on behalf of the Underwriters), and the Offer Price may differ significantly from the market price of our H Shares following the Global Offering. In addition, there can be no guarantee that (i) an active trading market for our H Shares will develop; (ii) if such a trading market does develop, it will be sustained following the completion of the Global Offering; or (iii) the market price of our H Shares will not decline below the Offer Price. Factors such as variations in our revenue, earnings and cash flows or any other developments of the Company may affect the volume and price at which our H Shares will be traded.

Our Controlling Shareholder have substantial influence over us and his interests may not be aligned with the interests of our other Shareholders.

Immediately after the Global Offering, our Controlling Shareholder will beneficially own an aggregate of approximately 64.81% of our Shares, if the Over-allotment Option is not exercised, or approximately 62.4% of our Shares, if the Over-allotment Option is exercised in full. The interests of our Controlling Shareholder may differ from the interests of our other Shareholders. Our Controlling Shareholder could have significant influence in determining the outcome of any corporate transaction or other matter submitted to our Shareholders for approval, including mergers, consolidations and the sale of all or substantially all of our assets, election of Directors and other significant corporate actions. This concentration of ownership, as a result, may discourage, delay or prevent a change in control of the Company, which could deprive our Shareholders of an opportunity to receive a premium for their Shares in a sale of the Company or may reduce the market price of our Shares. In addition, to the extent the interests of our Controlling Shareholder conflict with the interests of other Shareholders, the interests of other Shareholders may be disadvantaged or harmed.

There is no assurance that our H Shares will remain listed on the Stock Exchange.

Listing of our H Shares on the Stock Exchange does not guarantee that our H Shares will remain listed on the Stock Exchange in the future. Among other factors, the Company may not continue to satisfy the listing requirements of the Stock Exchange. Holders in our H Shares would not be able to sell the H Shares through trading on the Stock Exchange if our H Shares were no longer listed on the Stock Exchange.

Investors should not place reliance on any information released by us other than this Prospectus, or any information contained in press or other media in making your investment decisions.

There has been and will be coverage in the media regarding the Global Offering and our operations. We do not accept any responsibility for the accuracy or completeness of such media coverage and make no representation as to the appropriateness, accuracy, completeness or reliability of any information disseminated in the media. We disclaim any information in the media to the extent that such information is inconsistent or conflicts with the information contained in this Prospectus. Accordingly, prospective investors should not rely on any of the information in press or other media coverage in making investment decisions as to whether to purchase our H Shares.

The trading price of our H Shares may be volatile.

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

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

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

There will be a time gap between pricing and trading of our H Shares, holders of our H Shares are subject to the risk that the price of our H Shares could fall during the period before trading of our H Shares begins.

The Offer Price of our H Shares will be determined on the Price Determination Date. However, trading of our H Shares on the Hong Kong Stock Exchange will not commence until our H Shares are delivered, which is expected to be a short period after the Price Determination Date. As a result, holders of our H Shares may not be able to sell or otherwise deal with our H Shares during that period. Thus, holders of our H Shares may be subject to the risk that trading price of our H Share could fall before trading of our H Shares begins as a result of adverse market conditions or other adverse developments arising during the period between the Price Determination Date and the date on which trading of our H Shares begins.

Future sales, or market perception of sales, of a substantial number of our H Shares in the public market could cause the market prices of our H Shares to fall.

The market price of our H Shares could decline as a result of future sales of a substantial number of our H Share or other securities relating to our H Shares in the public market, or the issuance of new H Shares or other securities relating to our H Shares, or the perception that such sales or issuances may occur. Moreover, future sales, or perceived sales, of substantial amounts of our H Shares or other securities relating to our H Shares, including as part of any future offerings, could materially and adversely affect the prevailing market price of our H Shares and our ability to raise future capital at a favourable time and price.

We have discretion as to how we will use the net proceeds of the Global Offering, and you may not necessarily agree with how we use them.

Our management may spend the net proceeds from the Global Offering in ways you may not agree with or that do not yield a favourable return. We plan to use the net proceeds from the Global Offering to (1) strengthen, expand and integrate our existing distribution network and capabilities; (2) enhance and promote our B2B e-commerce platform; (3) repay bank borrowings; (4) acquire pharmaceutical distribution business in Southern China region; and (5) for working capital and general corporate purposes. For details of our intended use of proceeds, see "Future Plans and Use of Proceeds." However, our management will have discretion as to the actual application of our net proceeds. You are entrusting your funds to our management, upon whose judgement you must depend, for the specific uses we will make of the net proceeds from this Global Offering.

If securities or industry analysts do not publish research reports about our business, or if they adversely change their recommendations regarding our H Shares, the market price and trading volume of our H Shares may decline.

The trading market for our H Shares will be influenced by research reports that industry or securities analysts publish about us or our business. If one or more analysts who cover us downgrade our H Shares or publish negative opinions about us, the market price of our H Shares may decline regardless of the accuracy of the information. If one or more of these analysts cease coverage of us or fail to regularly publish reports on us, we may lose visibility in the financial markets, which, in turn, may cause the market price or trading volume of our H Shares to decline.

Potential investors will experience immediate and substantial dilution as a result of the Global Offering and could face dilution as a result of future equity financings.

Potential investors will pay a price per Share that substantially exceeds the per Share value of our tangible assets after subtracting our total liabilities and will therefore experience immediate dilution when potential investors purchase the Offer Shares in the Global Offering. As a result, if we were to distribute our net tangible assets to the Shareholders immediately following the Global Offering, potential investors would receive less than the amount they paid for their Shares.

We may need to raise additional funds in the future to finance further expansions or new developments in our existing operations. If additional funds are raised through the issuance of new equities or equity-linked securities of the Company other than on a pro-rata basis to existing Shareholders, the percentage ownership of such Shareholders in the Company may be reduced and such new securities may confer rights and privileges that take priority over those conferred by the H Shares.

Forward-looking statements contained in this Prospectus are subject to risks and uncertainties.

This Prospectus contains certain forward-looking statements and information relating to us that are based on the beliefs of our management as well as assumptions made by and information currently available to our management. When used in this Prospectus, the words “aim,” “anticipate,” “believe,” “can,” “continue,” “could,” “estimate,” “expect,” “going forward,” “intend,” “ought to,” “may,” “might,” “plan,” “potential,” “predict,” “project,” “seek,” “should,” “will,” “would” and the negative of these words and other and similar expressions, as they relate to the Company or our management, are intended to identify forward-looking statements. Such statements reflect the current views of our management with respect to future events, operations, liquidity and capital resources, some of which may not materialise or may change. These statements are subject to certain risks, uncertainties and assumptions, including the other risk factors as described in this Prospectus. Subject to the requirements of the Listing Rules, we do not intend publicly to update or otherwise revise the forward-looking statements in this Prospectus, whether as a result of new information, future events or otherwise. Investors should not place undue reliance on such forward-looking statements and information.

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

WAIVER IN RELATION TO MANAGEMENT PRESENCE IN HONG KONG

For the purpose of the Listing, we have sought a waiver from the Stock Exchange in relation to strict compliance with Rules 8.12 and 19A.15 of the Listing Rules.

Rules 8.12 and 19A.15 of the Listing Rules require that a new applicant for a primary listing on the Stock Exchange to have a sufficient management presence in Hong Kong, which normally means that at least two of the new applicant's executive directors must be ordinarily resident in Hong Kong.

Our headquarters is in the Guangdong Province, the PRC, and our operations are all managed and conducted in the PRC. We do not have two executive Directors who are ordinarily resident in Hong Kong and our executive Directors are based at our headquarters in the Guangdong province, the PRC, to oversee our business and operations. Given that our headquarters is in the Guangdong province, the PRC, it would be practically difficult and commercially unfeasible for our Company to comply with the requirements of Rules 8.12 and 19A.15 of the Listing Rules.

We have applied to the Stock Exchange for a waiver from strict compliance with the requirements under Rules 8.12 and 19A.15 of the Listing Rules and have been granted a waiver subject to the following conditions:

(a) our Company will appoint two authorised representatives, namely Ms. Zheng Yuyan, our executive Director, and Ms. Ng Wing Shan, our joint company secretary, to act as our principal channel of communication with the Stock Exchange and will ensure our full compliance with the Listing Rules at all times. Each of the authorised representatives will be available to meet with the Stock Exchange in Hong Kong within a reasonable time-frame upon the request of the Stock Exchange and will be readily contactable by telephone, facsimile and e-mail. Each of the authorised representatives is authorised to communicate on behalf of our Company with the Stock Exchange;

(b) in compliance with Rule 3A.19 of the Listing Rules, we have appointed a compliance adviser acceptable by the Stock Exchange for a period commencing on the Listing Date and ending on the date on which we distribute the annual report for the first full financial year commencing after the Listing Date in accordance with Rule 13.46 of the Listing Rules. The compliance adviser will provide us with advice on the obligation in compliance with the Listing Rules, all other applicable laws, rules, codes and guidelines and will act as an additional channel of communication with the Stock Exchange;

(c) the two authorised representatives have means of contacting all of our Directors (including our independent non-executive Directors) promptly at all times as and when the Stock Exchange wishes to contact our Directors on any matters. To enhance communication with the Stock Exchange, we will implement a policy whereby:

   (i) each Director will have to provide their respective mobile phone numbers, office phone numbers, fax numbers and e-mail addresses to our authorised representatives;

(ii) in the event that a Director expects to travel and be out of office, he/she will provide to our authorised representatives the phone number of the place of his/her accommodation or other means of communication;

(iii) all of our Directors will provide their respective mobile phone numbers, office phone numbers, fax numbers and email addresses to the Stock Exchange; and

(iv) all of our Directors (including our independent non-executive Directors) who are not ordinarily resident in Hong Kong possess or can apply for valid travel documents to visit Hong Kong and all of our Directors and authorised representatives can meet with the Stock Exchange within a reasonable time.

JOINT COMPANY SECRETARIES

Rule 8.17 of the Listing Rules provides that a listing applicant must appoint a company secretary who satisfies Rule 3.28 of the Listing Rules. Rule 3.28 of the Listing Rules provides that the company secretary of a listing application must be a person, who, by virtue of his academic or professional qualifications or relevant experience, is, in the opinion of the Stock Exchange, capable of discharging the functions of a company secretary. The Stock Exchange considers the following academic or professional qualifications to be acceptable:

(i) a member of The Hong Kong Institute of Chartered Secretaries;

(ii) a solicitor or barrister as defined in the Legal Practitioners Ordinance (Chapter 159 of the Laws of Hong Kong); and

(iii) a certified public accountant (as defined in the Professional Accountants Ordinance (Chapter 50 of the Laws of Hong Kong)).

In assessing "relevant experience", the Stock Exchange will consider the followings of the individual:

(i) length of employment with the listing application and other listed issuers and the roles he played;

(ii) familiarity with the Listing Rules and other relevant laws and regulations including but not limited to the SFO, the Companies Ordinance and the Codes on Takeovers and Mergers and Share Repurchases;

(iii) relevant training taken and/or to be taken in addition to the minimum requirement under Rule 3.29 of the Listing Rules; and

(iv) professional qualifications in other jurisdictions.

We have appointed Mr. Lin Zhixiong ("Mr. Lin") as our joint company secretary. Mr. Lin's qualifications and work experience are set out below.

Mr. Lin is currently the secretary of the Board of Directors of our Company. He joined our Company in March 2010 and is familiar with the business and daily operations of our Group.

Mr. Lin graduated from Hunan Institute of Finance and Economics (湖南財經學院) in the PRC with a bachelor degree in economics studies, majoring in finance planning and statistics in July 1992 and is an accountant accredited by the Ministry of Finance in the PRC in May 1997. The biographical details of Mr. Lin are further set out in the section headed "Directors, Supervisors and Senior Management" of this Prospectus.

We appreciate that a company secretary generally plays an important role in the corporate governance of an issuer, particularly in assisting the issuer and its directors in complying with the Listing Rules and other applicable rules and regulations.

We believe that, by virtue of Mr. Lin's knowledge and experience in handling corporate administrative management and his familiarity with the businesses and operations of our Group, Mr. Lin should be capable of discharging the functions as a company secretary. Nonetheless, as Mr. Lin does not have the professional qualifications specified under Rule 3.28, we propose to implement the arrangement detailed below to ensure that Mr. Lin has access to the required assistance from a person who possesses the necessary qualifications under Rule 3.28 of the Listing Rules.

We have appointed Ms. Ng Wing Shan ("Ms. Ng") as a joint company secretary of our Company to assist Mr. Lin so as to enable him to acquire the relevant experience as required under Rule 3.28 of the Listing Rules in order to discharge his duties as company secretary of our Company for three years commencing from her appointment as joint company secretary. Over such three-year period, our Company proposes to implement the following measures to assist Mr. Lin to satisfy the necessary qualifications under Rule 3.28 of the Listing Rules:

(i) Ms. Ng, who has the prescribed qualifications and experience required under Rule 3.28 of the Listing Rules, will provide the necessary assistance to Mr. Lin in discharging his duties as company secretary, in particular, in relation to compliance and corporate governance issues under the Listing Rules. Given Ms. Ng's relevant experience, she will be able to advise both Mr. Lin and our Company on the relevant requirements of the Listing Rules as well as other applicable laws and regulations of Hong Kong;

(ii) Mr. Lin will be assisted by Ms. Ng for a period of three years commencing from the Listing Date, which should be sufficient for him to acquire the requisite knowledge and experience under Rule 3.28 of the Listing Rules;

(iii) our Company will ensure that Mr. Lin has access to the relevant trainings and support to enable him to familiarise himself with the Listing Rules and the duties required of a company secretary of a Hong Kong listed company, and Mr. Lin has undertaken to attend such trainings;

(iv) Ms. Ng will communicate with Mr. Lin on a regular basis regarding matter in relation to corporate governance, the Listing Rules as well as other applicable laws and regulations of Hong Kong which are relevant to the operations and affairs of our Company. Ms. Ng will work closely with, and provide assistance to Mr. Lin with a view of discharging his duties and responsibilities as a company secretary, including but not limited to organising Board meetings and Shareholders' meeting of our Company;

(v) pursuant to Rule 3.29 of the Listing Rules, Mr. Lin and Ms. Ng will also attend in each financial year no less than 15 hours of relevant profession training courses to familiarise themselves with the requirements of the Listing Rules and other regulatory requirements of Hong Kong. Both Mr. Lin and Ms. Ng will be advised by the legal advisers to our Company as to Hong Kong laws upon Listing and the compliance adviser of our Company as and when required.

We believe that Mr. Lin is capable of discharging the duties of a company secretary and that the above arrangements will provide Mr. Lin the necessary assistance from a person who possesses the necessary qualifications under Rule 3.28 of the Listing Rules.

Accordingly, we have applied to the Stock Exchange for, and the Stock Exchange has granted to us, a waiver from strict compliance with the requirements under Rules 8.17 and 3.28 of the Listing Rules. The waiver is valid for an initial period of three years commencing from the Listing Date upon the expiry of the initial three years period, the qualification of Mr. Lin will be evaluated to determine whether his appointment as the company secretary will satisfy the requirements under Rule 3.28 of the Listing Rules. Upon the determination of our Company that no on-going assistance is necessary, our Company will demonstrate to the Stock Exchange that, with the assistance of Ms. Ng over such three-year period, Mr. Lin has acquired the requisite knowledge and experience under Rule 3.28 of the Listing Rules. The Stock Exchange may then re-evaluate whether any further waiver would be necessary.

DIRECTORS' RESPONSIBILITY FOR THE CONTENTS OF THIS PROSPECTUS

This Prospectus, for which our Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to us. Our Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief, the information contained in this Prospectus is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this Prospectus misleading.

CSRC APPROVAL

We have obtained approvals of the CSRC for the Global Offering and the making of the application to list the H Shares on the Hong Kong Stock Exchange. In granting such approval, the CSRC does not accept any responsibility for our financial soundness or for the accuracy of any of the statements made or opinions expressed in this Prospectus or in the Application Forms.

THE HONG KONG PUBLIC OFFERING AND THIS PROSPECTUS

This Prospectus is published solely in connection with the Hong Kong Public Offering which forms part of the Global Offering. Neither the delivery of this Prospectus nor any subscription or acquisition made under it shall, under any circumstances, create any implication that there has been no change in our affairs since the date of this Prospectus or that the information in it is correct as of any subsequent time.

UNDERWRITING

For applicants under the Hong Kong Public Offering, this Prospectus and the Application Forms set forth the terms and conditions of the Hong Kong Public Offering. The Listing is sponsored by the Sole Sponsor. The Hong Kong Public Offering is fully underwritten by the Hong Kong Underwriters under the terms of the Hong Kong Underwriting Agreement and is subject to agreement on the Offer Price between the Company and the Sole Global Coordinator (on behalf of the Underwriters). The International Offering is expected to be underwritten by the International Underwriters. The Global Offering is coordinated by the Sole Global Coordinator.

For further information about the Underwriters and the underwriting arrangements, please see "Underwriting" section of this Prospectus.

DETERMINATION OF THE OFFER PRICE

The Offer Shares are being offered at the Offer Price which will be determined by the Sole Global Coordinator (on behalf of the Underwriters) and us on or around Monday, 7 December 2015, and in any event no later than Thursday, 10 December 2015.

If, for any reason, the Sole Global Coordinator (on behalf of the Underwriters) and us are unable to reach an agreement on the Offer Price on or before Thursday, 10 December 2015, or such later date or time as may be agreed between the Sole Global Coordinator (on behalf of the Underwriters) and us, the Global Offering will not become unconditional and will lapse.

RESTRICTIONS ON OFFERS AND SALES OF THE OFFER SHARES

We offer the Hong Kong Offer Shares solely on the basis of the information contained and representations made in this Prospectus and the related Application Forms and on the terms and subject to the conditions contained in this Prospectus and the Application Forms.

Each person acquiring the Hong Kong Offer Shares under the Hong Kong Public Offering will be required to, or be deemed by his acquisition of Offer Shares to, confirm that he is aware of the restrictions on the offers of the Offer Shares described in this Prospectus.

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

APPLICATION FOR LISTING OF THE H SHARES ON THE HONG KONG STOCK EXCHANGE

The Company has applied to the Listing Committee for the granting of the listing of, and permission to deal in, the H Shares in issue and to be issued pursuant to the Global Offering (including the additional H Shares which may be issued pursuant to the exercise of the Over-allotment Option). No part of the share or loan capital of the Company is listed on or dealt in on any other stock exchange and no such listing or permission to list is being or proposed to be sought in the near future.

REGISTRATION OF SUBSCRIPTION, PURCHASE AND TRANSFER OF H SHARES

We have instructed the H Share Registrar, and the H Share Registrar has agreed, not to register the subscription, purchase or transfer of any H Shares in the name of any particular holder unless the holder delivers a signed form to the H Share Registrar in respect of those H Shares bearing statements to the effect that the holder:

(i) agrees with us and each of our Shareholders, and we agree with each Shareholder, to observe and comply with the *PRC Company Law*, the *Special Regulations* and our Articles of Association;

(ii) agrees with us, each of our Shareholders, Directors, Supervisors, managers and officers, and we, acting for ourselves and for each of our Directors, Supervisors, managers and officers, agree with each Shareholder, to refer all differences and claims arising from our Articles of Association or any rights or obligations conferred or imposed by the *PRC Company Law* or other relevant laws and administrative regulations concerning our affairs to arbitration in accordance with our Articles of Association, and any reference to arbitration shall be deemed to authorise the arbitration tribunal to conduct hearings in open session and to publish its award, which shall be final and conclusive;

(iii) agrees with us and each of our Shareholders that our H Shares are freely transferable by the holders of our H Shares; and

(iv) authorises us to enter into a contract on his or her behalf with each of our Directors, Supervisors, managers and officers whereby such Directors, Supervisors, managers and officers undertake to observe and comply with their obligations to our Shareholders as stipulated in our Articles of Association.

INFORMATION ON THE GLOBAL OFFERING

The Offer Shares are offered solely on the basis of the information contained and representations made in this Prospectus and the Applications Forms and on the terms and subject to the conditions set out herein and therein. No person is authorised to give any information in connection with the Global Offering or to make any representation not contained in this Prospectus, and any information or representation not contained herein must not be relied upon as having been authorised by the Company, the Sole Sponsor, the Sole Global Coordinator, Sole Bookrunner and Sole Lead Manager, the Underwriters, or any of their respective directors, agents, employees or advisors or any other party involved in the Global Offering. For further details of the structure of the Global Offering, including its conditions, and the procedures for applying for Hong Kong Offer Shares, see "Structure of the Global Offering" and "How to Apply for the Hong Kong Offer Shares" sections of this Prospectus and the relevant Application Forms.

H SHARE REGISTRAR AND STAMP DUTY

All of the H Shares issued pursuant to applications made in the Global Offering will be registered on our H Share register of members to be maintained in Hong Kong by our H Share Registrar. Our principal register of members will be maintained by us at our head office in China.

Dealings in the H Shares registered in our H Share register of members will be subject to the Hong Kong stamp duty.

SHARES WILL BE ELIGIBLE FOR ADMISSION INTO CCASS

Subject to the granting of listing of, and permission to deal in, our H Shares on the Hong Kong Stock Exchange and the Company's compliance with the stock admission requirements of HKSCC, our H Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the Listing Date or any other date HKSCC chooses. Settlement of transactions between participants of the Hong Kong Stock Exchange is required to take place in CCASS on the second Business Day after any trading day.

All activities under CCASS are subject to the General Rules of CCASS and CCASS operational procedures in effect from time to time.

All necessary arrangements have been made for our H Shares to be admitted into CCASS.

PROFESSIONAL TAX ADVICE RECOMMENDED

Potential investors in the Global Offering are recommended to consult their professional advisers if they are in any doubt as to the taxation implications of subscribing for, purchasing, holding and dealing in the H Shares. None of the Company, the Sole Sponsor, the Sole Global Coordinator, Sole Bookrunner and Sole Lead Manager, the Underwriters, any of their respective directors or any other person or party involved in the Global Offering accepts responsibility for any tax effects on, or liabilities of, any person resulting from the subscription for, purchasing, holding, disposing of, or dealing in our H Shares or the exercise of any rights attaching to our H Shares.

PROCEDURE FOR APPLICATION FOR HONG KONG OFFER SHARES

The procedure for applying for Hong Kong Offer Shares is set out in "How to Apply for Hong Kong Offer Shares" section of this Prospectus and in the relevant Application Forms.

STRUCTURE OF THE GLOBAL OFFERING

Details of the structure of the Global Offering, including its conditions, are set out in "Structure of the Global Offering" section of this Prospectus.

LANGUAGE

If there is any inconsistency between the English version of this Prospectus and the Chinese translation of this Prospectus, the English version of this Prospectus should prevail. If there is any inconsistency between the Chinese names of the PRC nationals, entities, departments, facilities, certificates, titles, laws, regulations and the like mentioned in this Prospectus and their English translations, the Chinese names shall prevail.

ROUNDING

In this Prospectus, where information is presented in hundreds, thousands, ten thousands, millions, hundred millions or billions, certain amounts of less than one hundred, one thousand, ten thousand, one million, a hundred million or a billion, as the case may be, have been rounded to the nearest hundred, thousand, ten thousand, million, hundred million or billion, respectively. Unless otherwise stated, all the numerical figures are rounded to one decimal place. Any discrepancies in any table or chart between totals and sums of amounts listed therein are due to rounding.

EXCHANGE RATE CONVERSION

Solely for your convenience, this Prospectus contains translations of certain Renminbi amounts into Hong Kong dollars at specified rates. No representation is made that the Renminbi amounts could actually be converted into any Hong Kong dollar amounts at the rates indicated or at all. Unless we indicate otherwise, the translation of Renminbi into Hong Kong dollars was made at the rate of RMB1.00 to HK$1.25.

DIRECTORS

Name	Address	Nationality
Executive Directors		
Mr. Yao Chuanglong (姚創龍)	Room 1502, Block 12 Taianhuating East District Dongfang Street Jinping District, Shantou City Guangdong Province PRC	Chinese
Ms. Zheng Yuyan (鄭玉燕)	No. 65 Foshan North Road Chancheng District, Foshan City Guangdong Province PRC	Chinese
Mr. Fan Jianbo (范劍波)	Room 102 Chuangmei Pharmaceutical Co., Ltd. Dormitory Rulong Residents' Committee Longxiang Street Longhu District, Shantou City Guangdong Province PRC	Chinese
Mr. Lin Zhixiong (林志雄)	Room 1610 Block 2, Xiangyuchuntian Taishan Road Longhu District, Shantou City Guangdong Province PRC	Chinese
Non-executive Director		
Ms. You Zeyan (游澤燕)	Room 1502, Block 12 Taianhuating East District Dongfang Street Jinping District, Shantou City Guangdong Province PRC	Chinese

Independent non-executive Directors

Mr. Wan Chi Wai Anthony (尹智偉)	4th Floor 18 King Kwong Street Happy Valley Hong Kong	Chinese
Mr. Zhou Tao (周濤)	Room 1601, Block C No. 9 Jindian Garden No. 9 Wenhuiyuan North Road Haidian District Beijing PRC	Chinese
Mr. Guan Jian (關鍵) (also known as Guan Suzhe (關蘇哲))	Room 801, No. 7, 299 Alley, Wuzhou Road Hongkou District Shanghai PRC	Chinese

Supervisors

Ms. Zhang Ling (張玲)	Room 601, Block 3 Quanjingwan West District Longhu District, Shantou City Guangdong Province PRC	Chinese
Ms. Zheng Xiyue (鄭禧玥)	Room 804, Block 16 Jintai Garden East District Longhu District, Shantou City Guangdong Province PRC	Chinese
Ms. Zhang Hanzi (張寒孜)	Room 704, Block 2 Dongfangyuan North District Jinping District, Shantou City Guangdong Province PRC	Chinese

Further information of the aforementioned Directors and Supervisors are disclosed in the section headed "Directors, Supervisors and Senior Management" of this Prospectus.

OTHER PARTIES INVOLVED IN THE GLOBAL OFFERING

Sole Sponsor	**Guotai Junan Capital Limited** 27/F, Low Block Grand Millennium Plaza 181 Queen’s Road Central Hong Kong (a licensed corporation to conduct type 6 (advising on corporate finance) regulated activities under the SFO)
Sole Global Coordinator, Sole Bookrunner and Sole Lead Manager	**Guotai Junan Securities (Hong Kong) Limited** 27/F, Low Block Grand Millennium Plaza 181 Queen’s Road Central Hong Kong (a licensed corporation to conduct type 1 (dealing in securities) and type 4 (advising on securities) regulated activities under the SFO)
Co-Managers (in alphabetical order)	**Ever-Long Securities Company Limited** 18th Floor, Dah Sing Life Building 99–105 Des Voeux Road Central Hong Kong **Luk Fook Securities (HK) Limited** Units 502-6, 5/F, Low Block Grand Millennium Plaza 181 Queen’s Road Central Hong Kong
Legal Advisors to our Company	*as to Hong Kong law:* **Squire Patton Boggs** 29th Floor, Edinburgh Tower The Landmark 15 Queen’s Road Central Hong Kong *as to PRC law:* **Jingtian & Gongcheng** 34/F, Tower 3, China Central Place 77 Jianguo Road Beijing 100025 PRC

Legal Advisors to the Sole Sponsor and the Underwriters	*as to Hong Kong law:* **Li & Partners** 22/F, World-Wide House Central Hong Kong *as to PRC law:* **Beijing Guantao Law Firm** 17/F, Tower 2, Yingtai Centre 28 Finance Street, Xicheng District Beijing PRC
Auditor and Reporting Accountant	**SHINEWING (HK) CPA Limited** *Certified Public Accountants* 43th Floor Lee Garden One 33 Hysan Avenue Causeway Bay Hong Kong
Property Valuer	**Roma Appraisals Limited** Unit 3806, 38/F China Resources Building 26 Harbour Road Wanchai Hong Kong
Industry Consultant	**Guangzhou PICO Medicine Information Co., Ltd.** 15/F, Ziyuan Commercial Building No. 745 Dongfeng East Road Yuexiu District Guangzhou Guangdong Province PRC
Compliance Adviser	**Guotai Junan Capital Limited** 27/F, Low Block Grand Millennium Plaza 181 Queen's Road Central Hong Kong (a licensed corporation to conduct type 6 (advising on corporate finance) regulated activities under the SFO)

Receiving Bank	**Industrial and Commercial Bank of China (Asia) Limited** 33/F., ICBC Tower 3 Garden Road Central Hong Kong

Registered Office	No. 235 Song Shan North Road Longhu District, Shantou City Guangdong Province PRC
Headquarters in China	No. 235 Song Shan North Road Longhu District, Shantou city Guangdong Province PRC
Principal Place of Business in Hong Kong	18/F, Tesbury Centre 28 Queen's Road East Wanchai Hong Kong
Company Website	www.chmyy.com (The contents of the website do not form part of this Prospectus)
Joint Company Secretaries	Lin Zhixiong (林志雄) Room 1610 Block 2, Xiangyuchuntian Taishan Road Longhu District, Shantou City PRC Ng Wing Shan (吳詠珊) *(FCIS, FCS)* 18/F Tesbury Centre 28 Queen's Road East Wanchai Hong Kong
Authorised Representatives	Zheng Yuyan (鄭玉燕) No. 65 Foshan North Road Chancheng District, Foshan City Guangdong Province PRC Ng Wing Shan (吳詠珊) *(FCIS, FCS)* 18/F Tesbury Centre 28 Queen's Road East Wanchai Hong Kong

Audit Committee	Wan Chi Wai Anthony (尹智偉) *(Chairman)* Zhou Tao (周濤) Guan Jian (關鍵)
Nomination Committee	Yao Chuanglong (姚創龍) *(Chairman)* Zhou Tao (周濤) Guan Jian (關鍵)
Remuneration Committee	Zhou Tao (周濤) *(Chairman)* Wan Chi Wai Anthony (尹智偉) You Zeyan (游澤燕)
Risk Management Committee	Yao Chuanglong (姚創龍) *(Chairman)* Lin Zhixiong (林志雄) Wan Chi Wai Anthony (尹智偉)
Principal Banks	**China Guangfa Bank Co., Ltd. (Shantou Branch)** Floor 1–4, Galaxy Tower Jinhuan South Road, Shantou City Guangdong Province PRC **Industrial and Commercial Bank of China Limited (Shantou Branch)** No. 1 Yingbin Road Longhu District, Shantou City Guangdong Province PRC
H Share Registrar	**Computershare Hong Kong Investor Services Limited** Shops 1712–1716 17th Floor, Hopewell Centre 183 Queen's Road East Wanchai Hong Kong

The information set out in this section has been abstracted from the independent report prepared by PICO. The industry report is prepared by PICO based on data sourced from its database, public source, industry reports, interviews and other sources of information. We believe that the sources of such information are appropriate sources and have taken reasonable care in extracting and reproducing such information. We have no reason to believe that such information is false or misleading or that any fact has been omitted that would render such information false or misleading. Such information has not been independently verified by us, the Sole Sponsor, the Sole Global Coordinator, the Sole Bookrunner, the Underwriters, any of our or their respective directors, officers, affiliates, advisors or agents or any other party involved in the Global Offering, and no representation is given as to its completeness, accuracy or fairness. Accordingly, undue reliance shall not be placed on such information.

SOURCE OF INFORMATION

In connection with the Global Offering, we commissioned a research report from PICO to provide prospective investors with necessary information on the relevant industry. The research report titled "Pharmaceutical Industry Market Study in China, 2015" was commissioned for the purposes of preparing this Prospectus. We paid an aggregate commission of RMB450,000 to PICO for the preparation and use of the relevant report. The payment of commission is not conditional on the success of our listing or the research results of such industry report.

PICO

PICO is an entity controlled by Southern Medicine Economic Research Institute (南方醫藥經濟研究所) under the CFDA. It has been specialised in the economic research of China's pharmaceutical industry since 1979, and has been commissioned by various companies listed on the stock exchanges in China and the Hong Kong Stock Exchange to carry out market research and analysis.

RESEARCH AND METHODOLOGY

The methodology used by PICO in the PICO Report is summarised as below:

- Conduct research based on over 60 databases of its own and statistical data published by various government agencies (such as the National Bureau of Statistics and the NDRC).

- Conduct research based on market information and other relevant information gathered through on-site research on enterprises and interviews with industry experts when necessary.

- Conduct cross check of information available from various sources to ensure their accuracy and completeness.

ASSUMPTION FOR GROWTH AND FORECAST

Forecast data was projected on the basis of historical data through linear regression method. PICO developed its forecast on the following bases and assumptions:

- The China's economic and political environments being examined remain stable during the forecast period;

- The general pharmaceutical industry maintain sustainable development;

- There is not any material factor that may lead to significant change in the development of the current pharmaceutical distribution industry.

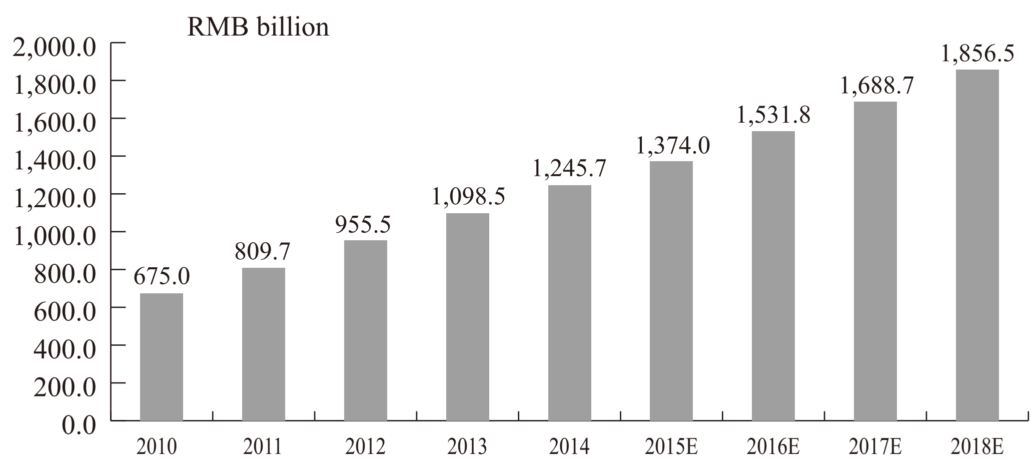
RELIABILITY OF INFORMATION IN THE PICO REPORT

Our Directors are of the view that the sources of information used in this section are reliable as the information was extracted from the PICO Report. Our Directors believe that the relevant report prepared by PICO is reliable and not misleading as PICO is an independent professional research agency with extensive experience in its profession.

PHARMACEUTICAL INDUSTRY IN CHINA

Overview

According to PICO, total end market sales of pharmaceutical products in China (including sales of pharmaceuticals from hospitals, clinics, health centres and retail pharmacies to consumers) increased from RMB675.0 billion in 2010 to RMB1,245.7 billion in 2014, representing a CAGR of 16.6%, demonstrating a promising market development prospects. In addition, PICO estimates that the total end market sales of pharmaceutical products will grow at a CAGR of 10.5% between 2014 and 2018, and will reach RMB1,856.5 billion in 2018. The chart below sets forth the actual and forecast size of the PRC pharmaceutical market from 2010 to 2018 in terms of total sales.

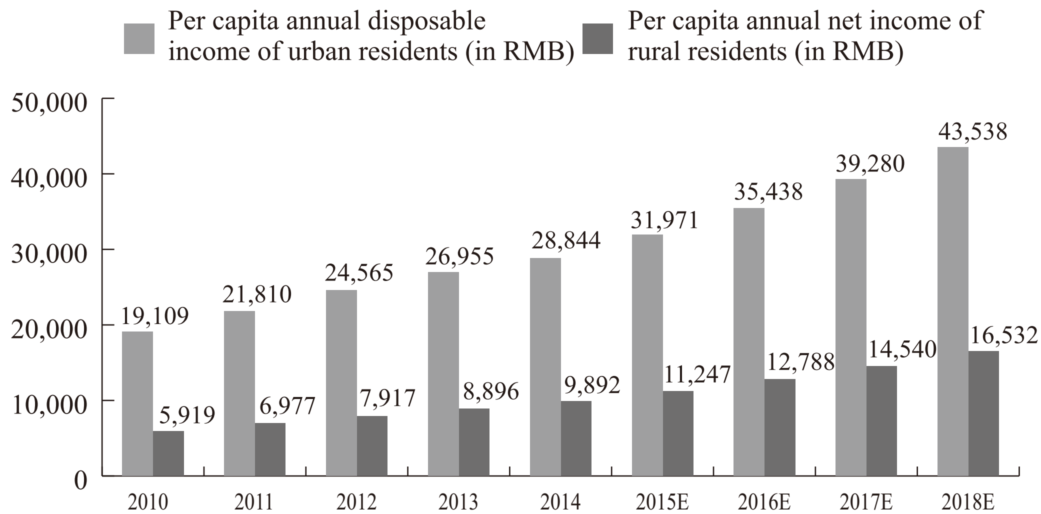


Source: PICO

Driving Forces for the Growth of Pharmaceutical Industry in China

Increase of medical consumption driven by economic growth

China is one of the fastest-growing economies in the world. According to National Bureau of Statistics of China, China is the second largest economy in the world with a GDP reaching RMB63.6 trillion in 2014. Furthermore, per capita annual disposable income of urban residents in China increased from RMB19,109 in 2010 to RMB28,844 in 2014, representing a CAGR of approximately 10.8%, while per capita annual net income of rural residents in China increased from approximately RMB5,919 in 2010 to RMB9,892 in 2014, representing a CAGR of approximately 13.7%. PICO estimates that the per capita annual disposable income of urban and the per capital annual net income of rural residents in China will reach RMB43,538 and RMB16,532 respectively in 2018. The following chart sets out the actual and forecast per capita annual disposable income of urban residents and per capita annual net income of rural residents of China from 2010 to 2018:

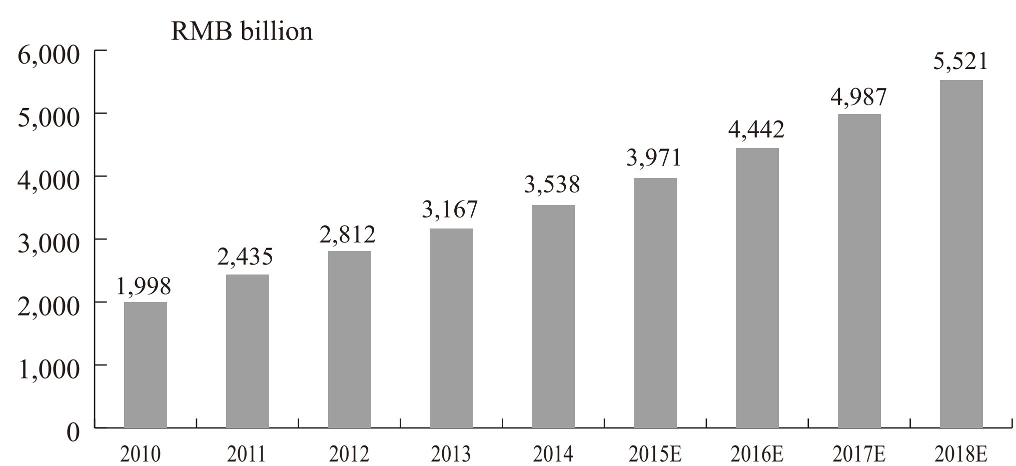


Source: PICO

Rising healthcare spending

Growth of total healthcare expenditure

According to the summary of China Health and Family Planning Statistical (中國衛生和計劃生育統計), China's total healthcare expenditure increased from approximately RMB1,998.0 billion in 2010 to approximately RMB3,538 billion in 2014, representing a CAGR of 15.4%. China's total healthcare expenditure has been growing rapidly along with the ongoing healthcare reform, and is expected to continue to grow in the next several years. According to PICO's data, from 2014 to 2018, China's healthcare expenditure is expected to continue to grow at CAGR of 11.8% and will reach RMB5,521.5 billion in 2018. The chart below sets out the actual and forecast total healthcare expenditure of China from 2010 to 2018:



Source: PICO

Per capita healthcare expenditure

According to the summary of China Health and Family Planning Statistical (中國衛生和計劃生育統計), China's per capita healthcare expenditure increased from RMB1,490 in 2010 to RMB2,587 in

2014, representing a CAGR of 14.8%. According to PICO, there is still a large gap between China and most other countries in terms of the per capita healthcare expenditure. China's per capita healthcare expenditure represented less than 5% of that in the U.S. It is expected that China's per capita healthcare expenditure will continue to grow rapidly in the future and hence will drive the growth of pharmaceutical consumption.

Medical insurance reform of PRC government

The ongoing healthcare reform led by the PRC government aims to build a nationwide insurance system to provide affordable medical services for the mass public of China. At present, such system consists of three basic medical insurances: (i) the Urban Employee Basic Medical Insurance Scheme, which is a mandatory health insurance programme for urban employees and retirees; (ii) the Urban Resident Basic Medical Insurance Scheme, which is a voluntary programme for other urban residents; and (iii) the New Rural Cooperative Medical Scheme, or NRCMS, which is a voluntary programme for all rural residents. The coverage of China's urban/rural basic medical insurance extended from approximately 10% in 2004 to approximately 94% and 100% in 2009 and 2013, respectively. As of 31 December 2014, the two urban insurance schemes covered 597 million urban residents and the NRCMS covered approximately 736 million rural residents. In addition, the budget and actual amount of medical and healthcare expenditure of the Ministry of Finance have been increasing since 2009, with both exceeding RMB900 billion in 2014.

Increasing trend of separation of prescription and pharmacies

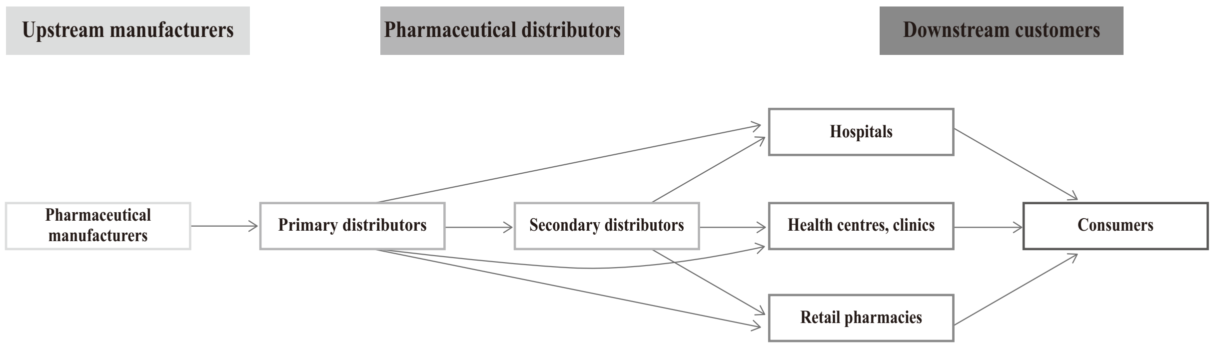
Healthcare reform in China has achieved significant progress. Separation of prescription and pharmacies has become the keynote of the healthcare reform, with an aim to control the costs of healthcare and enhance the efficiency of medical services in order to solve the concern of expensive costs and difficulty in getting medical services. Historically, the PRC medical industry has been supported by pharmaceutical business. Since the liberalisation of China in 1978, as the government could not cover all operational expenses of public hospitals, price mark-ups on medicines in hospitals were allowed such that hospitals could be self-financed. At present, the medical industry is increasingly dependent on the pharmaceutical business due to the relatively slow growth of medical service price, which has distorted the value of hospitals and doctors. Hence, reducing the reliance on pharmaceutical business and the separation of prescription and pharmacies have become the major goals of the healthcare reform, and the government has promulgated relevant policies and conducted trial runs in various regions. Separation of prescription and pharmacies is the major trend of government policy and the medical industry.

Other major factors

China is the most populated country in the world, which offers enormous market potential for the development of the PRC pharmaceutical industry. As the population growth may further accelerate along with the further relaxation of the "Two-child" policy, the pharmaceutical market will further expand. In addition, the proportion of 60 year-old or above population has been increasing, from 12.2% in 2010 to 15.5% in 2014. 60 year-old or above population is subject to high risk of senile illnesses and chronic illnesses. The acceleration of population ageing in China will support the expansion of medical market.

Overview of Pharmaceutical Distribution Industry in China

Pharmaceutical distribution business builds the bridge between pharmaceutical manufacturers and pharmaceutical retailers, including hospital pharmacies, pharmacy chains, clinics and other end market of sales. The value of pharmaceutical distribution business is mainly two-folded: (i) from the perspective of pharmaceutical manufacturing enterprises, due to the vast territory of the PRC, it would be difficult for them to establish their own sales network covering the whole country. Through engaging pharmaceutical distributors, they could reduce their operational costs; and (ii) from the perspective of polices and regulations of China, the Chinese government stipulated that only enterprises that obtained the pharmaceutical operation permit and GSP certifications can engage in the sales of pharmaceutical products. As such, when pharmaceutical manufacturing enterprises is looking for third parties to distribute their products throughout China, only pharmaceutical distributors can fulfil this function. Furthermore, given the vast territory of China and the pharmaceutical market condition varies from one market to another, secondary and tertiary distributors will emerge to cater for the distribution to a more specific region during the pharmaceutical distribution process. Pharmaceutical distribution business plays an important role in the chain of pharmaceutical supply by ways of storage of drugs, reselling, and logistics. The typical industry chain of pharmaceutical distribution is divided into three main segments: (i) upstream pharmaceutical manufacturers; (ii) pharmaceutical distributors which include primary and secondary distributors; and (iii) downstream customers which include hospitals, health centres, clinics, retail pharmacies and end-consumers. Pharmaceutical products manufactured by pharmaceutical manufacturers are normally distributed to consumers through primary and secondary distributors, and in some case, tertiary and other sub-distributors. Distributors may decide to sell the pharmaceutical products to downstream customers directly or through distribution to sub-distributors according to their networks and resources.



Source: PICO

Changes in Costs and Expenses of the PRC Pharmaceutical Distribution Industry

The costs of pharmaceutical distribution enterprises mainly consist of procurement cost, and expenses such as labour, transportation and storage expenses. Regarding procurement cost, as the government has issued a number of policies and regulations in relation to pharmaceutical products in recent years, the general ex-factory pharmaceutical price has been declining, thereby decreasing the profit margin of pharmaceutical manufacturers. In order to maintain the market competitiveness of products, manufacturers are forced to lower the ex-factory price without affecting the profit of distributors to keep the attractiveness of products towards distribution enterprises. As a result, the purchase cost of wholesale enterprises further decreases. In terms of expenses, in spite of the increasing trend of labour cost, land cost and property price in China in recent years, some enterprises improve their operation efficiency with the application of enterprise resource planning system and other scientific measures, which have offset the increase of such expenses.

End Market

End market of pharmaceutical distribution industry in China consists of the public hospital network and Free Competition Market by the types of downstream customers. Sale of pharmaceuticals to public hospitals is conducted through centralised tendering process of the government, whereas sale in the Free Competition Market is made by organisations such as retail pharmacies and private clinics, and is not subject to the centralised tendering process of the government.

Public hospitals are non-profit making organisation. Doctors are responsible for the selection of medicines, of which prescription drugs account for a large proportion. It is the largest end market of pharmaceuticals in China. In light of the long and complex supply chain of public hospitals involving multiple monopolies and high transaction costs, large and medium-sized state-owned enterprises have a competitive edge in such market.

In Free Competition Market, patients will choose their own medicines, with non-prescription drugs accounting for a large proportion. Free Competition Market is highly liberal with downsized and efficient marketing channels. Every participant in the chain faces high competition. Enterprises with higher operating efficiency enjoy competitive advantages in the market. As government policy encourages separation of prescription and pharmacies, customers of pharmaceutical sales will be directed from hospitals to Free Competition Market such as pharmacies. Therefore, it is expected that the Free Competition Market will experience rapid expansion.

Business Models

Pharmaceutical distribution enterprises in China can be categorised into three major types by business model, namely, distribution, specialised agency, and value chain integrated. Under distribution-oriented model, a pharmaceutical manufacturer engages a pharmaceutical company to distribute its products within a specific market/region. The manufacturer and the relevant third parties (such as pharmaceutical marketing companies) engaged by it are solely responsible for the promotion and marketing of such pharmaceutical products, and the pharmaceutical distributor is responsible for logistic distribution. Under specialised agency model, a pharmaceutical manufacturer engages only one pharmaceutical distribution company as an exclusive agent for the distribution, promotion and marketing of its pharmaceutical products within a specific market/region. Under value chain integrated model, the distributor on one hand integrates the upper stream manufacturing through engaging in original equipment manufacturer (OEM) manufacturing, while integrates downstream retail pharmacy stores and customers so as to control the whole pharmaceutical value chain.

By the type of customers, pharmaceutical distribution enterprises can be further divided into (i) distributors and agents of public hospitals; and (ii) distributors of Free Competition Market. According to PICO, Free Competition Market is highly competitive with higher requirement on the operating efficiency of distributors, which is more suitable for the operation of private enterprises than the public hospital network. The Group’s business model is a distribution-oriented in the Free Competition Market.

Entry Barriers

Pharmaceutical distribution enterprises are confronted with various entry barriers such as policy requirements, distribution capabilities, availability of upstream and downstream resources and capital constraints. In terms of policy, there are two major barriers: (i) certification requirements of GSP are overly detailed and demanding; and (ii) the pharmaceutical distribution market is highly fragmented, and the government has adopted measures to support and direct the consolidation within industry resulting in difficulties of new entrants. Major entry barriers vary in different markets.

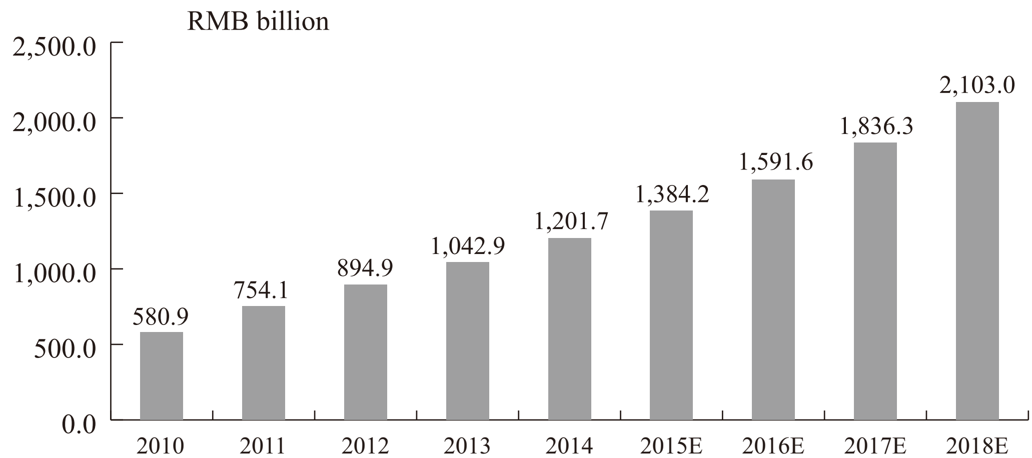
As the public hospital market is controlled by the government and the purchase volume is huge, requirement on the public relation skills, track record and distribution capability of distributors is high.

As compared with the public hospital market, the main entry barriers for pharmaceutical distribution enterprises to enter the Free Competition Market are the requirement on distribution efficiency and the access to upstream and downstream resources. There are numerous sales channels in the Free Competition Market locating in wide range of region and their purchase volumes are relatively small. As such, distributors are required to have high distribution efficiency and network. Moreover, since pharmacy stores and other end market operators usually cooperate with one or only a few distribution companies to control the quality and cost, upstream resources owned by the distribution companies become an important factor of consideration. Furthermore, given the huge market of China, even the large-scale manufacturing enterprises with independent network will find it difficult to penetrate in all regions. As a result, downstream resources owned by the companies become extremely important in connecting with regions outside their network.

Due to the abovementioned entry barriers, operation with economies of scale is essential in the pharmaceutical distribution industry. Enterprises with larger scale will be able to develop larger sales network and coverage, stronger access to upstream and downstream resources and more diversified financing channels, and will become active participants in the consolidation of industry supported by government policies.

Market Growth

According to PICO, the total sales from distributors to hospitals, healthcare centres, clinics and retail pharmacies in China grew from RMB580.9 billion in 2010 to RMB1,201.7 billion in 2014, representing a CAGR of 19.9%. According to PICO, the sales of pharmaceutical distribution industry is expected to grow at a CAGR of 15.0% and reach RMB2,103.0 billion in 2018. The following chart setsforth the actual and forecast market size of the pharmaceutical distribution industry in China from 2010 to 2018:



Source: PICO

Competitive Landscape

Among the top five largest pharmaceutical distributors in China, only one of them has recorded sales revenue of over RMB100 billion. The revenue from distribution business of this enterprise amounted to approximately RMB213.1 billion in 2014. The following table sets forth the sales revenue of the five largest pharmaceutical distributors in China and their respective market shares in China:

Ranking	Name	Business coverage	Sales revenue from distribution business in 2012 *(in RMB billion)*	Market share in China in 2012	Sales revenue from distribution business in 2013 *(in RMB billion)*	Market share in China in 2013	Sales revenue from distribution business in 2014 *(in RMB billion)*	Market share in China in 2014
1	A	Nationwide	144.7	16.2%	180.3	17.3%	213.1	17.7%
2	B	Nationwide	61.2	6.8%	72.9	7.0%	86.9	7.2%
3	C	Nationwide	58.9	6.6%	68.0	6.5%	82.0	6.8%
4	D	Nationwide	28.6	3.2%	32.3	3.1%	39.7	3.3%
5	E	Based in Southern China	19.1	2.1%	22.9	2.2%	26.5	2.2%

Source: PICO

Note: The ranking is derived from Statistical Analysis Report of the Pharmaceutical Circulation Industry (藥品流通行業運行統計分析報告), annual reports and short-term financing bond prospectuses of listed companies and interviews with industry expert and personnel in the pharmaceutical industry. Sales revenue only refers to the sales revenue from distribution business of enterprises, excluding sales income from pharmaceutical manufacturing, retail and other businesses.

Development of Pharmaceutical B2B Industry in China

In the pharmaceutical industry of China, there are two types of B2B models: (i) B2B trading between pharmaceutical manufacturers, pharmaceutical enterprises and medical institutions, which is a non-profit making government-led B2B platform of centralised pharmaceutical products procurement; and (ii) B2B trading conducted by pharmaceutical manufacturers and wholesalers through their online networks with enterprises other than their affiliates which is also known as "pharmaceutical enterprise B2B".

As of the end of 2014, there were 73 licensed enterprises qualified for online B2B drug trading enterprises in China. Pharmaceutical enterprise B2B is characterised by its large variety of products, high order amount and low purchase frequency. Income of pharmaceutical enterprise B2B mainly includes transaction service fee, advertising fee and logistics fee. However, the scale of such platform is generally small due to the relatively small number of participants.

B2B platform has the function of reducing unnecessary distribution process and shortening distribution process, which is in line with policy directions. At the same time, B2B platform can reduce corporate transaction costs. Therefore, it is expected pharmaceutical enterprise B2B will show promising growth in the future.

Pharmaceutical Distribution Industry in Southern China

Overview of Southern China

Southern China consists of three Provinces, namely the Guangdong Province, Guangxi and Hainan Province. As of the end of 2014, the permanent population of the Guangdong Province, Guangxi and Hainan Province was 107.2 million, 47.5 million and 9.0 million, respectively. The GDP of Southern China as a percentage of the national GDP was approximately 14%. With a GDP percentage of 10.7% in 2014, the Guangdong Province was the most economically developed province in Southern China. The table below sets forth the breakdown of GDP of Southern China:

Indicator *(in RMB billion)*	**2010**	**2011**	**2012**	**2013**	**2014**
Guangdong Province	4,601.3	5,321.0	5,706.8	6,216.4	6,779.2
Guangxi	957.0	1,172.1	1,303.5	1,437.8	1,567.3
Hainan Province	206.5	252.3	285.6	314.6	350.1
Total GDP of Southern China	5,764.8	6,745.4	7,295.9	7,968.8	8,696.6
GDP of Southern China as a percentage of the national GDP	14.1%	13.9%	13.7%	13.6%	13.7%

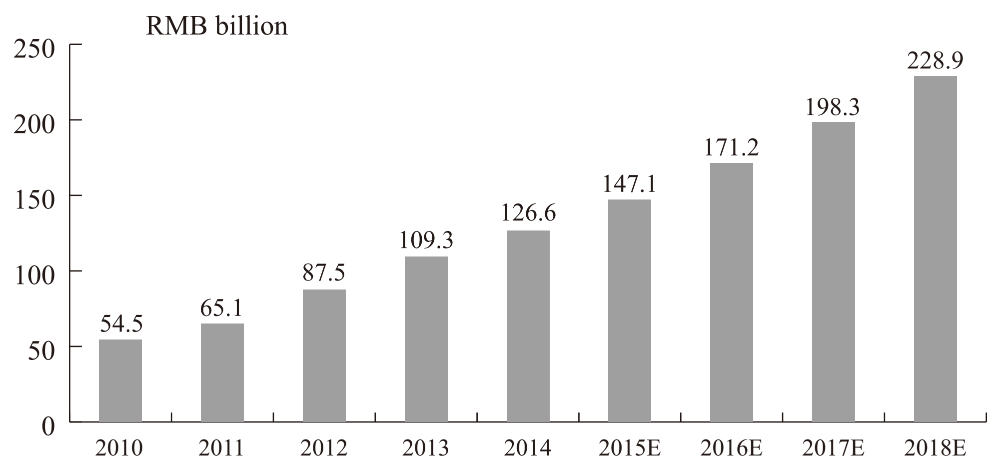
Source: PICO

Major Growth Drivers

The Guangdong Province has the highest GDP and per capita GDP in China, leading to a higher GDP per capita in Southern China than the national average. The overall growth rate of disposable income per capita of Southern China is also higher than the national average. As one of the most economically developed provinces, the Guangdong Province has huge development potential.

Market Growth

According to PICO, sales of the pharmaceutical distribution industry in Southern China increased from RMB54.5 billion in 2010 to RMB126.6 billion in 2014, representing a CAGR of 23.5%. PICO expects that until 2018, sales of the pharmaceutical distribution industry in Southern China will reach RMB228.9 billion, representing a CAGR of 16.0%. The chart below sets forth the scale of the actual and forecast pharmaceutical distribution market in Southern China from 2010 to 2018:



Source: PICO

Competitive Landscape

The total market share of the top enterprises in the pharmaceutical distribution industry in Southern China in 2014 showed that the pharmaceutical distribution industry in Southern China is considered as a moderately concentrated market where those leading enterprises have an obvious scale advantage. However, considering there are approximately 2,350 distribution enterprises in Southern China in 2014, leading enterprises occupied substantially the bigger piece of the market share and the remaining market is shared by many small-sized distributors.

In 2014, in terms of the sales revenue from pharmaceutical distribution business, we ranked seventh in the pharmaceutical distribution industry in Southern China and the third among the privately-owned pharmaceutical distribution companies in Southern China.

The table below sets forth the sales revenue of the seven largest enterprises in the pharmaceutical distribution industry in Southern China and their respective market shares in Southern China and the PRC:

Ranking	Name	Business nature	Business coverage	Sales revenue from distribution business for 2012 *(in RMB billion)*	Market share in Southern China for 2012	Market share in the PRC for 2012	Sales revenue from distribution business for 2013 *(in RMB billion)*	Market share in Southern China for 2013	Market share in the PRC for 2013	Sales revenue from distribution business for 2014 *(in RMB billion)*	Market share in Southern China for 2014	Market share in the PRC for 2014
1	E	Sino-foreign joint venture *(Note 2)*	Based in Southern China and extending to other regions	19.1	21.8%	2.1%	22.9	21.0%	2.2%	26.5	20.9%	2.2%
2	F	State-owned enterprise	Southern China	16.1	18.4%	1.8%	19.4	17.8%	1.9%	22.2	17.5%	1.9%
3	B	State-owned enterprise	Nationwide	3.0	3.4%	0.3%	9.2	8.4%	0.9%	11.5	9.1%	1.0%
4	D	Private enterprise	Nationwide	4.4	5.0%	0.5%	4.8	4.4%	0.5%	5.4	4.3%	0.5%
5	G	Private enterprise	Guangxi	3.3	3.8%	0.4%	4.3	3.9%	0.4%	5.3	4.2%	0.4%
6	H	State-owned enterprise	Nationwide	3.8	4.3%	0.4%	4.1	3.7%	0.4%	5.1	4.0%	0.4%
7	The Company	Private enterprise	Southern China	2.0	2.3%	0.2%	2.4	2.2%	0.2%	3.0	2.4%	0.3%

Source: PICO

Note:

1. The ranking is derived from the internal database of PICO established with reference to interview with various companies, the Statistical Analysis Report of the Pharmaceutical Circulation Industry (藥品流通行業運行統計分析報告), annual reports and short-term financing bond prospectuses of listed companies and interviews with industry expert and personnel in the pharmaceutical industry. Sales revenue only refers to the sales revenue from distribution business of enterprises, excluding sales income from pharmaceutical manufacturing, retail and other businesses. As Company B, D and H do not have any unified distribution platform in Southern China, their rankings are under the names of their groups and their sales revenue data are the sales revenue of their groups from distribution in Southern China.

2. Company E is a sino-foreign venture with 50% of its equity interest held by a state-owned enterprise.

3. Since Company F and the Company are based in Southern China and having Southern China as their principal business operating district, and the sales revenue from other districts do not have material impact to their results of operation, PICO deemed their total sales revenue from distribution business in the PRC as their sales revenue from distribution business in Southern China.

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

PRC LAWS AND REGULATIONS ON THE PHARMACEUTICAL INDUSTRY

Regulatory Framework

Our business operations are subject to laws governing pharmaceutical products, medical devices, health food and pharmaceutical logistics. Thus we are subject to regulation and supervision by various food and pharmaceutical administrations in the PRC. The Pharmaceutical Administration Law of the People's Republic of China (中華人民共和國藥品管理法), which was promulgated by the SCNPC (全國人民代表大會常務委員會) on 20 September 1984, as amended on 28 February 2001, 28 December 2013 and 24 April 2015, together with its implementation regulations, which were promulgated on 4 August 2002 and came into effect on 15 September 2002, provides the legal framework for the administration of the production and sale of pharmaceutical products in the PRC which covers the manufacturing, distributing, registration, packaging, pricing and advertising of pharmaceutical products in the PRC. On 24 April 2015, the newly amended Pharmaceutical Administration Law of the People's Republic of China (中華人民共和國藥品管理法) was passed by the SCNPC (全國人民代表大會常務委員會) and took effect on the day of promulgation. The main amendments include: (1) the stipulation that one shall hold a Pharmaceutical Manufacturing Permit or a Pharmaceutical Operation Permit for the registration with the local administration of SAIC was deleted. Obtaining a Pharmaceutical Manufacturing Permit or a Pharmaceutical Operation Permit is no longer a precondition for the registration with the local administration of SAIC. Therefore, the original Article 100 was deleted to be consistent with the 2015 revision, (2) the original Article 55 which stipulated, among others, that for drugs the prices of which are fixed or guided by the government, the competent pricing department of the government shall, in accordance with the pricing principle stipulated in the Pricing Law of the People's Republic of China and base on average social cost, supply and demand in the market, and public affordability, rationally fix and adjust the prices, was deleted, thus the government has decided to stop directly fixing and guiding most of the drug's prices, and (3) while the government no longer directly fixes or guides most of the drugs' prices, the prices of drugs shall still comply with the regulations concerning the control on prices of drugs prescribed by the competent authority under the State Council.

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

Pursuant to such circulars, since 1 June 2015, except that the prices of narcotic drugs and psychotropic drugs in category I will still be governed through fixing the ex-factory ceiling price and retail ceiling price, government pricing of other drugs will be cancelled. The medical insurance department and relevant departments shall jointly draw up the procedures, basis and methods and other rules for formulating the payment standard for the medicine under medical insurance, explore and establish the mechanism to guide the reasonable price formation for the medicine paid by the medical insurance department. The pricing of patent drugs and exclusively produced drugs will be determined through multi-party negotiation. The pricing of blood products outside the medical insurance catalogue, preventive drugs collectively purchased by the government, and free anti-HIV drugs and contraceptive pills will be determined through bidding and procurement or negotiation. The pricing of other drugs will be determined by the manufacturers independently. The government will also supervise drug pricing by improving the drug procurement mechanism, strengthening the cost control function of medical insurance system, and strengthening the supervision of medical behaviours and pricing behaviours, to establish a market-oriented drug price formulating mechanism.

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

Principal Administrative Authorities

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

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

The MOFCOM of the PRC is the competent authority of the circulation industry, including but not limited to the pharmaceutical distribution industry in China. It is responsible for: formulating plans, policies and standards concerning the development of the pharmaceutical distribution industry; enhancing the structure readjustment of the pharmaceutical distribution industry; guiding the reform of pharmaceutical distribution industry; and promoting the development of a modern pharmaceutical distribution industry in China.

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

Industrial Policy

The Provisions on Guiding Foreign Investment (指導外商投資方向規定) was promulgated by the State Council on 11 February 2002 and became effective on 1 April 2002. Pursuant to the Provisions on Guiding Foreign Investment, foreign investment projects fall into four categories: encouraged, permitted, restricted and prohibited projects. Except for the permitted category, the encouraged, restricted and prohibited categories are listed in the Guidance Catalogue of Industries for Foreign Investment (外商投資產業指導目錄) (the "Catalogue"), which was promulgated by the NDRC and the MOFCOM on 10 March 2015 and became effective on 10 April 2015. According to the Catalogue, logistics such as low-temperature delivery of pharmaceutical products and relevant technical services belong to investment projects under the encouraged category, while operation and distribution of pharmaceutical products, medical devices and health food belong to projects under the permitted category.

Distribution of Pharmaceutical Products

Pharmaceutical Operation Permits and Approvals

Pursuant to the Pharmaceutical Administration Law of the People's Republic of China (中華人民共和國藥品管理法), enterprise engaging in pharmaceutical business is required to obtain a Pharmaceutical Operation Permit and a GSP certification.

Pharmaceutical Operation Permits

The establishment of a pharmaceutical wholesale enterprise requires the approval of the food and drug administration at the provincial level where the enterprise is located. The establishment of a pharmaceutical retail enterprise requires the approval of the local food and drug administration above the county level where the enterprise is located. Upon approval, the relevant authority will grant a Pharmaceutical Operation Permit. The grant of such permit is subject to an inspection of the operator's facilities, warehouse and environment, quality control systems and personnel. After the relevant permit is granted, the enterprise may commence its business.

According to the Measures for the Administration of Pharmaceutical Operation Permit (藥品經營許可證管理辦法), which became effective on 1 April 2004, the Pharmaceutical Operation Permit is valid for five years. Pharmaceutical Operation Permit holder shall apply to the permit issuing authority for renewal of the Pharmaceutical Operation Permit within six months prior to its expiration. The permit issuing authority examines the application in accordance with relevant application requirement. For eligible application, the authority collects the original permit and issues a new permit. For ineligible application, rectification may be made within three months. If the application remains ineligible after rectification, the original Pharmaceutical Operation Permit shall be cancelled.

Good Supply Practices ("GSP")

Enterprises engaging in operation of pharmaceutical products are required to operate their pharmaceutical product business in accordance with the GSP which was amended on 18 May 2015 and became effective on 25 June 2015, and obtain the GSP certificate after inspection by competent pharmaceutical supervision authority. GSP standards provide a set of quality guidelines for operations relating to pharmaceutical products, in order to regulate pharmaceutical product wholesale and retail operators and ensure the quality of pharmaceutical products. Currently, applicable GSP standards include the Implementing Rules of GSP (藥品經營質量管理規範實施細則) which was effective on 16 November 2000 and the Administrative Measures for Certification of GSP (藥品經營質量管理規範認證管理辦法) which was effective on 24 April 2003, which require enterprises engaging in pharmaceutical business shall implement strict controls on the pharmaceutical business, including standards regarding staff qualifications, premises, warehouses, inspection equipment and facilities, management and quality control.

Pursuant to the Provisional Administrative Measures on Certification of GSP of Guangdong Province (廣東省藥品經營質量管理規範(GSP)認證管理辦法(試行)) which became effective on 1 March 2003, Guangdong FDA authorises municipal drug administrations in designated districts ("municipal drug administration authority") to conduct preliminary examination on application for certification of GSP of local enterprises engaging in pharmaceutical business. The GSP certificate is valid for five years. For enterprises requiring recertification upon the expiration of certificate, holders shall apply for re-certification within three months prior to the expiration.

Pursuant to the Notice on Implementation of the Revised GSP (關於貫徹實施新修訂《藥品經營質量管理規範》的通知) promulgated by the CFDA on 24 June 2013, if the Pharmaceutical Operation Permit or the GSP certificate is expired, the local food and drug administration authority shall inspect the retail or wholesale enterprises based on the revised GSP standards. If such enterprises fulfil the requirements, the local food and drug administration authority will issue Pharmaceutical Operation Permit and the GSP certificate. Before 31 December 2015, all enterprises engaging in pharmaceutical business shall fulfil the requirements of revised GSP standards, regardless of their Pharmaceutical Operation Permit or the GSP certificate has expired or not. With effective from 1 January 2016, retail or wholesale enterprises of pharmaceutical products who fail to fulfil revised GSP standards are not allowed to engage in pharmaceutical business.

Supervision and Management of Drug Distribution

To strengthen drug supervision and management, and maintain orderly circulation and quality, the SFDA promulgated the Measures on Supervision and Administration of Drug Distribution (藥品流通監督管理辦法) on 31 January 2007, which became effective on 1 May 2007. Detailed provisions are imposed on purchase, sale, transportation and storage of medicines by pharmaceutical manufacturers as well as the purchase and storage of medicines by medical institutions.

Pursuant to the GSP, for drugs under electronic supervision, enterprises shall scan the drug electronic supervision codes as required and upload the data to the drug electronic supervision network system platform of the PRC in a timely manner. According to the Notice on Relevant Matters of Full Implementation of Electronic Monitoring of Drugs on Pharmaceutical Manufacturers (2015 No.1) (關於藥品生產經營企業全面實施藥品電子監管有關事宜的公告(2015年第1號)) issued by the CFDA on 4 January 2015, before 31 December 2015, all pharmaceutical wholesale and retail enterprises shall complete online registration procedures strictly in accordance with the revised GSP, and scan all codes of their drugs with codes for timely registration, verification and information upload in order to ensure the completeness and accuracy of the information, and duly handle warning information in the drug electronic supervision system.

The Drug Distribution in Rural Area

Notice on Strengthening Drugs Supervision and Encouraging the Establishment of Supply Network Pilot Programme of Drug in Rural Area (關於開展加強農村藥品監督促進農村藥品供應網絡建設試點工作的通知) and the Guiding Opinions on Full Implementation of Strengthening Drugs Supervision and Encouraging the Establishment of Supply Network of Drugs in Rural Area (關於全面開展加強農村藥品監督網絡建設促進農村藥品供應網絡建設工作的指導意見), promulgated by the SFDA in June 2003 and 5 March 2004 respectively, clearly specify the guiding opinions on the strengthening supervision on drugs and encouraging the establishment of supply network of drugs (the "two nets" construction) in rural area, objectives of pilot programme and selection of some areas of the pilot programme.

Pursuant to the Outline for Development Programme of National Pharmaceutical Circulation Industry (2011–2015) (全國藥品流通行業發展規劃綱要) promulgated by the MOFCOM on 5 May 2011, the MOFCOM encourages pharmaceutical distributors to actively participate in drug bidding and procurement and improve drug distribution. It also encourage medium to large key pharmaceutical distributors to extend their sales and distribution networks to residential communities and rural areas in order to cover grassroots for pharmaceutical distribution and improve the safety and convenience of drug supply in rural and remote areas.

Internet Pharmaceutical Information Service Certificate

The Administration Measures on Pharmaceutical Information Service on the Internet (互聯網藥品信息服務管理辦法), promulgated by the SFDA on 8 July 2004 and became effective on the same date, define the provision of operational and non-operational online medicine information services on the internet. According to the Notice on Relevant Issues Concerning Implementation of the Administration Measures on Pharmaceutical Information Service on the Internet (關於貫徹執行(互聯網藥品信息服務管理辦法)有關問題的通知) promulgated by the SFDA on 12 July 2004 and became effective on the same date, the administration of provision of information of drugs on the Internet shall follow local administrative principles. Provincial, autonomous and municipal food and drug administration authority, are responsible for the acceptance and review of application for provision of operational and non-operational online pharmaceutical information services in their respective administrative regions.

Internet Medicine Dealership Certificate (互聯網藥品交易服務資格證書)

In accordance with the Interim Regulations for the Examination and Approved of Internet-based Pharmaceutical Trading Services (《互聯網藥品交易服務審批暫行規定》) promulgated on 1 December 2005 by China Food and Drug Administration, online drug trading refers to electronic business activities that provide pharmaceutical (including medical devices, drug immediate packaging materials and containers) trading services through the Internet. Enterprises engaged in internet medicine dealership shall be subject to inspection and shall obtain the certificate to carry out internet medicine dealing. Enterprises providing service for online drug trading between pharmaceutical manufacturers, distributors and medical institutions are subject to the inspection of CFDA. Pharmaceutical manufacturers and wholesalers who carry out online drug trading through their websites with enterprises other than their company members in the administrative region and enterprises providing online drug trading services to consumers are subject to the inspection of the provincial, autonomous and municipal drug administration authorities. The Certificate of Internet-based Pharmaceutical Trading Service Organisation is issued by CFDA and valid for five years.

Prescription Medicine and Over-the-Counter Medicine

In order to promote safe, efficient and convenient use of pharmaceutical products, CFDA promulgated the Provisional Administrative Measures on the Classification of Prescription Medicines and OTC Medicines (處方藥與非處方藥分類管理辦法(試行)) on 18 June 1999, which became effective on 1 January 2000. Pursuant to the Provisional Administrative Measures on the Classification of Prescription Medicines and Over-the-Counter Medicines, drugs could be divided into two categories, prescription medicines and over-the-counter medicines, based on their type, specification, the relevant disease or ailment which they are designed to treat, dosage and method of administration. Prescription medicines refer to those whose prescription, purchase and intake require prescription by practising doctors or assistant doctors. Over-the-counter medicines refer to those whose purchase and intake do not require prescription by practising doctors or assistant doctors. The CFDA is responsible for the selection, approval, publication and revision of the State OTC Medicine Catalogue (國家非處方藥目錄). Over-the-counter medicines are further subdivided into type A and type B based on the safety of the relevant drugs and are administered separately. Wholesalers of prescription medicines and over-the-counter medicines and retailers selling prescription medicines and type A over-the-counter medicines are required to obtain a pharmaceutical operation permit. Retailers selling type B over-the-counter medicines are subject to the approval of the provincial food and drug administration authority or its authorised drug administration authorities.

Narcotic Drugs and Psychotropic Drugs

China regulates the distribution of narcotic drugs and psychotropic drugs pursuant to the Regulations for the Control of Narcotic Drugs and Psychotropic Drugs (麻醉藥品和精神藥品管理條例), which were revised and became effective on 1 November 2005 and 7 December 2013, respectively. In China, psychotropic drugs are classified into two different categories, category I and category II, with category I being subject to the highest level of regulation. Under these regulations, an enterprise engaged in the wholesale of narcotic drugs and category I psychotropic drugs in the administrative areas of its province, autonomous region and municipality (i.e. a regional wholesale enterprise), shall obtain the approval from the drug administration authorities of the local government of the province, autonomous region and municipality of the place where it is located. An enterprise primarily engaged in the wholesale of category II psychotropic drugs shall obtain the prior approval of the provincial food and drug administration. National wholesale enterprises and regional wholesale enterprises may engage in the wholesale of category II psychotropic drugs.

According to the Rules on Collective Procurement of Pharmaceutical Products by Medical Institutions (醫療機構藥品集中採購工作規範)(Wei Gui Cai Fa [2010] No. 64) jointly promulgated by seven authorities including the MOH, State Council Working Style Rectification Office (國務院糾正行業不正之風辦公室) and China Food and Drug Administration on 7 July 2010, non-profit medical institutions organised by governments of county-level or above or state-owned enterprises (including state-controlled enterprises) shall participate in the collective procurement of pharmaceutical products. Medical institutions and enterprises engaged in the manufacturing and operation of pharmaceutical products shall procure through the platform of collective procurement of non-profit pharmaceutical products established by provincial and municipal governments for standardised supervision on a single platform through a single organisation; Pharmaceutical manufacturers shall submit tender directly through the collective procurement; Qualified pharmaceutical products can be directly distributed by manufacturers or through pharmaceutical operation enterprises.

When selecting drug distributors, manufacturers shall take into account of the distribution capabilities and performance and recognition by medical institutions regarding the quality and reputation of such drugs distributors. Narcotic drugs and category I psychotropic drugs under special administration of the Chinese government are not included in the catalogue of collective procurement of pharmaceutical products. Pharmaceutical products including category II psychotropic drugs, radioactive pharmaceuticals, medicinal toxic drugs, raw material pharmaceuticals, Chinese medicines and Chinese medicine pellets are not included in the catalogue of collective procurement of pharmaceutical products.

National List of Essential Drugs

On 13 February 2015, the National Health and Family Planning Commission and other eight ministries and commissions in the PRC issued the Provisional Measures on the Administration of National List of Essential Drugs (國家基本藥物目錄管理辦法), or the Measures, that aim to consolidate and refine the essential drug system as well as to establish a sound selection and adjustment system of the national list of essential drugs.

Operation of Medical Devices

In accordance with the Regulations on the Supervision and Administration of Medical Devices (醫療器械監督管理條例) revised on 7 March 2014 and became effective on 1 June 2014, medical devices are classified into three classes: Class I medical devices with low risk refer to those whose safety and effectiveness can be ensured through routine administration; Class II medical devices with intermediate risk refer to those whose safety and effectiveness shall be strictly controlled and supervised; Class III medical devices with high risk refer to those whose safety and effectiveness shall be strictly controlled and supervised through special measures.

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

Medical Device Operation Permit

Pursuant to the Regulations on the Supervision and Administration of Medical Devices (醫療器械監督管理條例) which became effective on 1 June 2014 and the Measures on the Supervision and Administration of Medical Devices Operation (醫療器械經營監督管理辦法) which became effective on 1 October 2014, in accordance with the risk level of medical devices, categorised administration of medical device operation has been implemented. No permit or filing is required for Class I medical devices. Filing is required for Class II medical devices whereas permit is required for Class III medical devices. An enterprise engaged in wholesale or retail of Class III medical devices shall obtain an operation permit from the local municipal food and drug administration whereas an enterprise engaged in wholesale or retail of Class II medical devices shall file with the local municipal food and drug administration and obtain a filing certificate for medical device operation. An operation permit is valid for five years and is renewable upon 6 months prior to expiration.

Medical Device Operation Quality Management Rules

In order to strengthen the quality management of medical device operation, regulate the management of medical device operation and ensure safe public use of medical devices, the CFDA issued the Medical Device Operation Quality Management Rules (醫療器械經營質量管理規範) in accordance with relevant regulations and rules on 12 December 2014, specifying that medical devices operators shall take effective quality control measures for procurement, inspection and acceptance, storage, sales, transportation, after-sales services and other steps to ensure safety of products throughout operation.

Distribution of Health Food and Food

Pursuant to the Administrative Measures on Health Food (保健食品管理辦法) promulgated by the MOH on 15 March 1996 and became effective on 1 June 1996, a seller of health food products shall obtain from its suppliers a hygiene permit or food hygiene permit which includes the Health Food Approval Certificate (保健食品批准證書) in the permitted business scope from the health administrative department.

The Food Safety Law of the PRC (中華人民共和國食品安全法) was promulgated by SCNPC on 28 February 2009, and the Regulations on the Implementation of the Food Safety Law of the People's Republic of China (中華人民共和國食品安全法實施條例) was promulgated by the State Council on 20 July 2009. The Food Safety Law of the People's Republic of China (中華人民共和國食品安全法) was amended by the SCNPC on 24 April, 2015 and took effect on 1 October 2015. To implement the new Food Safety Law, the SAIC promulgated the Order No. 79 of the State Administration for Industry & Commerce (國家工商總局令第79號) on 10 November 2015 to abolish the Measures for the Supervision and Administration of Food Safety in the Circulation Links (流通環節食品安全監督管理辦法) and Measures for the Administration of Food Circulation Permits (食品流通許可證管理辦法). The Food Safety Law of the People's Republic of China (中華人民共和國食品安全法) was amended by the SCNPC on 24 April, 2015 and took effect on 1 October 2015.

Third-party Modern Drug Logistics

Pursuant to the Opinion on Strengthening the Supervision and Administration of Drug and Promoting the Development of Modern Logistics for Drugs (Guo Shi Yao Jian Shi [2005] No. 160) (關於加強藥品監督管理促進藥品現代物流發展的意見(國食藥監市[2005]160號)) promulgated by CFDA on 19 April 2005, enterprises with modern logistics infrastructure and technologies are allowed to provide third-party logistics service to licensed pharmaceutical enterprises. Third-party modern drug logistics enterprises shall set up storage facilities in various regions and provide cross-region (districts and provinces) pharmaceutical storage and delivery services. The requirements for storage and delivery shall exceed the relevant requirements of the Provisional Standard for the Establishment of Wholesale Pharmaceutical Distribution Enterprises (開辦藥品批發企業驗收實施標準 (試行)).

National Medical Insurance Programme

Basic Medical Insurance System for Urban Employees

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

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

- it is set forth in the Pharmacopoeia (the prevailing version) of the PRC;
- it meets standards promulgated by CFDA; or
- it is approved by CFDA for import.

The National Basic Medical Insurance Drugs, Work-Related Injury Insurance Drugs and Maternity Insurance Drugs Catalogue

The National Basic Medical Insurance Drugs, Work-Related Injury Insurance Drugs and Maternity Insurance Drugs Catalogue (國家基本醫療保險、工傷保險和生育保險藥品目錄) was promulgated on 27 November, 2009 and was amended for several times by the Ministry of Human Resources and Social Security, which sets forth the payment standard for pharmaceuticals under the basic medical insurance, work-related injury insurance and maternity insurance funds. The drugs contained in the catalogue are divided into three categories, namely Western medicine, Chinese pharmaceutical products and Chinese herb pieces. Western medicine and Chinese pharmaceutical products are included in the payment scope of the funds. Basic medical insurance has different payment coverage for type A drugs and type B drugs, while work-related injury insurance and maternity insurance have no payment coverage differentiation for type A drugs and type B drugs. (For prices of type A drugs, coordinate regions shall fully pay in accordance with the provisions of the basic medical insurance and shall not set proportions to be paid by individuals. For type B drugs, certain percentages of the prices to be responsible by the individuals may be set according to the capacity of the fund, then payment will be made based on the provisions of the basic medical insurance.) Part of Chinese herb pieces are excluded from the payment scope of the funds. The specific payment standard for the payments incurred by insurance participants using the Western medicine and Chinese pharmaceutical products in the catalogue and Chinese herb pieces outside the catalogue shall be made in accordance with relevant requirements under the basic medical insurance, work-related injury insurance and maternity insurance.

Medical Subsidy to Residents in Rural Areas

According to the Notice on New Rural Cooperative Medical System for 2015 (關於做好2015年新型農村合作醫療工作的通知) promulgated by the NHFPC and the Ministry of Finance on 23 January 2015, subsidy from competent finance authorities to new rural cooperative medical system has increased by RMB60 from 2014 to RMB380 per person. The existing subsidy of RMB120 from the central government remains unchanged. For the remaining RMB260, the central government provides subsidy on a proportion of 80% and 60% to the western region and central region, respectively, and subsidy to different provinces in the eastern region shall be provided based on a specific percentage. Contribution from agricultural individuals has increased by RMB30 from 2014 and the national individual contribution amounts to around RMB120 per person a year. The difference between fundraising ability of medical systems in urban and rural areas has been narrowed gradually by proactively exploring and establishing fundraising mechanism in line with economic development and income level of agricultural households.

Pharmaceutical Price Controls

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

Pursuant to the Opinion of the State Planning Commission regarding Reforms on Price Administration of Pharmaceutical Products (國家計委關於改革藥品價格管理的意見) issued by the State Planning Commission, the predecessor of the NDRC, on 20 July 2000, and the Circular of the National Development and Reform Commission on Issue of Price-controlled Pharmaceutical Products Catalogue of National Development and Reform Commission (國家發展改革委員會關於印發《國家發展改革委定價藥品目錄》的通知), which became effective on 1 August 2005, prices of pharmaceutical products are either determined by the PRC government or based on market conditions. On 5 March, 2010, the NDRC issued the Circular of the National Development and Reform Commission on Adjustment of Price-controlled Pharmaceutical Products Catalogue of National Development and Reform Commission and Other Relevant Issues (國家發展改革委關於調整《國家發展改革委定價藥品目錄》等有關問題的通知), to amend the Price-controlled Pharmaceutical Products Catalogue issued in 2005. NDRC issued the Notice on the Guiding Retail Price of National Essential Drugs (國家發展改革委關於公佈國家基本藥物零售指導價格的通知) (which became invalid) on 28 September 2009, which set ceiling prices for the National Essential Drugs. The prices of certain pharmaceutical products sold in the PRC (which are primarily included in the National Basic Medical Insurance Drugs Catalogues and the Provincial Medical Insurance Drugs Catalogue, Work-Related Injury Insurance Drugs and Maternity Insurance Drugs Catalogue) are subject to price controls mainly in the form of fixed price or price ceiling. Actual price of any designated price-controlled product set by operators shall not exceed the price ceiling or deviate from the fixed price imposed by the government. The prices of medicines that are not subject to price controls may be set freely at the discretion of the relevant pharmaceutical companies.

Fixed prices and price ceilings on medicines are determined based on profit margins that the relevant government authorities consider as reasonable, the type and quality of the medicine, average production costs, and the prices of substitute medicines. The NDRC directly regulates the price of a portion of the medicines on the list, and authorises the provincial and regional price control authorities to regulate the pricing of the rest of the medicines on the National List of Essential Drugs. Further, pursuant to the Notice Regarding Further Improvement of the Order of Market Price of Pharmaceutical Products and Medical Services (關於進一步整頓藥品和醫療服務市場價格秩序的意見) jointly issued by the NDRC, the State Council Legislative Affairs Office and the State Council Office for Rectifying, the MOH, the CFDA, the Ministry of Commerce, the Ministry of Finance and the Ministry of Labour and Social Security (勞動和社會保障部) on 19 May 2006, the PRC government exercises price control over pharmaceutical products included in the National Basic Medical Insurance Drugs Catalogues and Provincial Medical Insurance Drugs Catalogues, and made an overall adjustment of their price of certain underpriced pharmaceutical products which were in demand for clinical use but were not produced in large quantities by manufacturers due to their low retail price levels. In particular, the retail price charged by hospitals at the county level or above cannot exceed 115% of the procurement cost of the relevant pharmaceutical products or 125% for certain traditional Chinese medicine products.

On 9 November 2009, the NDRC, the MOH and the Ministry of Human Resources and Social Security of the PRC (中華人民共和國人力資源和社會保障部) jointly promulgated the Notice on Issuing Opinions on Reforming the Price Formation System of Medicine and Medical Services (關於印發改革藥品和醫療服務價格形成機制的意見的通知). According to this notice, in addition to drugs included in the National Basic Medical Insurance Drugs Catalogues, Provincial Medical Insurance Drugs Catalogues and certain drugs whose production or trading tends to create monopolies, drugs listed in the National List of Essential Drugs are subject to PRC government price control. The prices of all other drugs are determined by the market.

On 28 February 2015, the General Office of the State Council issued the "Guiding Opinions of General Office of the State Council on Enhancing Centralised Procurement of Pharmaceutical Products by Public Hospitals" (國務院辦公廳關於完善公立醫院藥品集中採購工作的指導意見) (the "Guiding Opinions") to express guiding opinions in enhancing the public hospitals centralised procurement work, and all drugs (except for decoction pieces) used by the hospitals, shall be procured through provincial centralised drug procurement platform.

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

On 4 May 2015, the NDRC, the NHFPC, the Ministry of Human Resources and Social Security of People's Public of China, the Ministry of Industry and Information Technology of People's Public of China, the Ministry of Finance of People's Public of China, the MOFCOM and the CFDA, jointly promulgated the Circular on Issuing the Opinions on Promoting Drug Price Reform (關於印發推進藥品價格改革意見的通知). Meanwhile, the NDRC issued the Circular on Announcing the Abolishment of Drug Price Files (關於公佈廢止藥品價格文件的通知).

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

NDRC further implemented the Circular on Strengthening the Supervision of the Medicine Market Price Behaviour (關於加強藥品市場價格行為監管的通知) on 4 May 2015 which require the pricing departments at all levels have to commence forthwith a six-month special inspection on pricing of pharmaceutical products and the inspection objects are pharmaceutical manufacturing enterprises, medical institutions, the Centres for Disease Control and Prevention (疾病預防控制中心), blood banks, centralised drug procurement platform, etc. The focus of inspection shall be the pricing of non-competitive drugs and specialty drugs for patients with special needs, and the content of inspection is to check whether the above-mentioned entities have engaged in illegal acts in disrupting the market price during the drugs pricing reform.

Furthermore, any previous policies or provisions related to the administration of drug prices that is not in line with the Circular on Issuing the Opinions on Promoting the Drug Pricing Reform shall be abolished.

Restrictions on Advertising of Pharmaceutical Products

Pursuant to the Advertisement Law of the People's Republic of China (中華人民共和國廣告法), which was promulgated by the SCNPC on 27 October 1994 and which became effective on 1 February 1995 (the Advertisement Law of the PRC was amended at the 14th Session of the Standing Committee of the 12th National People's Congress on 24 April 2015 and the new amendment to the Advertising Law of the PRC took effect on 1 September 2015), an advertisement of medicines or medical devices shall not in any way contain the following contents:

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

The contents of an advertisement for a medicine shall take as standards the specifications approved by the provincial public health administrative department or above and advertisement of therapeutic drugs that are required by laws to be used under the guidance of a physician shall specify "To be purchased and used with prescription of a physician". If advertisements which are subject to examination according to the Advertisement Law of the People's Republic of China before issuance are published without approval by the advertisement examination organ, the administration of industrial and commercial can order the advertisement publishers to stop publications, eradicate the impact in relevant scope and may be imposed a fine ranging from the amount equal to the advertising income to three times of the amount of the advertising income.

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

Anti-bribery

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

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

OTHER RELEVANT PRC LAWS AND REGULATIONS

Contract Law

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

Product Liability and Protection of Consumers

Product liability claims may arise if the products sold have any harmful effect on consumers. The injured party may claim for damages or compensation. The General Principles of the Civil Law of the People's Republic of China (中華人民共和國民法通則), which became effective on 1 January, 1987 and amended on 27 August 2009, states that sellers of defective products causing property damage or personal injury shall bear civil liabilities.

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

The Law on the Protection of the Rights and Interests of Consumers of the People's Republic of China (中華人民共和國消費者權益保護法), which was promulgated on 31 October 1993 and amended on 25 October 2013, protects consumers' rights when they purchase or use goods and accept services. All operators shall comply with the law when they sell goods and/or provide services to customers. If operators are aware of any defects in their products or services which may cause injuries and property damages, they shall immediately report to relevant regulatory authorities and inform their consumers, suspend the sale, issue warnings, recall the products, and destroy them. Consumers whose legitimate interests are infringed upon in their purchasing or using commodities may demand compensation from the sellers concerned. In case the liability is on the manufacturers or other sellers who supply the commodities to the said sellers, the said sellers shall, after paying the compensations, have the right to recover the compensations from the manufacturers or the other sellers.

Drug Recalls

On 10 December 2007, SFDA issued the Administrative Measures on Drug Recalls (藥品召回管理辦法) for the purpose of strengthening supervision over drug safety and safeguarding consumers' drug use safety. Pursuant to the measures, pharmaceutical manufacturers are responsible for recalling their products that have "hidden safety problem" from the market. The "hidden safety problem" is defined as an unreasonable risk to endanger human health and life that may be caused by the drugs due to reasons in research and development or production. The recalls may be conducted on a pharmaceutical manufacturer's own initiative or at the request by SFDA or its local branches at the provincial level. Under the measures, pharmaceutical distributors mainly have the following obligations in respect of drug recalls: (i) to assist pharmaceutical manufacturers to carry out the recalls, make communications and provide feedbacks in respect of the recalls in a timely manner in accordance with the recall plans, and control and take over the returned products; (ii) when discovering any "hidden safety problems" in the drugs distributed by them, to immediately cease the distribution of the relevant drugs, and report to the manufacturers or suppliers as well as SFDA or its local branches; and (iii) to cooperate with pharmaceutical manufacturers or SFDA or its local branches in their investigations on the "hidden safety problems" of the relevant drugs and provide relevant documents.

PRC Laws and Regulations on Tax

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

EIT

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

VAT

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

Business Tax

Pursuant to the Interim Regulation on Business Tax of the People's Republic of China (中華人民共和國營業稅暫行條例) promulgated by the State Council on 13 December 1993 and amended on 10 November 2008, and its implementation rules, any entity or individual engaged in the taxable services, transferring intangible assets, or selling real estate within PRC is generally required to pay Business Tax on the business turnover. The items and rates of business tax shall be implemented in accordance with the List of Items and Rates of Business Tax (營業稅稅目稅率表) attached to the regulation.

Provisions Relating To Foreign Exchange Administration

Pursuant to the Foreign Currency Administration Rules of the People's Republic of China (中華人民共和國外匯管理條例) promulgated by the State Council on 29 January 1996 and amended on 5 August 2008 and various regulations issued by the SAFE and other PRC regulatory agencies, Renminbi is freely convertible only to the extent of current account items, including the distribution of dividends, interest payments, trade and service-related foreign exchange transactions. Capital account items, such as direct equity investment, loans and repatriation of investment, require the prior approval from or registration with the SAFE or its local branch for conversion of Renminbi into a foreign currency, and remittance of the foreign currency outside the PRC.

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

(1) cancelling two administrative approval items, namely, registration and verification of foreign exchange under domestic and overseas direct investment. Banks shall, in accordance with this Circular and the Operating Guidelines for Foreign Exchange Transactions for Direct Investment (直接投資外匯業務操作指引), directly verify and handle the registration of foreign exchange under domestic and overseas direct investment while the SAFE and its branches (collectively referred to as the foreign exchange authorities) shall conduct indirect regulation over registration of foreign exchange for direct investment through banks.

(2) simplifying procedures for some transactions of foreign exchange for direct investment, mainly including, (i) simplifying registration management for confirmation of capital contribution by a foreign investor under domestic direct investment; (ii) cancelling filing of for overseas reinvestment; and (iii) cancelling annual check of foreign exchange for direct investment and replacing it with registration for accumulated equity.

Patent Law

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

The patent prosecution system in China is different in many ways from that in other countries. The patent system in China uses the "first to file" principle. In addition, China requires absolute novelty for an invention to be patentable. Therefore, in general, a patent will not be automatically granted to items publicly known in or outside of China.

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

Trademark Law

Both the Trademark Law of the People's Republic of China (中華人民共和國商標法) promulgated by the SCNPC on 23 August 1982 and amended on 22 February 1993, 27 October 2001 and 30 August 2013, and the Regulation on Implementation of Trademark Law of the People's Republic of China (中華人民共和國商標法實施條例) promulgated by the State Council on 3 August 2002 and amended on 29 April 2014, protects the holders of registered trademarks. In the PRC, registered trademarks include commodity trademarks, service trademarks, collective marks and certificate marks.

Logistics Operation

In accordance with the Regulations on Road Transport in the People's Republic of China (中華人民共和國道路運輸條例), which became effective on 1 July 2004 and was amended on 9 November 2012, any enterprise engaged in the business of transporting goods shall obtain a road transport business licence from the road transport administration authority at the county level or above. In accordance with the Regulation on Road Transport in Guangdong Province (廣東省道路運輸條例) promulgated by the Standing Committee of the Guangdong Provincial People's Congress on 21 November 2013, which became effective on 1 May 2014, the use of own vehicle as ordinary cargo transport of our production unit or service in the administrative areas of such province, including the transport of raw materials required for our production unit, semi-products, finished products and goods for sales and the use of tractors for transport of agricultural capital goods, agricultural products and rural daily commodities are not subject to the supervision on road transport of commodity industry.

Labour Protection

Pursuant to the Labour Law of the People's Republic of China (中華人民共和國勞動法) which was promulgated on 5 July 1994 and amended on 27 August, 2009, employers shall establish a comprehensive management system to protect the rights of their employees, including a system governing occupational health and safety and providing employees with occupational training to prevent occupational injury.

The Employment Contract Law of the People's Republic of China (中華人民共和國勞動合同法) was promulgated by the SCNPC on 29 June 2007 and became effective on 1 January, 2008, as amended on December 28, 2012 and came into effect on 1 July 2013, and the Implementing Rules of The Employment Contract Law of the People's Republic of China (中華人民共和國勞動合同法實施條例) was promulgated by the State Council and became effective on 18 September 2008. The aforesaid laws and its implementing rules regulate the employment relationships between employers and employees, and the exclusion, performance, termination of, and the amendment to, employment contracts. To establish an employment relationship, a written employment contract shall be signed. In the event that no written employment contract was signed at the time of establishment of an employment relationship, a written employment contract shall be signed within one month after the date on which the employer first engages the employee.

Under applicable laws, rules and regulations of the PRC, including the Social Insurance Law of the People's Republic of China (中華人民共和國社會保險法), promulgated by the SCNPC on 28 October 2010, which became effective on 1 July 2011, the Provisional Regulations on the Collection and Payment of Social Security Funds (社會保險費征繳暫行條例) promulgated by the State Council and which became effective on 22 January 1999, the Provisional Measures concerning the Maternity Insurance (企業職工生育保險試行辦法) promulgated by the Ministry of Labour on 14 December 1994 and which became effective on 1 January 1995, the Regulations on Occupational Injury Insurance (工傷保險條例) promulgated by the State Council on 27 April 2003 and which became effective on 1 January 2004 and were amended on 20 December, 2010, the Regulations on Unemployment Insurance (失業保險條例) promulgated by the State Council and which became effective on 22 January 1999, and the Regulations on the Administration of Housing Accumulation Funds (住房公積金管理條例) promulgated by the State Council and which became effective on 3 April 1999, and were amended on 24 March 2002, employers are required to contribute, on behalf of their employees, to social security funds, including funds for basic pension insurance, unemployment insurance, basic medical insurance, occupational injury insurance, maternity insurance, and to housing accumulation funds. Any employer fails to contribute on time may be fined and ordered to make up the deficit and pay a late fee within a stipulated time limit.

OUR HISTORY

The history of our principal business of pharmaceutical distribution can be traced back to March 2000 when our Company was converted from an enterprise owned by the whole people (全民所有制企業) into a limited liability company and Mr. Yao was appointed as our executive Director and legal representative. In 2000, our Company was principally engaged in the sales of pharmaceutical products in Shantou. In November 2002, Mr. Yao directly invested in our Company and has become our Controlling Shareholder since then. In 2006, we set up distribution stations in other districts of Shantou (including Chaonan and Chenghai) which expanded our market position for distribution of pharmaceutical products in the Eastern Guangdong. As our Company continued to develop, in 2009 we set up our pharmaceutical logistic centre in Shantou to centralise our resources and expand our distribution capacity. In 2011, with our business strategy to expand our market penetration in Southern China, we set up Foshan Chuangmei in Foshan, Guangdong Province, and our second pharmaceutical logistic centre was established in Foshan in 2012 to expand our market in Southern China.

On 28 May 2015, our Company was converted from a limited liability company to a joint stock company with limited liability with a registered capital of RMB80.0 million.

IMPORTANT BUSINESS MILESTONES

The following table sets forth our major business development milestones and achievements:

Year	**Event**
2000	Our Company was engaged in sales of pharmaceutical products in Shantou.
2004–2014	Awarded Grade A Taxpayer (A級納稅人) by Shantou Manicipal Office, SAT (汕頭市國家稅務局) and Shantou Municipal Local Taxation Bureau (汕頭市地方稅務局) (validity period: 1 January 2004 to 31 December 2015)
2006	We established distribution stations in other districts of Shantou (including Chaonan and Chenghai) to expand our business operations in the Eastern Guangdong.
2009	We set up our pharmaceutical logistic centre in Shantou.
2010	We are approved by the Guangdong FDA to commence third party pharmaceutical products logistic business.

2011	We are recognised jointly by, among others, the Guangdong Provincial Development and Reform Commission (廣東省發展和改革委員會), the Guangdong Provincial Commission of The Economy and Information Commission of Guangdong Province (廣東省經濟和信息化委員會), the Guangdong Provincial Department of Science and Technology (廣東省科學技術廳) and the Department of Land and Resources of Guangdong Province (廣東省國土資源廳) as amongst the "Top 500 Modern Industry Unit in Guangdong Province" ("廣東省現代產業500強項目").
	We are granted by the Guangdong Pharmaceutical Professional Association (廣東省醫藥行業協會) as Leading Brand in Pharmaceutical Distribution Industry in Guangdong Province (廣東省醫藥流通行業領軍品牌).
2011–2015	Awarded major taxpayer (納稅大戶) by Shantou City Longhu District Party Committee (中共汕頭市龍湖區委員會) and People's Government of Longhu District, Shantou City (汕頭市龍湖區人民政府) for the year 2011 to 2014.
2012	Foshan Chuangmei commenced business and operation of our pharmaceutical logistic centre in Foshan to expand our pharmaceutical market in Southern China.
2013	We are recognised by SAIC as a Trustworthy Enterprise in the PRC for 2010 to 2011 (2010-2011年度國家"守合同重信用"企業).
	Our trademark is awarded by the Guangdong Provincial Administration for Industry and Commerce (廣東省工商行政管理局) as Renowned Trademark of Guangdong Province.
	We are recognised as amongst the "100 Key Enterprises in Shantou City" (汕頭市百家骨幹企業) and amongst the "100 Largest Enterprises in Modern Service Industry in Shantou City" (汕頭市百家現代服務業企業) by the Party Committee of Shantou City (中共汕頭市委) and the People's Government of Shantou City ("汕頭市人民政府").
2014	We are awarded as the "Best Innovation in Quality Management", "Best Innovation in Logistics Management" and "Best Supplier Service" of the Pharmaceutical Distribution Industry in China for 2013 to 2014 (2013-2014年全國藥品流通行業"最佳質量管理創新獎", "最佳物流管理創新獎", "最佳對供應商服務獎") by the China Association of Pharmaceutical Commerce (中國醫藥商業協會).
2015	We launched our e-commerce platform "Chuangmei e-Medicine" (創美e藥) and commenced our B2B pharmaceutical e-commerce business.
	We are recognised as a "Triple A Credit Rating Enterprise in China" ("中國AAA級信用企業") by the International Trade and Economic Cooperation Research Institute of the MOFCOM (商務部國際貿易經濟合作研究院) and the China Cooperate Trade Enterprises Association (中國合作貿易企業協會).

CORPORATE HISTORY

Our Company

The predecessor of our Company (our "Predecessor") was an enterprise owned by the whole people (全民所有制企業) in the PRC established on 18 February 1984 with an initial registered capital of RMB100,000 as a logistics and resources centre to supply raw materials and imported Chinese and western medicines to various units within the organisation.

In light of recording losses for consecutively three years for our Predecessor, on 17 January 2000, our Predecessor formulated a proposal to convert our Predecessor into a limited liability company (the "Conversion Proposal") which then became our Company.

Pursuant to the Conversion Proposal, the initial registered capital of our Company was RMB880,000 which was contributed as to (i) RMB200,000 (22.73%) by 汕頭醫藥(集團)公司 (Shantou Medicine (Group) Limited) ("Medicine Group"), (ii) RMB480,000 (54.54%) by 汕頭市創美貿易有限公司 (Shantou Chuangmei Trading Limited) ("Chuangmei Trading"), and (iii) RMB200,000 (22.73%) by 汕頭市創美廣告有限公司 (Shantou Chuangmei Advertising Limited) ("Chuangmei Advertising"). Medicine Group was the then supervising department of our Predecessor, and Chuangmei Trading and Chuangmei Advertising were limited liability companies established in the PRC. The legal representative of Chuangmei Trading was Mr. Yao Chuxiong, the elder brother of Mr. Yao, and the Medicine Group and Chuangmei Advertising were Independent Third Parties. According to the Conversion Proposal, all the assets, liabilities and interests of our Predecessor as of 31 December 1999 were to be taken up by Medicine Group. All the then existing and retired employees were relocated and fully compensated. Upon completion of the Conversion Proposal, our Company would have no outstanding rights and liabilities.

The Conversion Proposal was approved by the relevant authorities on 26 January 2000. On 6 March 2000, Mr. Yao became the legal representative and executive Director of our Company and our Company was registered as a limited liability company with an initial registered capital of RMB880,000 contributed by:

Shareholder	Amount of registered capital *(RMB)*	Percentage *(%)*
Chuangmei Trading	480,000	54.54
Chuangmei Advertising	200,000	22.73
Medicine Group	200,000	22.73
	880,000	100.00

The principal business of our Predecessor immediately before the Conversion Proposal included wholesale, retail, agency, manufacture and processing Chinese medicine and medical equipment. Upon the establishment of our Company in 2000, our approved scope of business primarily included sales of Chinese medicine, antibiotics and health products.

On 28 August 2001, Medicine Group transferred its 22.73% equity interests in our Company to Chuangmei Trading at a consideration of RMB200,000, being the registered capital. The reason for such transfer is that Medicine Group is a state-owned enterprise and its continuation as a shareholder of our Company shortly after completion of the Conversion Proposal was a transitional arrangement only. Upon completion of the transfer, the shareholding of our Company was as follows:

Shareholder	Amount of registered capital	Percentage
	(RMB)	*(%)*
Chuangmei Trading	680,000	77.27
Chuangmei Advertising	200,000	22.73
	880,000	100.00

On 1 November 2002, Chuangmei Trading transferred its 77.27% to Mr. Yao at a consideration of RMB680,000, being the registered capital. Upon completion of the transfer, the shareholding of our Company was as follows:

Shareholder	Amount of registered capital	Percentage
	(RMB)	*(%)*
Mr. Yao	680,000	77.27
Chuangmei Advertising	200,000	22.73
	880,000	100.00

On 15 November 2002, Chuangmei Advertising transferred its 22.73% to Mr. Yao Chuxiong, the elder brother of Mr. Yao, at a consideration of RMB200,000, being the registered capital. Upon completion of such transfer, the shareholding of our Company was as follows:

Shareholder	Amount of registered capital	Percentage
	(RMB)	*(%)*
Mr. Yao	680,000	77.27
Mr. Yao Chuxiong	200,000	22.73
	880,000	100.00

On 30 June 2006, the registered capital of our Company was increased to RMB10,000,000, and the increased portion of RMB9,120,000 was contributed by capitalising the loans in the aggregate amount of RMB9,120,000 owed by our Company to Mr. Yao. After such increase of registered capital, the shareholding of our Company was as follows:

Shareholder	Amount of registered capital *(RMB)*	Percentage *(%)*
Mr. Yao	9,800,000	98.00
Mr. Yao Chuxiong	200,000	2.00
	10,000,000	100.00

On 12 December 2008, the registered capital of our Company was increased to RMB30,000,000, and the increased portion of RMB20,000,000 was contributed by capitalising the loans in the aggregate amount of RMB20,000,000 owed by our Company to Mr. Yao. After such increase of registered capital, the shareholding of our Company was as follows:

Shareholder	Amount of registered capital *(RMB)*	Percentage *(%)*
Mr. Yao	29,800,000	99.33
Mr. Yao Chuxiong	200,000	0.67
	30,000,000	100.00

On 7 May 2010, the registered capital of our Company was increased to RMB70,000,000, and the increased portion of RMB40,000,000 was contributed by (i) capitalising the loans in the aggregate amount of RMB28,000,000 owed by our Company to Mr. Yao; and (ii) cash of RMB12,000,000 by Mr. Yao. After such increase of registered capital, the shareholding of our Company was as follows:

Shareholder	Amount of registered capital *(RMB)*	Percentage *(%)*
Mr. Yao	69,800,000	99.71
Mr. Yao Chuxiong	200,000	0.29
	70,000,000	100.00

On 4 July 2011, the registered capital of our Company was increased to RMB80,000,000, and the increased portion of RMB10,000,000 which was contributed by Mr. Yao in cash. After such increase of registered capital, the shareholding of our Company was as follows:

Shareholder	Amount of registered capital (RMB)	Percentage (%)
Mr. Yao	79,800,000	99.75
Mr. Yao Chuxiong	200,000	0.25
	80,000,000	100.00

On 16 December 2011, our Shareholders resolved that of the RMB79,800,000 registered capital contributed by Mr. Yao, the aggregate amount of RMB57,120,000 which was contributed by capitalising loans owed by our Company to Mr. Yao be replaced by contribution made by currency by Mr. Yao in the equivalent amount and changed such capital contribution as by currency. Mr. Yao also provided a confirmation that upon completion of such replacement, he would waive the aforesaid loans owed by our Company. Our PRC Legal Advisers are of the view that such replacement of the capital contribution is legal and valid.

On 31 December 2014, the following transfers of our equity interests were carried out:

Transferor	Transferee	Amount and percentage of registered capital transferred	Consideration
Mr. Yao Chuxiong	Youran Investment	RMB200,000 (0.25%)	RMB1,200,000
Mr. Yao	Madam Yao	RMB6,500,000 (8.125%)	Nil
Mr. Yao	Youran Investment	RMB800,000 (1.0%)	RMB4,800,000
Mr. Yao	Zhichuang Investment	RMB1,000,000 (1.25%)	RMB6,000,000
Mr. Yao	Meizhi Investment	RMB1,500,000 (1.875%)	RMB9,000,000

After the transfers, our shareholding was as follows:

Shareholder	Amount of registered capital *(RMB)*	Percentage *(%)*
Mr. Yao	70,000,000	87.500
Madam Yao	6,500,000	8.125
Meizhi Investment	1,500,000	1.875
Youran Investment	1,000,000	1.250
Zhichuang Investment	1,000,000	1.250
	80,000,000	100.000

Madam Yao is the mother of Mr. Yao. Meizhi Investment is a limited partnership established in the PRC on 25 December 2014. As of the Latest Practicable Date, it was held by 48 individuals with one general partner and 47 limited partners, of whom Mr. Lin Zhixiong, our executive Director, was the general partner and interested in 28.47%, Ms. Zheng Xiyue, our Supervisor, was a limited partner and interested in 13.93% and Ms. Zhang Hanzi, our Supervisor, was a limited partner and interested in 1.33%. The other individuals are our employees and ex-employee.

Youran Investment is a limited partnership established in the PRC on 25 December 2014. As of the Latest Practicable Date, it was held by 40 individuals with one general partner and 39 limited partners, of whom Ms. Li Zhenhua, our employee, was the general partner and interested in 3.00% and Ms. Zheng Yuyan, our executive Director, was a limited partner and interested in 37.70%. The other individuals are our employees and ex-employees.

Zhichuang Investment is a limited partnership established in the PRC on 25 December 2014. As of the Latest Practicable Date, it was held by 16 individuals with one general partner and 15 limited partners, of whom Ms. You Zeyan, our non-executive Director and the wife of Mr. Yao, was the general partner and interested in 53.90% and Mr. Fan Jianbo, our executive Director, was a limited partner and interested in 25.20%. The other individuals are our employees.

On 28 May 2015, our Company was converted from a limited liability company to a joint stock company with limited liability. We were incorporated under the name of "創美藥業股份有限公司" and we received a new business licence from Shantou Administration for Industry and Commerce (汕頭市工商行政管理局) on 28 May 2015. Details of the conversion are set out in the sub-section headed "Reorganisation" of this section.

Foshan Chuangmei

Foshan Chuangmei is a company with limited liability established in the PRC on 21 July 2011 with a registered capital of RMB30 million, which were contributed by 廣東創美藥業有限公司 (Guangdong Chuangmei Pharmaceutical Company Limited) ("Guangdong Chuangmei") as to RMB9.0 million (representing 30% of the registered capital) and our Company as to RMB21.0 million (representing 70% of the registered capital). The principal business of Foshan Chuangmei is distribution of pharmaceuticals and it first commenced its business in January 2012.

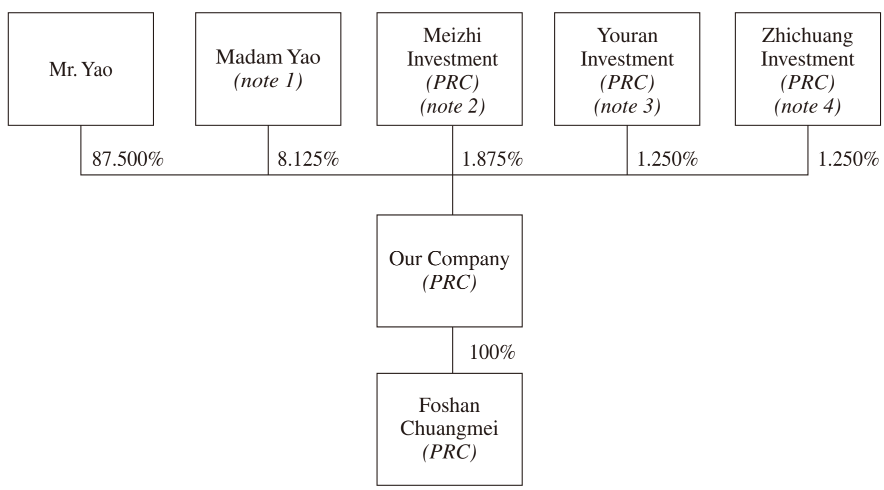
On 25 November 2011, Guangdong Chuangmei transferred its equity interests in Foshan Chuangmei to our Company at a consideration of RMB9.0 million (representing 30% of the registered capital), being the then registered capital. As a result of the transfer, Foshan Chuangmei was wholly owned by our Company.

Guangdong Chuangmei is a limited liability company established in the PRC on 22 December 2010 and was owned by Mr. Yao as to 30% and our Company as to 70% as of the date of establishment. Due to internal restructuring, Guangdong Chuangmei was dissolved by a shareholders' resolution passed on 26 October 2011.

On 15 March 2013, the registered capital of Foshan Chuangmei was increased to RMB50 million, which were wholly contributed by our Company by cash.

REORGANISATION

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



Notes:

1. Madam Yao is the mother of Mr. Yao.

2. Meizhi Investment is a limited partnership established in the PRC. As of the Latest Practicable Date, it was held by 48 individuals, of whom Mr. Lin Zhixiong, our executive Director, was interested in 28.47%, Ms. Zheng Xiyue, our Supervisor, was interested in 13.93% and Ms. Zhang Hanzi, our Supervisor, was interested in 1.33%. The other individuals are our employees and ex-employee. The general partner of Meizhi Investment is Mr. Lin Zhixiong, our executive Director.

3. Youran Investment is a limited partnership established in the PRC. As of the Latest Practicable Date, it was held by 40 individuals, of whom Ms. Zheng Yuyan, our executive Director, was interested in 37.70%. The other individuals are our employees and ex-employees. The general partner of Youran Investment is Ms. Li Zhenhua, our employee.

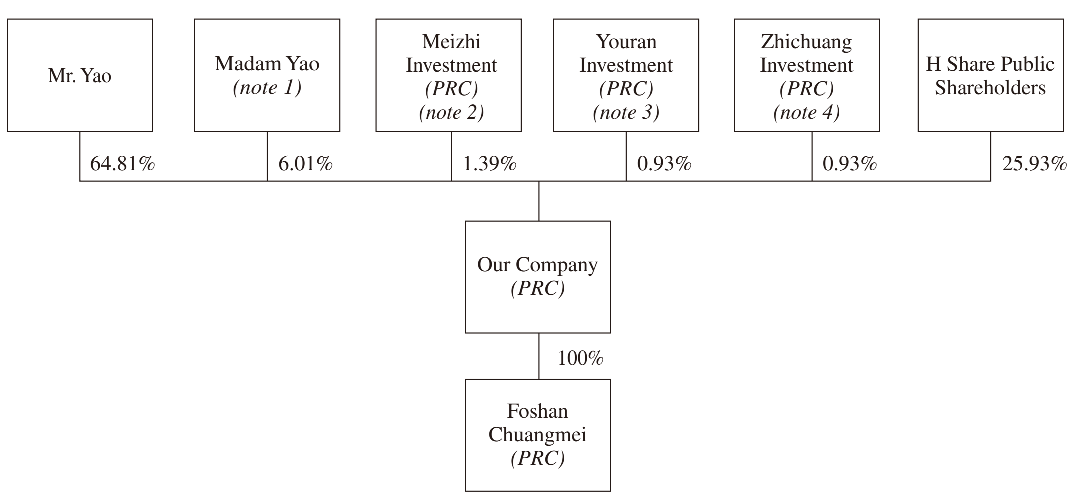
4. Zhichuang Investment is a limited partnership established in the PRC. As of the Latest Practicable Date, it was held by 16 individuals, of whom Ms. You Zeyan, our non-executive Director and the wife of Mr. Yao, was interested in 53.90% and Mr. Fan Jianbo, our executive Director, was interested in 25.20%. The other individuals are our employees. The general partner of Zhichuang Investment is Ms. You Zeyan, our non-executive Director.

In May 2015, we underwent the Reorganisation and Mr. Yao, Madam Yao, Meizhi Investment, Youran Investment and Zhichuang Investment entered into a promoters' agreement agreeing to convert our Company into a joint stock company with limited liability on the basis of the net assets of our Company evaluated as of 31 March 2015 with a registered capital of RMB80,000,000.

In May 2015, our Company was converted into a joint stock company with limited liability. Immediately after the conversion, our Company had a total of 80,000,000 Domestic Shares with a nominal value of RMB1.00 each. The shareholders and their respective equity interests in our Company remained unchanged before and after the date of conversion of our Company into a joint stock company with limited liability and up to the Latest Practicable Date as set forth below:

Shareholder	**Number of Domestic Shares**	**Approximate shareholding percentage** *(%)*
Mr. Yao	70,000,000	87.500
Madam Yao	6,500,000	8.125
Meizhi Investment	1,500,000	1.875
Youran Investment	1,000,000	1.250
Zhichuang Investment	1,000,000	1.250
	80,000,000	100.000

The following chart sets forth our corporate and shareholding structure immediately after completion of the Global Offering, assuming the Over-allotment Option is not exercised and there is no change in the shareholding in our Company of each of our Shareholders listed below, subsequent to the Latest Practicable Date:



Notes:

1. Madam Yao is the mother of Mr. Yao.

2. Meizhi Investment is a limited partnership established in the PRC. As of the Latest Practicable Date, it was held by 48 individuals, of whom Mr. Lin Zhixiong, our executive Director, was interested in 28.47%, Ms. Zheng Xiyue, our Supervisor, was interested in 13.93% and Ms. Zhang Hanzi, our Supervisor, was interested in 1.33%. The other individuals are our employees and ex-employee. The general partner of Meizhi Investment is Mr. Lin Zhixiong, our executive Director.

3. Youran Investment is a limited partnership established in the PRC. As of the Latest Practicable Date, it was held by 40 individuals, of whom Ms. Zheng Yuyan, our executive Director, was interested in 37.70%. The other individuals are our employees and ex-employees. The general partner of Youran Investment is Ms. Li Zhenhua, our employee.

4. Zhichuang Investment is a limited partnership established in the PRC. As of the Latest Practicable Date, it was held by 16 individuals, of whom Ms. You Zeyan, our non-executive Director and the wife of Mr. Yao, was interested in 53.90% and Mr. Fan Jianbo, our executive Director, was interested in 25.20%. The other individuals are our employees. The general partner of Zhichuang Investment is Ms. You Zeyan, our non-executive Director.

PRC LEGAL COMPLIANCE

Our PRC Legal Advisers confirmed that all the necessary internal and external approval for the Reorganisation set out above have been legally obtained, and the change formalities with relevant industry and commerce authorities for the Reorganisation have been completed pursuant to the applicable PRC laws, regulations and rules.

PROMOTERS

The table below sets forth a summary of our Promoters:

Name of our Promoters	Shareholding percentage in our Company as of the Latest Practicable Date	Number of shares held in our Company as of the Latest Practicable Date	Background information of our Promoters
Mr. Yao	87.500%	70,000,000	Our Chairman, executive Director and Chief Executive Officer
Madam Yao	8.125%	6,500,000	Mother of Mr. Yao
Meizhi Investment	1.875%	1,500,000	Meizhi Investment is a limited partnership established in the PRC on 25 December 2014. Its principal business is investment management.

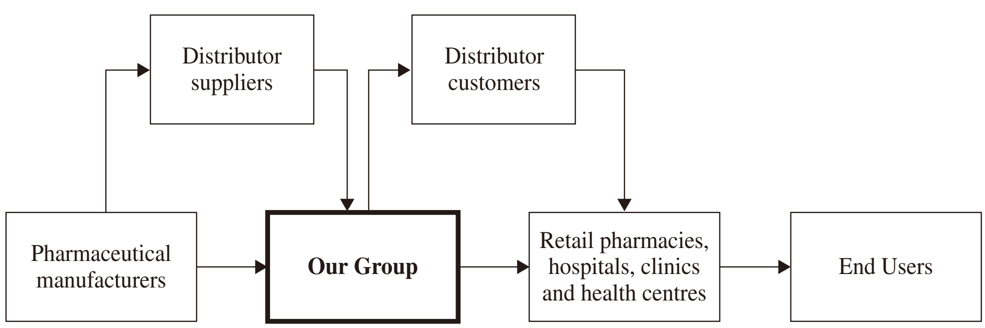
Name of our Promoters	Shareholding percentage in our Company as of the Latest Practicable Date	Number of shares held in our Company as of the Latest Practicable Date	Background information of our Promoters
Youran Investment	1.250%	1,000,000	Youran Investment is a limited partnership established in the PRC on 25 December 2014. Its principal business is investment management.
Zhichuang Investment	1.250%	1,000,000	Zhichuang Investment is a limited partnership established in the PRC on 25 December 2014. Its principal business is investment management.

OVERVIEW

We are one of the leading pharmaceutical distributors in Southern China. Our distribution network includes Southern China and other regions, such as Fujian Province. According to PICO, we are the third largest privately-owned pharmaceutical distribution company in Southern China in terms of revenue generated from pharmaceutical distribution business in 2014. The pharmaceutical distribution market of Southern China accounted for approximately 10.5% of the overall pharmaceutical distribution market of the PRC in 2014, according to PICO. For the years ended 31 December 2012, 2013 and 2014, our market share in the pharmaceutical distribution market accounts for approximately 2.3%, 2.2% and 2.4%, respectively, in Southern China, and accounts for approximately 0.2%, 0.2% and 0.3%, respectively, in the PRC, according to PICO. We were established in 2000 to principally engage in the sales of pharmaceutical products in Shantou. We are accredited as a Leading Brand in Pharmaceutical Distribution Industry in Guangdong Province (廣東省醫藥流通行業領軍品牌) by the Guangdong Pharmaceutical Professional Association (廣東省醫藥行業協會) in 2011. In addition, our trademark Chuangmei is awarded as a Renowned Trademark of Guangdong Province by the Administration for Industry and Commerce of Guangdong in 2013.

Business model

We procure pharmaceutical products from (i) pharmaceutical manufacturers and (ii) distributor suppliers and sell such products to (i) pharmaceutical distributor customers, (ii) retail pharmacy stores, and (iii) hospitals, clinics, health centres and others. The diagram below illustrates the business model of our distribution business:



We, as a pharmaceutical distributor, build the bridge between pharmaceutical manufacturers and our customers as we facilitate the pharmaceutical manufacturing enterprises to cover wider sales network in a more cost-efficient manner compared to establishing their own distribution network. On the other hand, we also provide broad product offerings to fulfil different needs of customers and ensure stable and timely supply of products to them through our effective distribution network.

We have a wide and growing customer base and, as of 30 June 2015, we had approximately 4,495 customers, including approximately 672 pharmaceutical distributor customers, 2,807 retail pharmacy stores, and 1,016 hospitals, clinics, health centres and others.

We have a variety of product offerings and, for the six months ended 30 June 2015, we distributed 5,756 products including western medicines, Chinese patent medicines, healthcare products, Chinese medicine material and decoction pieces, medical devices and cosmetic products.

We also derive our services income by providing consultancy services on marketing strategies and related information services to our suppliers.

Revenue model

We derive our turnover substantially from sales of goods we procured from suppliers which accounts for approximately 99.7%, 99.6%, 99.7% and 99.4% of our total turnover for the three years ended 31 December 2012, 2013 and 2014 and the six months ended 30 June 2015, respectively. We also derive turnover from services income which accounts for approximately 0.3%, 0.4%, 0.3% and 0.6% of our total turnover for the three years ended 31 December 2012, 2013 and 2014 and the six months ended 30 June 2015, respectively.

During the Track Record Period, we experienced continuous growth in turnover and gross profit. Between 2012 to 2014, our turnover and profit attributable to the owners of the Company grew at a CAGR of approximately 22.2% and 60.7%, respectively. Our turnover increased by approximately 19.1% from approximately RMB2,016.9 million for the year ended 31 December 2012 to RMB2,401.2 million for the year ended 31 December 2013, by 25.5% from RMB2,401.2 million for the year ended 31 December 2013 to RMB3,014.1 million for the year ended 31 December 2014 and by 12.8% from RMB1,449.5 million for the six months ended 30 June 2014 to RMB1,635.4 million for the six months ended 30 June 2015. Our profit attributable to the owners of the Company increased by approximately 57.4% from approximately RMB14.1 million for the year ended 31 December 2012 to RMB22.2 million for the year ended 31 December 2013 and by 64.0% from RMB22.2 million for the year ended 31 December 2013 to RMB36.4 million for the year ended 31 December 2014. Our profit attributable to the owners of the Company decreased by approximately 4.5% from approximately RMB26.4 million for the six months ended 30 June 2014 to RMB25.2 million for the six months ended 30 June 2015 mainly attributable to the incurrence of listing expenses of approximately RMB5.4 million for the six months ended 30 June 2015, but no listing expenses were incurred for the same period in 2014.

We believe that as one of the leading and established distributors of pharmaceutical products based in the Guangdong Province with approximately 15 years operating history, we are well-positioned to benefit from market growth and PRC pharmaceutical distribution industry consolidation opportunities.

OUR COMPETITIVE STRENGTHS

We are one of the leading and established pharmaceutical distributors in Southern China and we are well-positioned to benefit from industry consolidation opportunities and expansion of the pharmaceutical distribution market in the PRC.

We are one of the leading and established distributors of pharmaceutical products based in the Guangdong Province. We have a wide and growing customer base and, as of 30 June 2015, we had approximately 4,495 customers and our customers comprised pharmaceutical distributors, retail pharmacy stores, hospitals, clinics, health centres and others. In addition, we have a variety of product offerings and, for the six months ended 30 June 2015, we distributed 5,756 products including western medicines, Chinese patent medicines, healthcare products, Chinese medicine materials and decoction pieces, medical devices and cosmetic products. According to PICO, we are the third largest privately-owned pharmaceutical distribution company in Southern China in terms of revenue generated from pharmaceutical distribution business in 2014. According to PICO, the growth of GDP per capita, and disposal income per capita of Southern China is higher than that of the national average from 2010 to 2014. Moreover, the total sales revenue of the pharmaceutical distribution industry of Southern China has increased from RMB54.5 billion in 2010 to RMB126.6 billion in 2014, representing a CAGR of 23.5%. Between 2012 to 2014, our turnover grew at a CAGR of approximately 22.2%. PICO expects that until 2018, sales of the pharmaceutical distribution industry in Southern China will reach RMB228.9 billion, representing a CAGR of 16.0%. The high growing potential of Southern China provided us with favourable market conditions to quickly expand in the future.

In recent years, the PRC government has issued a number of policies and measures to support the development of pharmaceutical industry, which have further fueled the growth in aggregate pharmaceutical spending in the PRC. As set forth in China's 12^{th} Five-Year Plan and the "Development Policy for the Pharmaceutical Industry during the period from 2010 to 2015" (2010-2015年全國醫藥流通行業發展規則), the PRC government encourages the consolidation in the pharmaceutical industry and supports the expansion of large pharmaceutical distributors through acquisitions of smaller ones.

We believe as one of the leading and established pharmaceutical distributor engaging in pharmaceutical distribution with approximately 15 years experience in the industry, we have the experience, resources and competitive edges to capitalise on the growth of pharmaceutical market of Southern China and the PRC and the industry consolidation opportunities to further consolidate and expand our market share.

We have maintained strong and stable relationships with our major customers and suppliers.

We have established stable relationships with a diverse customer base comprising pharmaceutical distributors, retail pharmacy stores, as well as hospitals, clinics, and health centres, located mainly in Southern China. We have also maintained long-term business relationships with our major customers. For example, for the six months ended 30 June 2015, we have established business relationship with our five largest customers including Kongze Pharmaceutical Co., Ltd. (康澤藥業股份有限公司) for more than 10 years on average. In addition, as of 30 June 2015, we have over 1,000 customers whom we have established business relationship for over 3 years including Zhongshan Zhongzhi Chain Drugstore Co., Ltd. (中山市中智大藥房連鎖股份有限公司), an indirect wholly owned subsidiary of a company listed on the Hong Kong Stock Exchange and Zhuhai Kabova Health Industry Investment Co., Ltd. (珠海市嘉寶華健康藥房連鎖股份有限公司). In order to strengthen our relationship with our customers, we would hold seminars and send our sales representatives to conduct business visits to obtain the feedbacks from our customers so as to continually improving our service and product mix to meet our customers' expectation. In 2015, we were awarded the "Triple A Credit Rating Enterprise in China" ("中國AAA級信用企業") from the International Trade and Economic Cooperation Research Institute of the MOFCOM (商務部國際貿易經濟合作研究院) and the China Cooperate Trade Enterprises Association (中國合作貿易企業協會), which indicate the wide recognition of our trustworthiness. We believe such trustworthiness is an important asset for us to establish mutual trust and long term relationship with our customers.

From the supply side, we have established stable business relationships with a broad network of pharmaceutical manufacturers and distributor suppliers of pharmaceutical products in the PRC. As of 30 June 2015, we have 865 suppliers, and we had business relationships with our five largest suppliers for more than 10 years on average. In addition, as of 30 June 2015, approximately 60% of our suppliers including Foshan Yingtian Pharmaceutical Sales Co., Ltd. (佛山盈天醫藥銷售有限公司), Guangdong

Taicheng Pharmaceutical Co., Ltd. (廣東台城製藥股份有限公司), Guangzhou Caizhilin Pharmaceutical Co., Ltd. (廣州采芝林藥業有限公司), Guangzhou Wanglaoji Pharmaceutical Co., Ltd. (廣州王老吉藥業股份有限公司), Guangzhou Xiangxue Pharmaceutical Co., Ltd. (廣州市香雪製藥股份有限公司) and Kangmei Pharmaceutical Co., Ltd (康美藥業股份有限公司) have established relationship with us for over 3 years. In 2014, we were awarded as the "Best Service to Suppliers" of the Pharmaceutical Distribution Industry in China for 2013 to 2014 (2013-2014年全國藥品流通行業"最佳對供應商服務獎") by the China Association of Pharmaceutical Commerce (中國醫藥商業協會), which indicates the high quality of our services to our suppliers. We believe that this stable network of suppliers helps to ensure the secured and timely supply of our products, which helps us to strengthen our competitiveness and in turn further drives the growth of our business.

We possess effective distribution network and operation system.

Timely and cost-efficient logistic distribution network is important for the pharmaceutical distribution industry. We have two logistics centres located in Shantou and Foshan with different types of warehouses including, among others, cool warehouse and cold warehouse. We possess our professional transportation fleet to cover delivery distance of approximately 150km radius from our logistic centres and we engaged third party logistic service providers to further extend our distribution range to cover Southern China. We have also established effective operation system spanning the entire pharmaceutical distribution supply chain ranging from procurement, warehousing, transportation and delivery. Our computerised inventory management system will notify us and generate automatic purchase orders to ensure our optimal inventory level and we would usually be able to deliver to our major customers within one to two days upon receiving their purchase orders and the system also allows us to track the inventory levels on a real-time basis so that we could flexibly optimise our future inventory levels and product offerings.

Such effective distribution network and information system also allow us to increase the precision of our inventory control systems and thereby reduce our inventory holding. We are of the view that our distribution network and information system provide us with a competitive edge over our competitors and we view the continuing improvement of such is critical to our future growth.

We possess dedicated and experienced management team with a proven track record.

We have grown from a local pharmaceutical distributor in Shantou to one of the leading pharmaceutical distributors in Southern China. We believe our success has been, to a large extent, led by our experienced and stable management team with an extensive pharmaceutical distribution industry knowledge and a proven track record in the PRC pharmaceutical distribution industry.

Mr. Yao, our Chairman, executive Director and Chief Executive Officer, has approximately 25 years of experience in the pharmaceutical distribution industry in the PRC, with extensive knowledge of business management, marketing and strategic planning, and has been with us since 2000. Moreover, Ms. Zheng Yuyan, our vice-president, executive Director and Chief Marketing Officer, has been with us since 2003. Through our growth and expansion, our senior management team has gained the experience and execution skills required to respond promptly to a rapidly changing pharmaceutical distribution market, capture opportunities and formulate and implement successful business strategies to deliver continued growth. Supported by our highly-motivated and well-trained workforce, we believe that the leadership, vision and extensive experience of our management team will continue to build upon our core strengths to execute our business strategies and drive us to future growth.

OUR BUSINESS STRATEGIES

We believe that we are well-positioned to take advantage of the significant growth potential in the Guangdong Province and Southern China in general. We intend to further strengthen our leading market position and profitability by pursuing the following principal strategies:

- **We plan to strengthen, expand and integrate our existing distribution network and capabilities to increase distribution coverage, capacity and operating efficiencies and lower our cost.**

As distribution network and capabilities, efficient and advanced logistics facilities as well as information system infrastructure are critical to our business, we intend to continue to strengthen, expand and integrate our logistic facilities and upgrade our information system to cater our future growth. We plan to upgrade our existing logistics facilities of our logistic centres in Shantou and Foshan to increase our operating efficiencies and lower our operating costs. We also plan to acquire additional refrigerated transportation vehicles for both of our logistic centres. Currently, we rely on installing coolers in our existing ordinary delivery vehicles to keep the products in proper condition. However, this would limit the geographic reach of our logistic team as well as our product offerings. We expect through the acquisition of additional refrigerated transportation vehicles, we could expand our distribution coverage, increase our available product offerings to our customers and provide enhanced transportation service. Furthermore, we plan to upgrade the information system of our logistic centres so as to further enhance our operational efficiencies. We expect to complete such plans by the end of 2016. We believe that through the adoption of the above measures, our logistic system can match better with our distribution network by providing swift and all-rounded service support, optimising inventory level and inventory distribution of our distribution network, shortening delivery lead-times, increasing responsiveness to our customers' demands, and hence our overall distribution capacity, quality and operational efficiency can be further strengthened.

- **We plan to upgrade and promote our B2B e-commerce platform to enhance our market position.**

We obtained the internet medicine dealership certificate (互聯網藥品交易服務資格證書) from the Guangdong FDA in June 2015 and since then we have launched our B2B e-commerce platform, "Chuangmei e-Medicine" (創美e藥). We have started the pilot run of the platform on 25 June 2015 and we expect that the platform will operate in full scale in the fourth quarter of 2015. From the start of pilot run of the system on 25 June 2015 to the period ended 30 June 2015, we have recorded about 2,800 registered customers whom are mainly retail pharmacy stores, realised approximately 1,800 e-transactions and recorded a total sales amount of approximately RMB1.4 million.

In view of the development potential of the B2B pharmaceutical market, we plan to (i) upgrade our B2B e-commerce platform by the end of 2016 so as to enhance the user experience and expand the stability and capacity of the system; and (ii) engage in sales and promotional activities to promote our e-commerce platform system as we believe that the popularity of our e-commerce platform would allow us to reach a broader customer base at lower cost. In addition, traditionally our customers place their orders through phone calls and pharmaceutical distributors like us need to put large amount of resources in developing call centres. We expect that our B2B e-commerce platform can gradually divert our customers to place orders with us using standardised order form which could lower transaction cost, increase the transaction efficiency and hence enhance our profitability.

The database of our e-commerce platform allows us to analyse and understand the preference of customers so as to assist us to plan our sales strategy with an aim to meet customers' needs and enhance our consultancy services on marketing strategies and related information services to suppliers. For the details of the operation of B2B e-commerce platform, please refer to the sub-section headed "Our B2B e-Commerce Platform" below.

- **We will pursue acquisition opportunities.**

In addition to growing organically, we plan to take advantage of the rapid growth of the pharmaceutical industry in the PRC through acquiring pharmaceutical distribution businesses that complement our existing operation.

In identifying suitable acquisition targets, we take into account factors including their geographical locations, product portfolios, revenues, customer base, reputation in the market we seek to enter or where we have not yet established a strong presence, whether they complement the Group and whether their top management is capable of further growing the business.

We plan to acquire an established pharmaceutical distribution company based in Southern China including Shenzhen that possesses mature market network and records a positive profit. Such company is expected to help us to establish our third logistic centre in Southern China, expand our distribution network, enlarge our customer base and increase our turnover.

Although we currently do not have any specific acquisition plans or targets and have not entered into any definitive agreements with any potential targets, we believe that through our in-depth understanding of the industry's participants and our connections within the PRC pharmaceutical distribution industry, we will be able to identify an attractive acquisition target that complements our existing market position and allows us to grow continually.

- **We plan to expand our product offerings and enhance our product mix.**

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

Currently a large portion of our product offerings are pharmaceutical products including western medicines and Chinese patent medicines. In order to cater for the different consumption needs of our customers and to increase the loyalty of our customers, we plan to enlarge the portion of other products in our current product offerings. Our plan is to introduce around 800 more products, including healthcare products, cosmetic products, medical devices and Chinese medicine decoction pieces by the end of 2016.

We believe that expanding our product offerings and enhancing our product mix will help us to further improve our profitability and strengthen our customer base, which in turn will enhance our competitive position.

OUR BUSINESS MODEL

Our principal business is pharmaceutical products distribution in the PRC which contributed substantially all of our turnover during the Track Record Period. We source pharmaceutical products from pharmaceutical manufacturers and distributor suppliers and then sell the products to (i) distributor customers, (ii) retail pharmacy stores, and (iii) hospitals, clinics, health centres and others. We select and source our new pharmaceutical products carefully through different stages of checking, including but not limited to quality check, the checking of a) the permit for production of pharmaceutical products, the GMP certification and other necessary documents or b) the pharmaceutical operation permit, the GSP certification and other necessary documents. We also check the product description, the relevant market for such products, and on-site due diligence. Upon procurement of new products, we would manage our product portfolio through conduct market researches based on the feedbacks from end-users, review the stability and reliability of such products regularly and review our operating data (including but not limited to its gross profit margin and inventory turnover days) to determine whether to keep it in our product portfolio. We also provide consultancy on marketing strategy and providing information services on customers' preference, affordability and other related informations to our suppliers.

The following table sets forth the breakdown of turnover by sales of goods and services income:

	For the year ended 31 December						For the six months ended 30 June			
	2012		2013		2014		2014		2015	
					(RMB'000)					
							(unaudited)			
Turnover										
Sales of goods	2,010,946	99.7%	2,392,157	99.6%	3,004,747	99.7%	1,443,741	99.6%	1,626,237	99.4%
Services income	5,997	0.3%	9,074	0.4%	9,312	0.3%	5,785	0.4%	9,160	0.6%
Total turnover	2,016,943	100.0%	2,401,231	100.0%	3,014,059	100.0%	1,449,526	100.0%	1,635,397	100.0%

The following table sets forth the breakdown of turnover from sales of goods by customer types during the Track Record Period:

	For the year ended 31 December						For the six months ended 30 June			
Customer type	2012		2013		2014		2014		2015	
	Turnover (RMB'000)	*% of our turnover*	*Turnover (RMB'000)*	*% of our turnover*	*Turnover (RMB'000)*	*% of our turnover*	*Turnover (RMB'000)* (unaudited)	*% of our turnover*	*Turnover (RMB'000)*	*% of our turnover*
Distributors	1,373,356	68.3%	1,694,458	70.8%	2,218,354	73.8%	1,083,217	75.0%	1,165,757	71.7%
Retail pharmacy stores	560,405	27.9%	613,864	25.7%	691,930	23.0%	316,936	22.0%	419,657	25.8%
Hospitals, clinics, health centres and others	77,185	3.8%	83,835	3.5%	94,463	3.2%	43,588	3.0%	40,823	2.5%
Total sales of goods	2,010,946	100.0%	2,392,157	100.0%	3,004,747	100.0%	1,443,741	100.0%	1,626,237	100.0%

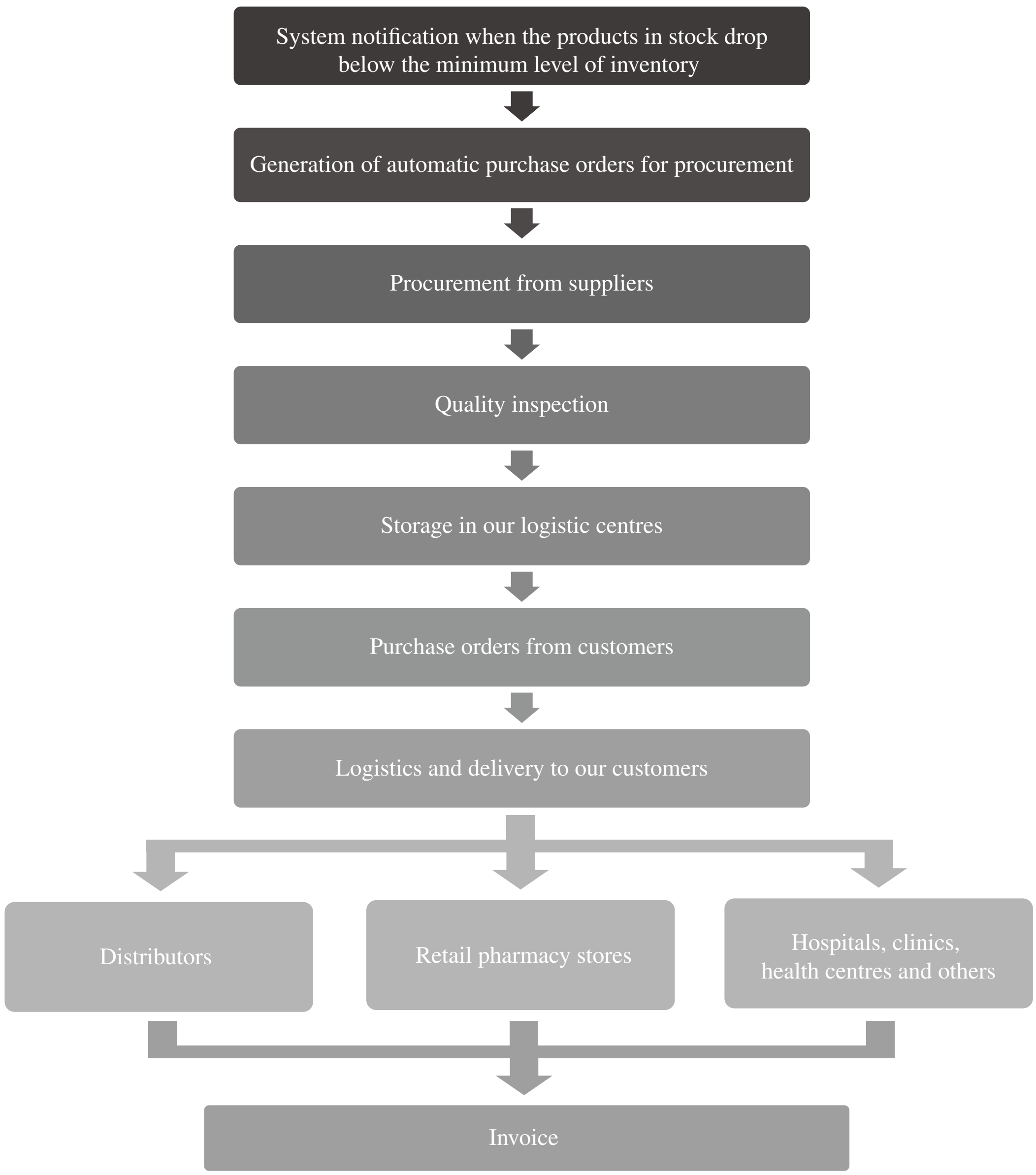
The following table sets forth the gross profit margin by customer type during the Track Record Period:

Customer type	For the year ended 31 December 2012 *Gross profit margin*	2013 *Gross profit margin*	2014 *Gross profit margin*	For the six months ended 30 June 2014 *Gross profit margin* (unaudited)	2015 *Gross profit margin*
Distributors	3.7%	3.6%	4.0%	4.3%	4.3%
Retail pharmacy stores	4.0%	4.1%	4.1%	4.5%	4.6%
Hospitals, clinics, health centres and others	10.6%	11.0%	10.5%	12.3%	12.6%
Overall gross profit margin from sales of goods	4.0%	4.0%	4.2%	4.5%	4.6%

The higher profit margin of hospital, clinic, health centre and other customers is attributable to the higher procurement price of hospitals in general. For the detailed analysis of gross profit margin by customer type, please refer to the section headed "Financial Information — Cost of Sales, Gross Profit and Gross Profit Margin" of this Prospectus.

Pharmaceutical Distribution Operating Process

The following chart illustrates the operating process of our pharmaceutical distribution process:



- System notification and automatic generation of purchase order: We set formula to calculate a safe level of inventory for each product based on our operating experience in order to ensure timely distribution of orders from customers. Once the inventory level of a product falls below the safe level (which is determined based on the geographical location and delivery lead time of suppliers and the historical sales volume of that particular product), our system would notify us and automatically generate purchase order for procurement.

- Procurement: We purchase pharmaceutical products from pharmaceutical manufacturers and distributor suppliers to maintain a stable and optimal inventory level which is determined based on systematic calculation, with reference to our extensive operating experience and historical statistical data, of the minimal stocking to support our sales and the maximum stocking to prevent overstocking. The normal delivery lead time from our major suppliers is approximately 2 days to 5 days since we placed our purchase orders.

- Quality inspection and storage: We conduct quality inspection when we receive the products from our suppliers and store the products in our logistic centres according to GSP requirements.

- Purchase orders from customers: We receive purchase orders from our customers from time to time and our system will automatically notify our logistics staff.

- Logistics and delivery: The normal delivery lead time for our major customers is approximately 1 day to 2 days since receiving the purchase order. We deliver products to our customers through our own logistics team or third-party logistics providers.

Our B2B e-Commerce Platform

We started the pilot run of our B2B e-commerce platform "Chuangmei e-Medicine" (創美e藥)" (http://www.cmyynet.com/) in June 2015 and we expect that the platform will operate in full scale in the fourth quarter of 2015. We operate the e-commerce platform by ourselves. The B2B e-commerce platform is currently used by our customers to make purchase order through our online platform. As of 30 June 2015, we have approximately 20 employees handling the operation of the e-commerce platform. As of 30 June 2015, our B2B e-commerce platform had approximately 2,800 registered customers, all of which are our existing customers whom are mainly retail pharmacy stores.

The following chart illustrates the operating process of our e-commerce platform:

Through our B2B e-commerce platform, eligible customers who are business entities can log-in to our system to browse our product offerings. After choosing the desired products and quantities into the shopping cart, the customer can check out. The e-purchase orders will then be submitted to our existing information management system and we would arrange the delivery of products according to the purchase orders from our customers by way of our standard pharmaceutical distribution process.

As of the Latest Practicable Date, there are no material difference in operations between our B2B e-commerce business and our existing business, including, without limitation, the range of product offerings, our credit terms offered to and other sales arrangement with our customers. Our Group generally is not subject to any geographical restriction in our product distribution and if we are subject to such geographical restriction imposed by our suppliers, we would ensure that we would not contravene such restriction when conducting sales via our B2B e-commerce business.

Based on (i) the Frequently Asked Questions on Operation Permit for Cross-district Value-added Telecommunication Business (跨地區增值電信業務經營許可證常見問題解答) published by the Telecommunication and Information Services Consultation Centre of China Academy of Telecommunication Research of Ministry of Industry and Information Technology (工業和信息化部電信研究院電信與信息服務諮詢中心), the Circular of the General Office of the Ministry of Commerce on Some Issues Concerning the Approval and Administration of Foreign Investment Projects of Sale through Internet and Automat (商務部辦公廳關於外商投資互聯網、自動售貨機方式銷售項目審批管理有關問題的通知) which was promulgated by the MOFCOM and took effect on 19 August 2010 and other regulations, (ii) the consultation with Ministry of Industry and Information Technology (工業和信息化部) and Guangdong Communications Administration (廣東省通信管理局) and (iii) the confirmation letter issued by Guangdong Communications Administration (廣東省通信管理局), our PRC Legal Advisers are of the view that our B2B business does not constitute a value-added telecommunication service or does not fall into the "restricted" industry under the Guidance Catalogue of Industries for Foreign Investment (2015) (外商投資產業指導目錄(2015)).

DISTRIBUTION NETWORK AND CUSTOMERS

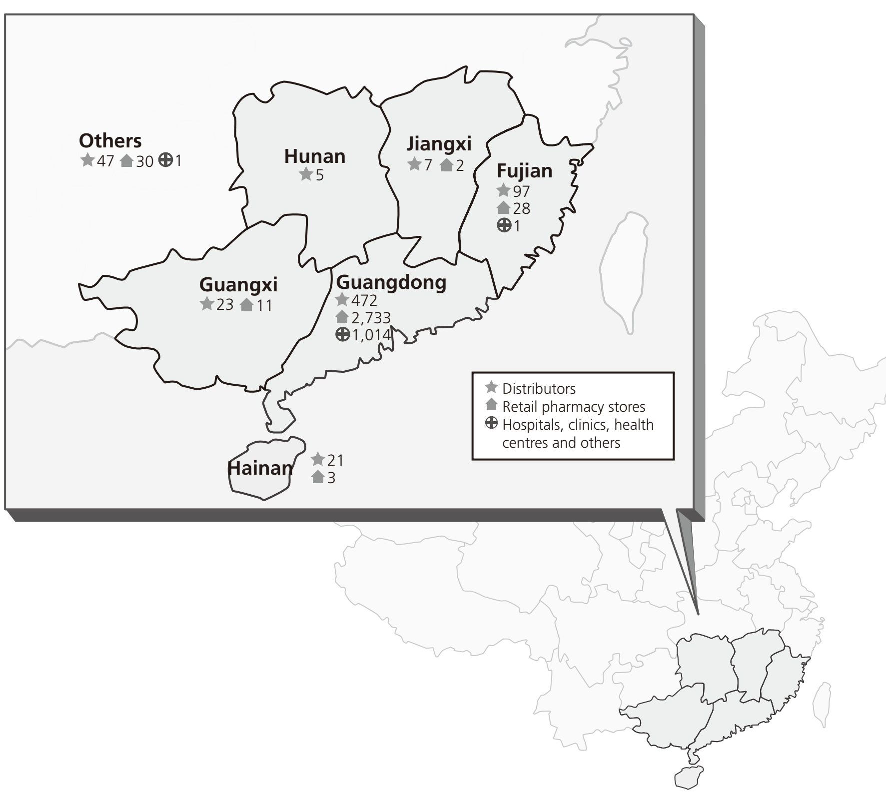
Historically, we first conducted our distribution operations primarily in Shantou and have gradually extended our distribution operations to the Eastern Guangdong. Since Foshan Chuangmei commenced business operation in January 2012, we have further extended our distribution business to the

Pearl River Delta region and other regions of Southern China. The following table sets forth the breakdown of turnover by geographic region of which our customers locate for the periods indicated:

Geographic Location	For the year ended 31 December 2012		2013		2014		For the six months ended 30 June 2014		2015	
	Turnover (RMB'000)	*% of our total turnover*	*Turnover (RMB'000)*	*% of our total turnover*	*Turnover (RMB'000)*	*% of our total turnover*	*Turnover (RMB'000)* (unaudited)	*% of our total turnover*	*Turnover (RMB'000)*	*% of our total turnover*
Guangdong Province including:										
• Pearl River Delta region	708,885	35.2%	1,092,939	45.5%	1,265,772	42.0%	604,770	41.7%	688,611	42.1%
• Eastern Guangdong	571,532	28.3%	572,172	23.8%	895,692	29.7%	435,682	30.1%	508,226	31.1%
• Other region	94,972	4.7%	135,896	5.7%	214,586	7.1%	104,408	7.2%	130,114	8.0%
Guangdong Province subtotal	**1,375,389**	**68.2%**	**1,801,007**	**75.0%**	**2,376,050**	**78.8%**	**1,144,860**	**79.0%**	**1,326,951**	**81.2%**
Guangxi	39,417	2.0%	40,433	1.7%	37,273	1.2%	19,480	1.3%	20,130	1.2%
Hainan Province	36,939	1.8%	59,242	2.5%	93,078	3.1%	42,259	2.9%	38,245	2.3%
Southern China subtotal	**1,451,745**	**72.0%**	**1,900,682**	**79.2%**	**2,506,401**	**83.1%**	**1,206,599**	**83.2%**	**1,385,326**	**84.7%**
Fujian Province	173,542	8.6%	157,869	6.6%	171,640	5.7%	87,561	6.0%	81,934	5.0%
Others *(Note)*	391,656	19.4%	342,680	14.2%	336,018	11.2%	155,366	10.8%	168,137	10.3%
Total	**2,016,943**	**100.0%**	**2,401,231**	**100.0%**	**3,014,059**	**100.0%**	**1,449,526**	**100.0%**	**1,635,397**	**100.0%**

Note: Others include Guizhou Province, Hunan Province, Jilin Province, Jiangsu Province and Zhejiang Province, etc.

The following map illustrates our distribution network as of 30 June 2015:



As of 30 June 2015, we had a distribution network covering approximately 4,495 customers, among which 672 were distributors, 2,807 were retail pharmacy stores, and 1,016 were hospitals, clinics, health centres and others. All of our customers are located in the PRC. The following table sets forth the breakdown of our customers by geographic region of which they locate:

	Distributors	**Retail pharmacy stores**	**Hospitals, clinics, health centres and others**
Guangdong Province including:			
• Eastern Guangdong	136	1,924	992
• Pearl River Delta region	257	775	17
• Other region	79	34	5
Guangdong Province subtotal	**472**	**2,733**	**1,014**
Guangxi	23	11	0
Hainan Province	21	3	0
Fujian Province	97	28	1
Others *(Note)*	59	32	1
Total	**672**	**2,807**	**1,016**

Note: Others include Guizhou Province, Hunan Province, Jilin Province, Jiangsu Province and Zhejiang Province, etc.

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

	For the year ended 31 December			**For the six months ended 30 June**
	2012	**2013**	**2014**	**2015**
At the commencement of year/period	1,320	2,296	2,381	4,183
Additions during the year/period	1,543	522	2,219	675
Termination during the year/period	567	437	417	363
Net increase/(decrease)	976	85	1,802	312
At the end of year/period	2,296	2,381	4,183	4,495

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

	For the year ended 31 December			For the six months ended 30 June
	2012	2013	2014	2015
At the commencement of year	469	1,468	1,483	2,639
Additions during the year	1,294	332	1,457	361
Termination during the year	295	317	301	193
Net increase/(decrease)	999	15	1,156	168
At the end of year	1,468	1,483	2,639	2,807

The following table sets forth changes in the number of our hospital, clinic, health centre and other customers during the periods indicated:

	For the year ended 31 December			For the six months ended 30 June
	2012	2013	2014	2015
At the commencement of year	225	217	238	844
Additions during the year	0	37	626	258
Termination during the year	8	16	20	86
Net increase/(decrease)	(8)	21	606	172
At the end of year	217	238	844	1,016

Please refer to the section headed "Business — Pharmaceutical Distributor Customers" for the details of the changes in number of our pharmaceutical distributor customers.

The terminations of customers during the Track Record Period were primarily attributable to (i) industry-wide consolidation of pharmaceutical trading companies; (ii) our customers' failure to provide the requisite licences and permits to carry on their business operations; and (iii) our decision to terminate certain customers due to their poor settlement record.

We usually do not enter into separate termination agreements for terminating our customers, but we would stop supplying goods to them and would not renew the annual framework sales agreements when they are expired. We do not allow the terminated customers to return the goods and it is solely their responsibility to handle the obsolete goods.

For the years ended 31 December 2012, 2013 and 2014 and the six months ended 30 June 2015, our sales to our five largest customers accounted for approximately 27.1%, 20.6%, 16.5% and 14.7% of our total turnover, respectively. In the same periods, our sales to our largest customer accounted for approximately 10.8%, 4.9%, 4.5% and 3.4% of our total turnover, respectively. All of our five largest customers during the Track Record Period were Independent Third Parties.

None of our Directors, their respective associates, nor any of our Shareholders holding more than 5% of our issued share capital, is related to or owns any interest in any of our five largest customers for the years ended 31 December 2012, 2013 and 2014 and the six months ended 30 June 2015.

Normally we grant a credit period of not exceeding 180 days to our customers based on factors such as their scale of operations, business relationship with us and historical repayment records. Our trade and bills receivables mainly represent the credit sales of our products to be paid by our customers. As of 31 December 2012, 2013 and 2014 and 30 June 2015, our trade and bill receivables were approximately RMB484.7 million, RMB657.8 million, RMB795.6 million and RMB910.7 million, respectively. We monitor the recoverability of our overdue trade receivables on a regular basis and when appropriate, provide for impairment of such trade receivables. As of 31 December 2012, 2013 and 2014 and 30 June 2015, our provision for doubtful trade receivables were approximately RMB0.8 million, RMB0.7 million, RMB2.9 million and RMB2.4 million, respectively. For further details of our provisioning policy for trade receivables and the amount of our provisions, please see the section headed "Financial Information — Selected Consolidated Statement of Financial Position Information — Trade and Other Receivables" in this Prospectus.

The principal terms of our annual framework sales agreement with our major retail pharmacy store customers are similar to those with our major distributor customers. For details, please refer to the paragraph headed "Distribution agreements with our distributor customers".

The table below sets forth information related to our five largest customers during the Track Record Period:

For the year ended 31 December 2012

Customer	Business nature of the customer	Credit terms	Year of relationship (rounded to nearest year)	% to total turnover of our Group (approximate)
Customer A	Distribution of pharmaceutical products	60 days to 135 days	9 years	10.8
Customer B	Operation of pharmacy stores	20 days to 70 days	3 years	4.8
Customer C	Distribution of pharmaceutical products	70 days to 100 days	9 years	4.6
Customer D	Operation of pharmacy stores	100 days to 160 days	11 years	3.9
Customer E	Distribution of pharmaceutical products	140 days to 170 days	5 years	3.0

For the year ended 31 December 2013

Customer	Business nature of the customer	Credit terms	Year of relationship (rounded to nearest year)	% to total turnover of our Group (approximate)
Customer B	Operation of pharmacy stores	20 days to 70 days	4 years	4.9
Customer A	Distribution of pharmaceutical products	60 days to 135 days	10 years	4.7
Customer F	Distribution of pharmaceutical products	60 days	1 year	4.5
Customer D	Operation of pharmacy stores	100 days to 160 days	12 years	3.5
Customer E	Distribution of pharmaceutical products	140 days to 170 days	6 years	3.0

For the year ended 31 December 2014

Customer	Business nature of the customer	Credit terms	Year of relationship (rounded to nearest year)	% to total turnover of our Group (approximate)
Customer D	Operation of pharmacy stores	100 days to 160 days	13 years	4.5
Customer A	Distribution of pharmaceutical products	60 days to 135 days	11 years	4.2
Customer B	Operation of pharmacy stores	20 days to 70 days	5 years	3.4
Customer E	Distribution of pharmaceutical products	140 days to 170 days	7 years	2.5
Customer G	Distribution of pharmaceutical products	135 days	8 years	1.9

For the six months ended 30 June 2015

Customer	Business nature of the customer	Credit terms	Year of relationship (rounded to nearest year)	% to total turnover of our Group (approximate)
Customer D	Operation of pharmacy stores	100 days to 160 days	14 years	3.4
Customer H	Distribution of pharmaceutical products	120 days	8 years	3.2
Customer A	Distribution of pharmaceutical products	60 days to 135 days	12 years	3.0
Customer B	Operation of pharmacy stores	20 days to 70 days	6 years	3.0
Customer I	Operation of pharmacy stores	50 days to 80 days	14 years	2.1

Pharmaceutical Distributor Customers

We generated approximately RMB1,373.4 million, RMB1,694.5 million, RMB2,218.4 million and RMB1,165.8 million in turnover from sales to distributor customers for the years ended 31 December 2012, 2013 and 2014, and the six months ended 30 June 2015, respectively, accounting for approximately 68.3%, 70.8%, 73.8% and 71.7% of our total turnover from sales of goods for the same periods. For the years ended 31 December 2012, 2013 and 2014, and six months ended 30 June 2015, sales returns by all customers (including distributor customers) amounted to approximately RMB5.6 million, RMB5.2 million, RMB9.9 million and RMB6.1 million, respectively, representing less than 0.5% of our total turnover for each of such period.

We have a seller/buyer relationship with our distributor customers who are primarily pharmaceutical trading companies. We recognise turnover when the products are delivered to their designated warehouses and accepted by them. We do not allow product returns or refunds for our pharmaceutical products sold except for quality issues or damage in packaging. We sell primarily pharmaceutical products we sourced from pharmaceutical manufacturers and distributor suppliers to our distributor customers. We believe that this business model allows us to reach a broader consumer base and grow our business at relatively lower costs. According to PICO, this is a common business model in the pharmaceutical distribution industry. Given our seller/buyer relationship with our pharmaceutical distributor customers, we do not have control over them, nor do we impose any policies on them beyond the point of the completion of our sales to them. As we distribute 5,756 products for the six months ended 30 June 2015, our distributor customers make purchases from us based on their own needs and different distributor customers usually purchase different mixes of products from us.

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

	For the year ended 31 December			For the six months ended 30 June
	2012	**2013**	**2014**	**2015**
At the commencement of year/period	626	611	660	700
Additions during the year/period	249	153	190	56
Termination during the year/period	264	104	150	84
Net increase/(decrease)	(15)	49	40	(28)
At the end of year/period	611	660	700	672

The additions of distributor customers during the Track Record Period were primarily attributable to the expansion of our pharmaceutical distribution business and our efforts to broaden our customer base.

The terminations of distributor customers during the Track Record Period were primarily attributable to (i) industry-wide consolidation of pharmaceutical trading companies; and (ii) distributor customers' failure to provide the requisite licences and permits to carry on their business operations. The reasons of termination of distributor customers are consistent with the industry norm according to PICO.

The table below shows the analysis of turnover attributable to terminated distributor customers during the period indicated:

Turnover attributable to	**For the year ended 31 December 2012**		**31 December 2013**		**31 December 2014**		**For the six months ended 30 June 2015**	
	Turnover (RMB'000)	*% of our turnover*	*Turnover (RMB'000)*	*% of our turnover*	*Turnover (RMB'000)*	*% of our turnover*	*Turnover (RMB'000)*	*% of our turnover*
Distributor customers terminated during the year ended 31 December 2012	29,014	1.4%	–	–	–	–	–	–
Distributor customers terminated during the year ended 31 December 2013	49,391	2.4%	33,101	1.4%	–	–	–	–
Distributor customers terminated during the year ended 31 December 2014	170,598 *(Note 1)*	8.5%	224,064 *(Note 2)*	9.3%	52,864	1.8%	–	–
Distributor customers terminated during the six months ended 30 June 2015	89,586	4.4%	59,018	2.5%	48,405	1.6%	13,143	0.8%
Distributor customers terminated during the Track Record Period	338,589	16.7%	316,183	13.2%	101,269	3.4%	13,143	0.8%

Notes:

1. Out of the amount of approximately RMB170.6 million, approximately RMB92.7 million, representing approximately 54.3% is attributable to one of our five largest customers for the year ended 31 December 2012. That customer was terminated during the year ended 31 December 2014 as it failed to provide us the GSP licence to continue to operate its pharmaceutical distribution business.

2. Out of the amount of approximately RMB224.1 million, approximately RMB108.5 million, representing approximately 48.4% is attributable to one of our five largest customers for the year ended 31 December 2013. That customer was terminated during the year ended 31 December 2014 because we are informed that customer shifted its business focus. While approximately RMB48.2 million, representing approximately 21.5% of the amount is attributable to the customer mentioned in Note 1 above.

Criteria for selection of distributor customers

We generally select distributor customers which are able to satisfy our assessment criteria, including sales network, influence in particular geographic location, operation ability, credit standing and years of operation. We establish profiles for our distributor customer candidates, which include, among others, their registered capital, business scope, number of employees, and major products. We inspect our distributor customers' business licences, GSP certificates, pharmaceutical operation permit of the PRC and other relevant certificates and we would request them to provide their updated licences and certificates when they are due to expire.

Distribution agreements with our distributor customers

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

- Duration: Generally one year and mutually negotiate for new agreement prior to expiration.

- Annual purchase amount: Our framework sales agreements generally do not include an annual purchase amount.

- Payment: Our distributor customers are generally required to pay us the full purchase prices of the products not exceeding 150 days of delivery to the designated warehouses and after quality check by one of the following way: (i) bank transfer, (ii) cheque or (iii) bank's acceptance bill.

- Sales return policy: We generally do not accept sales returns except for product quality issues. In addition, our distributor customers are generally required to claim sales returns within 3 days of delivery. Products that fail quality test need to be claimed for sales return within 15 days of delivery, while narcotic drugs, psychotropic drugs and refrigerated drugs need to be claimed for sales return within 24 hours of delivery. We generally do not accept sales returns of non-defective products after the allowed sales return period.

Management of our distributor customers

We do not grant any geographic or other exclusivity to any distributor customer. We do not require distributor customers to meet any sales or expansion targets or minimum purchase amounts requirements or provide guarantee of a minimum resale value. We do not require distributor customers to provide inventory report or sales estimates. We do not allow return of obsolete stock, nor do we provide any assistance in their disposal. It remains solely the responsibility of the distributor customers to dispose of any obsolete stock. We do not implement any sales and pricing policy onto our distributor customers. We usually renew agreements with distributor customers and do not terminate any distributor customer unless we have reasons to believe the distributor customer is not able to meet its payment obligations or it loses the requisite licences and permits to conduct its business.

We prevent the occurrence of channel stuffing through adopting a strict product return policy that we generally do not accept product return from our customers (including distributor customers) except for quality issues and damages in packaging. For the years ended 31 December 2012, 2013 and 2014, and six months ended 30 June 2015, sales returns by all customers (including distributor customers) accounted for only less than 0.5% of our total turnover for each of such period.

We generally do not, by ourselves, implement measures to avoid cannibalisation and competition among our distributor customers. According to PICO, it is the industry norm for manufacturing enterprises to control (including but not limited to controlling geographic or other exclusivity or the subsequent selling price) their downstream distributors; while downstream distributors which do not rely on exclusive distributors right of any particular pharmaceutical product (such as us) generally would not manage their subsequent downstream distributors. The reasons are that generally (i) the manufacturing enterprises have relatively more intention to control their own product offerings, and (ii) the distributors carry a broad range of products and hence lack the incentive to control the subsequent sale of a particular product as long as they can make a profit in each sale.

OUR PRODUCT PORTFOLIO

For the six months ended 30 June 2015, we distributed 5,756 products. We select and source our new pharmaceutical products carefully through different stages of checking, including but not limited to quality check, the checking of (i) the permit for production of pharmaceutical products, the GMP certification and other necessary documents, or (ii) the pharmaceutical operation permit, the GSP certification and other necessary documents. We also check the product description, the relevant market for such products, and on-site due diligence. Upon procurement of new products, we would manage our product portfolio through conduct market researches based on the feedbacks from end-users, review the stability and reliability of such products regularly and review our operating data (including but not limited to its gross profit margin and inventory turnover days) to determine whether to keep it in our product portfolio. No single product contributed over 2% of our turnover for any of the periods during the Track Record Period. The table below sets forth the major categories of our products and the number of products in each category:

	Number of Products			
	For the year ended 31 December			For the six months ended 30 June
Product Category	**2012**	**2013**	**2014**	**2015**
Western medicines	3,308	3,349	2,985	2,881
Chinese patent medicines	2,221	2,360	2,175	2,132
Healthcare products	135	153	126	121
Others *(Note)*	987	815	643	622
Total	6,651	6,677	5,929	5,756

Note: Others include Chinese medicine materials and decoction pieces, medical devices and cosmetic products.

Western medicines are generally chemically formulated pharmaceutical products to prevent, cure or diagnose illness, adjust body function, enhance living standard or keep healthy body. Chinese patent medicines are generally pharmaceutical products or formulations in various dosage forms processed from Chinese medicine materials and decoction pieces in accordance with prescription and under the guidance of Chinese medicine theory. Healthcare products are generally a sub-category of food that can be used to adjust body mechanism but are not consumed for the purpose of curing illness.

The ultimate consumers of our pharmaceutical products are primarily the general public. Our products cover a wide range of medicine categories, including but not limited to cough, phlegm and asthma medicine, cold medicine, cardiovascular medicine, gastrointestinal disease medicine, gynaecological medicine, ear, nose and throat medicine, eye diseases medicine, hormones and endocrine medicine, vitamins and minerals medicine, orthopaedic diseases medicine, hepatobiliary medicine, nervous system medicine, etc.

The following tables set forth the ten largest western medicines by turnover during the Track Record Period:

		For the year ended 31 December 2012		
Rank	**Western medicine products**	**Turnover**	**% of our turnover from sales of goods**	**Medicine category**
		(RMB million)		
1	Calcium Carbonate D3 tablet (碳酸鈣D3片)	14.3	0.7%	Vitamins and minerals medicine
2	Clopidogrel Hydrogen Sulphate Tablets (硫酸氫氯吡格雷片)	14.0	0.7%	Cardiovascular diseases medicine
3	Gliclazide Tablets (II) (格列齊特片(II))	10.6	0.5%	Endocrine system diseases medicine
4	Bendazac Lysine Eye Drops (苄達賴氨酸滴眼液)	10.6	0.5%	Eye diseases medicine
5	Gliclazide Sustained-release Tablets (格列齊特緩釋片)	10.1	0.5%	Hormones and endocrine medicine
6	Combined B. Subtilis and E. Faecium Granules with Multivitamines, Live (枯草桿菌二聯活菌顆粒)	9.9	0.5%	Gastrointestinal medicine
7	Levodopa and Benserazide Hydrochloride Tablets (多巴絲肼片)	9.9	0.5%	Nervous system medicine

Rank	Western medicine products	For the year ended 31 December 2012 Turnover *(RMB million)*	% of our turnover from sales of goods	Medicine category
8	Lamivudine Tablets (拉米夫定片)	9.4	0.5%	Hepatobiliary medicine
9	Paracetamol, Pseudoephedrine Hydrocholoride and Dextromethorphan Hydrobromide Tablets II/ Paracetamol, Pseudoephedrine Hydrochloride, Diphenhydramine hydrochloride and Dextromethorphan Hydrobromide tablets (氨酚偽麻美芬片II/氨麻苯美片)	8.8	0.4%	Cold medicine
10	Compound Bromelains Enteric-coated Tablets (複方鳳梨蛋白酶腸溶片)	8.6	0.4%	Cough, phlegm and asthma medicine

Rank	Western medicine products	For the year ended 31 December 2013 Turnover *(RMB million)*	% of our turnover from sales of goods	Medicine category
1	Clopidogrel Hydrogen Sulphate Tablets (硫酸氫氯吡格雷片)	17.5	0.7%	Cardiovascular diseases medicine
2	Lamivudine Tablets (拉米夫定片)	16.9	0.7%	Hepatobiliary medicine
3	Atorvastatin Calcium Tablets (阿托伐他汀鈣片)	16.9	0.7%	Cardiovascular medicine
4	Gliclazide Tablets (II) (格列齊特片(II))	14.0	0.6%	Endocrine system diseases medicine
5	Calcium Carbonate D3 tablet (碳酸鈣D3片)	13.9	0.6%	Vitamins and minerals medicine

Rank	Western medicine products	Turnover	% of our turnover from sales of goods	Medicine category
		For the year ended 31 December 2013		
		(RMB million)		
6	Gliclazide Sustained-release Tablets (格列齊特緩釋片)	13.1	0.5%	Hormones and endocrine medicine
7	Compound Dexamethasone Acetate Cream (複方醋酸地塞米松乳膏)	12.7	0.5%	Skin medicine
8	Combined B. Subtilis and E. Faecium Granules with Multivitamines, Live (枯草桿菌二聯活菌顆粒)	11.4	0.5%	Gastrointestinal medicine
9	Irbesartan Tablets (厄貝沙坦片)	10.4	0.4%	Cardiovascular medicine
10	Levodopa and Benserazide Hydrochloride Tablets (多巴絲肼片)	10.2	0.4%	Nervous system medicine

Rank	Western medicine products	Turnover	% of our turnover from sales of goods	Medicine category
		For the year ended 31 December 2014		
		(RMB million)		
1	Atorvastatin Calcium Tablets (阿托伐他汀鈣片)	31.7	1.1%	Cardiovascular medicine
2	Clopidogrel Hydrogen Sulphate Tablets (硫酸氫氯吡格雷片)	27.3	0.9%	Cardiovascular diseases medicine
3	Calcium Carbonate D3 tablet (碳酸鈣D3片)	21.6	0.7%	Vitamins and minerals medicine
4	Bendazac Lysine Eye Drops (苄達賴氨酸滴眼液)	19.2	0.6%	Eye diseases medicine

Rank	Western medicine products	For the year ended 31 December 2014 Turnover	% of our turnover from sales of goods	Medicine category
		(RMB million)		
5	Gliclazide Tablets (II) (格列齊特片(II))	17.8	0.6%	Endocrine system diseases medicine
6	Domperidone Tablets (OTC) (多潘立酮片(OTC))	17.6	0.6%	Gastrointestinal medicine
7	Irbesartan Tablets (厄貝沙坦片)	15.7	0.5%	Cardiovascular medicine
8	Gliclazide Sustained-release Tablets (格列齊特緩釋片)	13.6	0.5%	Hormones and endocrine medicine
9	Combined B. Subtilis and E. Faecium Granules with Multivitamines, Live (枯草桿菌二聯活菌顆粒)	12.9	0.4%	Gastrointestinal medicine
10	Compound Dexamethasone Acetate Cream (複方醋酸地塞米松乳膏)	12.3	0.4%	Skin medicine

Rank	Western medicine products	For the six months ended 30 June 2015 Turnover	% of our turnover from sales of goods	Medicine category
		(RMB million)		
1	Atorvastatin Calcium Tablets (阿托伐他汀鈣片)	24.4	1.5%	Cardiovascular medicine
2	Clopidogrel Hydrogen Sulphate Tablets (硫酸氫氯吡格雷片)	12.7	0.8%	Cardiovascular diseases medicine
3	Bendazac Lysine Eye Drops (苄達賴氨酸滴眼液)	10.5	0.6%	Eye diseases medicine

Rank	Western medicine products	For the six months ended 30 June 2015 Turnover *(RMB million)*	% of our turnover from sales of goods	Medicine category
4	Gliclazide Sustained-release Tablets (格列齊特緩釋片)	10.4	0.6%	Hormones and endocrine medicine
5	Rocaltrol (骨化三醇膠丸)	7.3	0.4%	Orthopaedic diseases medicine
6	Calcium Carbonate D3 tablet (碳酸鈣D3片)	7.0	0.4%	Vitamins and minerals medicine
7	Irbesartan Tablets (厄貝沙坦片)	6.9	0.4%	Cardiovascular medicine
8	Gliclazide Tablets (II) (格列齊特片(II))	6.8	0.4%	Endocrine system diseases medicine
9	Combined B. Subtilis and E. Faecium Granules with Multivitamines, Live (枯草桿菌二聯活菌顆粒)	6.4	0.4%	Gastrointestinal medicine
10	Domperidone Tablets (OTC) (多潘立酮片(OTC))	5.8	0.4%	Gastrointestinal medicine

The following table sets forth the range of the gross profit margin of our ten largest western medicines by turnover for the periods indicated:

	Range of gross profit margin
For the year ended 31 December 2012	2.0% to 17.8% *(Note)*
For the year ended 31 December 2013	1.9% to 6.6%
For the year ended 31 December 2014	2.2% to 7.2%
For the six months ended 30 June 2015	2.1% to 7.6%

Note: The Directors considered that the gross profit margin of 17.8% is attributable to a pharmaceutical product that experienced price increase as a result of temporary reduction of its production.

The following tables set forth the ten largest Chinese patent medicines by turnover during the Track Record Period:

		For the year ended 31 December 2012		
Rank	**Chinese patent medicine products**	**Turnover**	**% of our turnover from sales of goods**	**Medicine category**
		(RMB million)		
1	Ganmaolin Keli (感冒靈顆粒)	31.8	1.6%	Cold medicine
2	Xia Sang Ju Chongji (夏桑菊沖劑)	19.0	0.9%	Cold medicine
3	Lian Hua Feng Cha (蓮花峰茶)	12.0	0.6%	Cold medicine
4	Chenxiang Lubailu Pian (陳香露白露片)	8.7	0.4%	Gastrointestinal disease medicine
5	Jinji Capsule (金雞膠囊)	8.1	0.4%	Gynaecological medicine
6	Golden Throat Lozenge (金嗓子喉片)	7.4	0.4%	Ear, nose and throat medicine
7	Lian Hua Feng Cha (Dai Pao Ji) (蓮花峰茶(袋泡劑))	7.1	0.4%	Cold medicine
8	Suxiao Jiuxin Wan (速效救心丸)	6.9	0.3%	Cardiovascular medicine
9	Huo Xiang Zheng Qi Kou Fu Ye (藿香正氣口服液)	6.9	0.3%	Cold medicine
10	King-to Nin Jiom Pei Pa Koa (150ML) (京都念慈菴蜜煉川貝枇杷膏 (150毫升))	6.9	0.3%	Cough, phlegm and asthma medicine

Rank	Chinese patent medicine products	For the year ended 31 December 2013 Turnover *(RMB million)*	 % of our turnover from sales of goods	Medicine category
1	Ganmaolin Keli (感冒靈顆粒)	34.1	1.4%	Cold medicine
2	Kangbingdu Koufuye (抗病毒口服液)	33.2	1.4%	Cold medicine
3	Xiangsangju Keli (夏桑菊顆粒)	23.9	1.0%	Cold medicine
4	Xiaoke Pills (消渴丸)	12.3	0.5%	Hormones and endocrine medicine
5	Xiaochaihu Keli (小柴胡顆粒)	11.0	0.5%	Cold medicine
6	Jinji Capsule (金雞膠囊)	10.8	0.5%	Gynaecological medicine
7	Jianwei Xiaoshi Pian (0.5G*12 pieces*3 lots) (健胃消食片 (0.5G*12片*3板))	10.2	0.4%	Gastrointestinal disease medicine
8	Huo Xiang Zheng Qi Kou Fu Ye (藿香正氣口服液)	9.6	0.4%	Cold medicine
9	Fufang Xueshuantong Jiaonang (複方血栓通膠囊)	9.2	0.4%	Cardiovascular medicine
10	Jianwei Xiaoshi Pian (0.8G*32 pieces) (健胃消食片 (0.8G*32片))	9.2	0.4%	Gastrointestinal disease medicine

Rank	Chinese patent medicine products	For the year ended 31 December 2014 Turnover *(RMB million)*	 % of our turnover from sales of goods	Medicine category
1	Kangbingdu Koufuye (抗病毒口服液)	54.2	1.8%	Cold medicine
2	Xiangsangju Keli (夏桑菊顆粒)	44.3	1.5%	Cold medicine

		For the year ended 31 December 2014		
Rank	Chinese patent medicine products	Turnover	% of our turnover from sales of goods	Medicine category
		(RMB million)		
3	Ganmaolin Keli (感冒靈顆粒)	37.3	1.2%	Cold medicine
4	Xiaoke Pills (消渴丸)	31.7	1.1%	Hormones and endocrine medicine
5	Huo Xiang Zheng Qi Kou Fu Ye (藿香正氣口服液)	18.0	0.6%	Cold medicine
6	Jianwei Xiaoshi Pian (0.5G*12 pieces*3 lots) (健胃消食片(0.5G*12片*3板))	17.3	0.6%	Gastrointestinal disease medicine
7	Xiaochaihu Keli (小柴胡顆粒)	16.7	0.6%	Cold medicine
8	Jianwei Xiaoshi Pian (0.8G*32 pieces) (健胃消食片 (0.8G*32片))	15.4	0.5%	Gastrointestinal disease medicine
9	King-to Nin Jiom Pei Pa Koa (150ML) (京都念慈菴蜜煉川貝枇杷膏 (150毫升))	15.0	0.5%	Cough, phlegm and asthma medicine
10	King-to Nin Jiom Pei Pa Koa (300ML) (京都念慈菴蜜煉川貝枇杷膏 (300毫升))	14.0	0.5%	Cough, phlegm and asthma medicine

		For the six months ended 30 June 2015		
Rank	Chinese patent medicine products	Turnover	% of our turnover from sales of goods	Medicine category
		(RMB million)		
1	Xiangsangju Keli (夏桑菊顆粒)	22.3	1.4%	Cold medicine
2	Ganmaolin Keli (感冒靈顆粒)	22.1	1.4%	Cold medicine
3	Huo Xiang Zheng Qi Kou Fu Ye (藿香正氣口服液)	17.5	1.1%	Cold medicine

Rank	Chinese patent medicine products	For the six months ended 30 June 2015 Turnover	% of our turnover from sales of goods	Medicine category
		(RMB million)		
4	Angong Niuhuang Wan (安宮牛黃丸)	16.1	1.0%	Cardiovascular medicine
5	Xiaochaihu Keli (小柴胡顆粒)	15.2	0.9%	Cold medicine
6	Xiaoke Pills (消渴丸)	12.6	0.8%	Hormones and endocrine medicine
7	Danshen Baoxin Cha (丹參保心茶)	10.6	0.7%	Cardiovascular medicine
8	Jizhi Tangjiang (急支糖漿)	8.4	0.5%	Cough, phlegm and asthma medicine
9	Dinggui Erqi Tie (丁桂兒臍貼)	8.3	0.5%	Gastrointestinal disease medicine
10	King-to Nin Jiom Pei Pa Koa (150ML) (京都念慈菴蜜煉川貝枇杷膏 (150毫升))	6.6	0.4%	Cough, phlegm and asthma medicine

The following table sets forth the range of the gross profit margin of our ten largest Chinese patent medicines by turnover for the periods indicated:

	Range of gross profit margin
For the year ended 31 December 2012	0.2% to 43.8% *(Note)*
For the year ended 31 December 2013	1.5% to 6.9%
For the year ended 31 December 2014	1.9% to 6.4%
For the six months ended 30 June 2015	2.2% to 7.7%

Note: The gross profit margin of 43.8% is attributable to a pharmaceutical product that we had obtained exclusive geographical distribution right.

During the Track Record Period, our sales were generally relatively higher in the last quarter and relatively lower in the first quarter of each year. Sales tend to be higher in the last quarter primarily due to (i) demands for products we distribute tend to be higher in the winter season as there are higher incidences of certain diseases when the weather is cold; (ii) the prices of the pharmaceutical products for the purpose of curing diseases incurred in winter tend to be higher; and (iii) stocking of inventory prior to Chinese New Year holidays as pharmaceutical production and distribution process would be interrupted. Sales tend to be relatively low in the first quarter primarily as a result of reduced business activities around the Chinese New Year holidays and the advance purchases by our customers in the last quarter of the previous year. Please refer to the section headed "Financial Information — Factors Affecting Our Results of Operations — Seasonality" in this Prospectus for further information.

The following table sets out the breakdown of our turnover from sales of goods by product category during the Track Record Period:

	For the year ended 31 December						For the six months ended 30 June			
	2012		2013		2014		2014		2015	
	Turnover (RMB'000)	*% of our turnover*	*Turnover (RMB'000)*	*% of our turnover*	*Turnover (RMB'000)*	*% of our turnover*	*Turnover (RMB'000)* (unaudited)	*% of our turnover*	*Turnover (RMB'000)*	*% of our turnover*
Western medicines	973,198	48.4%	1,130,817	47.3%	1,374,004	45.7%	667,234	46.2%	748,232	46.0%
Chinese patent medicines	876,573	43.6%	1,086,120	45.4%	1,399,120	46.6%	673,671	46.6%	756,613	46.5%
Healthcare products	84,659	4.2%	90,253	3.8%	117,996	3.9%	57,184	4.0%	63,785	3.9%
Others	76,516	3.8%	84,967	3.5%	113,627	3.8%	45,652	3.2%	57,607	3.6%
Total	2,010,946	100.0%	2,392,157	100.0%	3,004,747	100.0%	1,443,741	100.0%	1,626,237	100.0%

For the six months ended 30 June 2015, our distribution portfolio consisted of 2,899 OTC products and 2,857 prescription products, representing approximately 50.4% and 49.6% of the total number of products distributed.

The table below sets out the sales price ranges of major categories of our products for the six months ended 30 June 2015.

Product Category	**Per Unit Sales Price Range**
Western medicines	RMB0.1 to RMB2,425.7
Chinese patent medicines	RMB0.4 to RMB1,155.8
Healthcare products	RMB2.8 to RMB217.2

The following table sets forth the number of products of which we are the Primary Distributor or have a national or regional exclusive distribution right during the Track Record Period:

	Year ended 31 December						For the six months ended 30 June	
	2012		2013		2014		2015	
	Number of products	*% of the total products*	*Number of products*	*% of the total products*	*Number of products*	*% of the total products*	*Number of products*	*% of the total products*
Primary Distributor	2,858	43.0	3,105	46.5	3,461	58.4	3,491	60.6
of which:								
Having a national or regional exclusive distribution right	37	0.6	45	0.7	85	1.4	87	1.5
Others	3,793	57.0	3,572	53.5	2,468	41.6	2,265	39.4

The following tables set forth the turnover and gross profit derived from the sales of goods for which we acted as the Primary Distributor during the Track Record Period:

	Year ended 31 December						For the six months ended 30 June	
	2012		2013		2014		2015	
	Turnover (RMB'000)	*% of our turnover*	*Turnover (RMB'000)*	*% of our turnover*	*Turnover (RMB'000)*	*% of our turnover*	*Turnover (RMB'000)*	*% of our turnover*
Acted as Primary Distributor	882,879	43.9%	1,143,529	47.8%	1,563,105	52.0%	854,418	52.5%

	Year ended 31 December						For the six months ended 30 June	
	2012		2013		2014		2015	
	Gross profit (RMB'000)	*% of our gross profit*	*Gross profit (RMB'000)*	*% of our gross profit*	*Gross profit (RMB'000)*	*% of our gross profit*	*Gross profit (RMB'000)*	*% of our gross profit*
Acted as Primary Distributor	35,793	44.0%	45,884	48.3%	66,769	52.5%	39,389	52.9%

The shelf life for majority of our products ranges from 1 year to 5 years and majority of them are 2 years.

SALES AND MARKETING

We collaborate with pharmaceutical manufacturers to conduct sales promotion and marketing activities. We also regularly publish our own promotional materials to our customers to showcase our products, promotional activities and corporate image. We maintain close business relationships with our major customers by obtaining feedbacks through business visits conducted by our sales representatives and convening seminars.

As of 30 June 2015, we had approximately 148 sales personnel covering Southern China, Fujian Province and Zhejiang Province.

PRICING

The prices of products we distribute are determined by taking into account various factors, including our procurement and operation costs, target profit margin, market competition and conditions and customer preferences. In addition, the prices of our products are subject to designated selling prices set by our certain manufacturer suppliers.

SUPPLIERS

We source pharmaceutical products from pharmaceutical manufacturers and distributor suppliers. For the years ended 31 December 2012, 2013 and 2014 and six months ended 30 June 2015, we had transactions with 934, 966, 1,013 and 865 suppliers in total, of which 755, 799, 774 and 638 were pharmaceutical manufacturer suppliers, and 179, 167, 239 and 227 were distributor suppliers. We carefully select our new suppliers based on various criteria, including their product selection and quality, product quality record, business scale and reputation. Our quality control staff would also review qualifications and track records of the supplier candidates and only engage those who meet our criteria. We would require the supplier candidates to provide relevant licenses, permits and documents necessary for their operations, including, but not limited to, business license, GMP certificates (or GSP certificate), the permit for production of pharmaceutical products (or pharmaceutical operation permit) of the PRC and other relevant certificates to assess their qualification and their ability to control the quality of their products. As for existing suppliers, we would review their product quality record and request them to renew relevant licenses and certificates when they are due to expire.

As of 30 June 2015, we had 865 suppliers and we had business relationships with our five largest suppliers for more than 10 years on average. In addition, approximately 60% of our suppliers have established relationship with us for over 3 years. For the years ended 31 December 2012, 2013 and 2014 and the six months ended 30 June 2015, our purchases from our five largest suppliers accounted for approximately 36.0%, 33.2%, 31.7% and 30.9% of our total procurement cost, respectively. In the same periods, our purchase from our largest supplier accounted for approximately 11.9%, 13.4%, 16.1% and 14.4% of our total procurement cost, respectively. All of our five largest suppliers during the Track Record Period were Independent Third Parties.

None of our Directors, their respective associates, nor any of our Shareholders holding more than 5% of our issued share capital, is related to or owns any interest in any of our five largest suppliers for the years ended 31 December 2012, 2013 and 2014 and the six months ended 30 June 2015.

The table below sets forth information related to our five largest suppliers during the Track Record Period:

For the year ended 31 December 2012

Supplier	Business nature of the supplier	Credit terms	Year of relationship (rounded to nearest year)	% to total costs of purchase of our Group (approximate)
Supplier A	Distribution of pharmaceutical products	30 days	10 years	11.9
Supplier B	Distribution and manufacturing of pharmaceutical products	0 day to 60 days	6 years	10.2
Supplier C	Distribution of pharmaceutical products	15 days to 30 days	10 years	6.0
Supplier D	Distribution of pharmaceutical products	30 days	6 years	4.3
Supplier E	Distribution of pharmaceutical products	5 days to 75 days	9 years	3.6

For the year ended 31 December 2013

Supplier	Business nature of the supplier	Credit terms	Year of relationship (rounded to nearest year)	% to total costs of purchase of our Group (approximate)
Supplier A	Distribution of pharmaceutical products	30 days	11 years	13.4
Supplier B	Distribution and manufacturing of pharmaceutical products	0 day to 60 days	7 years	8.6
Supplier C	Distribution of pharmaceutical products	15 days to 30 days	11 years	4.6
Supplier E	Distribution of pharmaceutical products	5 days to 75 days	10 years	3.4
Supplier F	Distribution of pharmaceutical products	35 days	11 years	3.2

For the year ended 31 December 2014

Supplier	Business nature of the supplier	Credit terms	Year of relationship (rounded to nearest year)	% to total costs of purchase of our Group (approximate)
Supplier A	Distribution of pharmaceutical products	30 days	12 years	16.1
Supplier B	Distribution and manufacturing of pharmaceutical products	0 day to 60 days	8 years	4.6
Supplier E	Distribution of pharmaceutical products	5 days to 75 days	11 years	4.1
Supplier G	Distribution of pharmaceutical products	45 days	12 years	3.5
Supplier F	Distribution of pharmaceutical products	35 days	12 years	3.4

For the six months ended 30 June 2015

Supplier	Business nature of the supplier	Credit terms	Year of relationship (rounded to nearest year)	% to total costs of purchase of our Group (approximate)
Supplier A	Distribution of pharmaceutical products	30 days	13 years	14.4
Supplier B	Distribution and manufacturing of pharmaceutical products	0 day to 60 days	9 years	5.9
Supplier E	Distribution of pharmaceutical products	5 days to 75 days	12 years	4.0
Supplier C	Distribution of pharmaceutical products	15 days to 30 days	12 years	3.4
Supplier F	Distribution of pharmaceutical products	35 days	13 years	3.2

The table below sets forth the breakdown of total purchase by supplier type during the Track Record Period:

	For the year ended 31 December						For the six months ended 30 June 2015	
	2012		2013		2014			
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*	*RMB'000*	*%*
Manufacturer suppliers	963,471	50.0%	1,243,002	52.6%	1,566,777	53.3%	859,984	53.9%
Distributor suppliers	962,275	50.0%	1,122,111	47.4%	1,375,422	46.7%	734,821	46.1%
Total	1,925,746	100.0%	2,365,113	100.0%	2,942,199	100.0%	1,594,805	100.0%

We earn purchase discounts directly or indirectly from manufacturer suppliers upon fulfilment of certain purchase targets as stipulated on the annual purchase agreements. Such purchase discounts directly deduct the cost of procurement at the time we purchase their products. The timing which our suppliers provide the purchase discounts to us vary among the purchase agreements and usually include the following three circumstances: (i) during the first half of each year after the confirmation of the fulfilment of purchase target of the previous years; (ii) during the next quarter upon confirmation of the fulfilment of purchase target; and (iii) during our next purchase after the confirmation of fulfilment of purchase target.

The table below sets forth information related to our five suppliers with the largest purchase discounts during the Track Record Period:

	For the year ended 31 December			For the six months ended 30 June
	2012	2013	2014	2015
	(RMB'000)	*(RMB'000)*	*(RMB'000)*	*(RMB'000)*
Total purchase discounts of five suppliers with the largest purchase discounts	5,198	14,428	24,276	11,372
Total purchase discounts	17,821	41,936	79,901	46,041
The percentage of total purchase discounts of five suppliers with the largest purchase discounts to the total purchase discounts	29.2%	34.4%	30.4%	24.7%

The table below sets forth the purchase discount rate for the five largest suppliers of the Group during the Track Record Period:

Five largest suppliers	For the year ended 31 December 2012 Purchase discounts *(RMB'000)*	Total Purchase *(RMB'000)*	Purchase discount rate
Supplier A	2,076	228,235	0.9%
Supplier B	790	196,825	0.4%
Supplier C	553	116,321	0.5%
Supplier D	–	83,031	–
Supplier E	380	68,800	0.6%

Five largest suppliers	For the year ended 31 December 2013 Purchase discounts *(RMB'000)*	Total Purchase *(RMB'000)*	Purchase discount rate
Supplier A	4,058	316,481	1.3%
Supplier B	3,161	202,934	1.6%
Supplier C	1,962	109,064	1.8%
Supplier E	1,111	80,504	1.4%
Supplier F	958	75,099	1.3%

Five largest suppliers	For the year ended 31 December 2014 Purchase discounts *(RMB'000)*	Total Purchase *(RMB'000)*	Purchase discount rate
Supplier A	7,649	474,837	1.6%
Supplier B	3,457	135,471	2.6%
Supplier E	2,396	121,409	2.0%
Supplier G	2,989	103,364	2.9%
Supplier F	2,186	99,547	2.2%

Five largest suppliers	For the six months ended 30 June 2015 Purchase discounts *(RMB'000)*	Total Purchase *(RMB'000)*	Purchase discount rate
Supplier A	3,563	229,496	1.6%
Supplier B	1,337	94,563	1.4%
Supplier E	1,477	64,066	2.3%
Supplier C	427	53,547	0.8%
Supplier F	538	50,732	1.1%

The table below sets forth the breakdown of purchase discounts by supplier types during the Track Record Period:

Supplier type	For the year ended 31 December 2012 Purchase discounts (RMB'000)	2012 No. of suppliers providing purchase discounts	2013 Purchase discounts (RMB'000)	2013 No. of suppliers providing purchase discounts	2014 Purchase discounts (RMB'000)	2014 No. of suppliers providing purchase discounts	For the six months ended 30 June 2015 Purchase discounts (RMB'000)	For the six months ended 30 June 2015 No. of suppliers providing purchase discounts
Manufacturing suppliers	12,658	184	27,459	256	54,603	317	35,928	254
Distributor suppliers	5,163	23	14,477	36	25,298	68	10,113	65
Total	17,821	207	41,936	292	79,901	385	46,041	319

We typically enter into framework purchase agreements with our suppliers, which generally include the following principal terms:

- Duration: Generally one year and mutually negotiate for new agreement prior to expiration.

- Annual minimum purchase amount: Our framework purchase agreements with suppliers generally do not include an annual minimum purchase amount.

- Payment: The payment and credit terms vary among the purchase agreements, which generally include three types: (i) prepayment; (ii) paying the full purchase prices of the products upon delivery to our designated warehouse; and (iii) paying the full purchase prices of the products not exceeding 120 days of credit period after the delivery to the designated warehouses and quality check, by one of the following ways: (a) bank transfer, (b) telegraphic transfer, or (c) bank's acceptance bill.

Since (i) we do not commission any particular manufacturer for production of any particular product, and (ii) there are numbers of suppliers available to supply similar products, we believe that alternative suppliers or alternative products are readily available for substantially all of the products we stock, and the loss of any one supplier would not have a material effect on our operations. Although we generally do not have long term written contracts with our major suppliers, we have not experienced material difficulty in maintaining reliable sources of supply, and we generally expect to be able to maintain adequate sources of supply of pharmaceutical products sold to our customers.

OVERLAP BETWEEN CUSTOMERS AND SUPPLIERS

Pharmaceutical distribution business

We had customers that were also our suppliers during the Track Record Period. During the Track Record Period, one, nil, nil and nil of our five largest customers were also among our five largest suppliers. All of our agreements with customers that were also our suppliers were entered into on an arm's length basis. According to PICO, in the pharmaceutical industry, the same products generally refer to products with the same title, packing specification, manufacturer and production batch number. Pharmaceutical products produced by the same manufacturer in the same batch have the same unique production batch number, which also contains the same expiration date. According to PICO, products that are otherwise the same but have different expiration dates are viewed as having different intrinsic value and priced differently as a result. Therefore, if products have different production batch numbers, they are generally not regarded as the same products in the pharmaceutical industry, according to PICO. Based on the aforementioned industry norm, we did not sell and purchase the same products from any of those parties that were both our customers and suppliers during the Track Record Period. During the Track Record Period, we sold to and purchased from some customers certain products with the same title, packing specification and manufacturer but different production batch numbers. Our sales to customers that were also our suppliers of products with the same title, packing specification and manufacturer but different production batch numbers amounted to approximately RMB21.5 million, RMB31.6 million, RMB52.9 million and RMB4.2 million, respectively, for the years ended 31 December 2012, 2013 and 2014 and the six months ended 30 June 2015, representing approximately 1.1%, 1.3%, 1.8% and 0.3% of our total turnover during the same periods. Our gross profit of such sales amounted to approximately RMB1.0 million, RMB1.3 million, RMB2.1 million and RMB0.2 million, respectively, for the years ended 31 December 2012, 2013 and 2014 and the six months ended 30 June 2015, representing approximately 1.1%, 1.3%, 1.5% and 0.2% of our total gross profit during the same periods. Our gross profit margin of such sales amounted to approximately 4.7%, 4.1%, 4.0% and 4.8%, respectively, for the years ended 31 December 2012, 2013 and 2014 and the six months ended 30 June 2015. Our purchases of such products from the customers that were also our suppliers amounted to approximately RMB53.1 million, RMB47.3 million, RMB79.8 million and RMB20.9 million, respectively, for the years ended 31 December 2012, 2013 and 2014 and the six months ended 30 June 2015, representing approximately 2.8%, 2.1%, 2.8% and 1.3% of our total procurement cost during the same periods.

For the years ended 31 December 2012, 2013 and 2014, and the six months ended 30 June 2015, our total sales to all customers that were also our suppliers were approximately RMB588.4 million, RMB501.7 million, RMB997.7 million and RMB457.9 million, respectively, representing approximately 29.2%, 20.9%, 33.1% and 28.0% of our total turnover for these periods. Our total purchases from them were approximately RMB620.6 million, RMB497.9 million, RMB706.4 million and RMB345.8 million, respectively, and they contributed approximately 32.2%, 21.7%, 24.5% and 22.3% of our total procurement cost for these periods. During the Track Record Period, only one party was among both our five largest customers and our five largest suppliers in 2012 and our total sales to it was approximately RMB92.7 million and our total procurement cost from it was RMB83.0 million for the year ended 31 December 2012. Such party contributed approximately 9.3% to our gross profit for the year ended 31 December 2012.

Services business

We also derive services income from our suppliers through providing consultancy service on marketing strategy and related information services to them. For the three years ended 31 December 2012, 2013 and 2014 and the six months ended 30 June 2015, our total services income derived from our suppliers amounted to approximately RMB6.0 million, RMB9.1 million, RMB9.3 million and RMB9.2 million, respectively, and they contributed to approximately 0.3%, 0.4%, 0.3% and 0.6% of our turnover for these periods.

Commercial Rationale for Overlap between Customers and Suppliers

Pharmaceutical distribution business

We have no preference regarding whether the products sold and purchased are of the same title, packaging specification and manufacturer or whether the customers or suppliers are our existing suppliers or customers.

When we need to procure a certain product, we first make price inquiries in the market and then select the most favourable price quote. The difference in the price quotes from pharmaceutical distributors are due to their specific circumstances, resources and sales strategies.

For products with the same title, manufacturer and packaging specification, regardless of production batch number, the factors affecting selling prices offered by different pharmaceutical distributors include the following:

(i) source of supply. Depending on whether the product is procured from a manufacturer or another pharmaceutical distributor, procurement prices are usually different;

(ii) purchase quantity. Sellers usually offer more favourable prices for large quantity purchases;

(iii) costs, including transportation costs and other related costs; and

(iv) sales channels.

Within the pharmaceutical distribution industry where wholesales by pharmaceutical distributors are characterised by large sales volumes with relatively low profit margin due to their trading nature, pharmaceutical distributors including us, generate a profit from the difference between the procurement price and the selling price of a pharmaceutical product. A sale occurs as long as pharmaceutical distributors, including us, are able to obtain a reasonable profit margin.

When more than one party offer similar term (taking into account price, lead-time of delivery, credit period and discount, the batch of goods supplied etc.), we often select the party we have established business relationship due to familiarity of transaction process and mutual trust. As a result, we had transactions where we sold products to customers who were also our suppliers and we purchased products from suppliers who were also our customers.

We may also purchase from our customers when there are changes to the market supply and demand which lead to the shortage of a product we supplied. Since stable supply of products is crucial to our competitiveness as a pharmaceutical distributor and our ability to maintain long-term relationship with our clients, we may procure products from other distributors who are also our clients when in needs. For example, although we usually supply products to certain customers, in some circumstances (such as when we are in urgent need of certain products, or when we run out of stock for certain products, etc.) we may purchase such products from our customers if we cannot procure the same in time from our usual suppliers.

Another reason for procurement of products from our customers is the expansion of products mix of a pharmaceutical distributor. In the pharmaceutical distribution industry, different distributors supply different products. In order to expand our product mix and enhance our competitiveness in the industry, we may procure products from other distributor customers. As a result, such complementary product distribution between distributors also leads to the overlap between customers and suppliers.

According to PICO, such practice is common among the pharmaceutical distribution industry.

Services business

According to PICO, it is a common business model for pharmaceutical distribution company to capitalise on its existing resources to provide consultancy services and information services to our suppliers to derive services income.

Settlement Method With Overlapping Customers and Suppliers

During the Track Record Period, our settlement arrangements with those customers that were also our suppliers consisted of two types of payment basis as follows: (i) in most cases, we and those customers that were also our suppliers made separate payments for purchases from each other; and (ii) in some instances when a purchase and a sale with the same party occurred close in time, the parties netted off payables and receivables and settled payment of the net amount.

INVENTORY MANAGEMENT

Our inventory primarily consists of a variety of pharmaceutical products for our distribution operations. We manage our inventory with a focus on controlling our inventory efficiently, maintaining the variety of products available for our customers and ensuring prompt delivery of our products to customers. Our inventory turnover is usually stable and our inventory maintenance level is determined based on systematic calculation, with reference to our historical statistical data, of the minimal stocking to support our sales and the maximum stocking to prevent overstocking. We compile procurement plans based on the annual and monthly sales plans and existing stock to ensure that we maintain reasonable levels of inventory. In compliance with the GSP requirements, we have established different types of warehouse systems based on the physical and chemical nature of each type of medicine including, among others, cool warehouse and cold warehouse. In addition, we have set up a coding system for our inventory management and assigned an unique identification code to each inventory, so as to manage and control our inventory on a real-time basis. Our computerised inventory management system also allows us to track the inventory levels and the movement of products in our warehouses on a real-time basis and assess product popularity. Based on such information, we can optimise our purchase quantities and product offerings. We monitor the holding period of the products in our warehouse, and when certain products are found to be slow-moving or close to expiry, our system would alert our staff and in response, we generally would liaise with our suppliers to launch promotion activities or our sales representatives would reach out to our target customers to encourage the sales of such products. Before the products expire, we would stop selling the same so as to ensure products we distribute are safe.

For the years ended 31 December 2012, 2013 and 2014 and the six months ended 30 June 2015, our inventory turnover days were approximately 39.9 days, 40.8 days, 31.1 days and 28.1 days, respectively. For details, please see the section headed "Financial Information — Selected Consolidated Statement of Financial Position Information — Inventories" in this Prospectus.

As of 30 June 2015, we had approximately 120 staff responsible for inventory management.

QUALITY CONTROL AND PRODUCT LIABILITY

As we consider the quality of our product is crucial to our continued growth, we are committed to providing quality products to our customers. Moreover, as the PRC government has issued a series of national quality standards for the pharmaceutical industry, we implement stringent quality control procedures to ensure that we fully conform with all applicable laws, regulations and standards. Our system is designed in adherence to the GSP requirements and we have received GSP certifications for our operation. We are committed to performing quality control throughout every stage of our business operation, including procurement, receipt of products, inspection, warehousing and inspection before delivery.

Our quality control staff are responsible for implementing quality control measures. As of 30 June 2015, our quality control team in Foshan and Shantou consisted of a total of 22 employees. All of our quality control staff and inspection staff possess the relevant academic qualification as required by the GSP. In addition, we have climate-controlled warehouses to maintain suitable storage conditions for the quality and safety of pharmaceutical products.

We carefully select our suppliers based on various factors, including their product selection and quality, business scale and reputation. Before engaging suppliers, our quality control staff would review the qualifications and track records of the supplier candidates and only engage those who meet our criteria. We would further conduct review on the products supplied by these new suppliers to ensure legality before we start to procure from them. Before warehousing, our quality control staff would verify the basic information of the purchased products such as the details of the manufacturers, the approval numbers and the packaging in accordance with the inspection standard, our procurement record and the pharmaceutical inspection report issued by the supplier. If such products do not pass the examination and verification, our quality control staff will notify the supplier without warehousing. If such products pass the examination and verification, our quality control staff will keep the pharmaceutical inspection report provided by our suppliers and the procurement receipt for our records and store the products in our warehouses, which satisfy the GSP requirements. For products stored in our warehouse, our quality control staff, whose works are monitored and supervised by our quality control department, would conduct regular quality inspection and monitor the storage conditions.

In addition, certain specialty medicines, such as narcotic drugs and psychotropic drugs, are stored separately in controlled settings and overseen by specially-trained personnel. In order to comply with certain CFDA requirements, we assign two specially-trained personnel to oversee from warehousing to delivery of such medicine. Damaged products caused by us will be stored in separate warehouses designated for storage of defective products and upon the expiry of such products, we immediately notify the relevant qualified personnel to initiate the destruction procedures and the staff from our quality control department would monitor the destruction procedures in full.

Our suppliers typically provide quality assurance and would be responsible for the quality of products provided by them within the validity period. Our loss attributable to quality issues of the goods supplied by suppliers will be borne by them.

In general, manufacturers of pharmaceutical products are responsible for product liability, although we may also be liable for products we have distributed, especially when such liability is due to our improper storage or delivery. We have not subscribed for product liability insurance, as such liability is generally borne by the manufacturers.

According to PICO, the quality control measures adopted by pharmaceutical distributors in the pharmaceutical distribution industry over the goods supplied by their suppliers are mainly two folded, including (1) pre-transaction qualification inspection: in general as long as the enterprises have obtained (i) the permit for production of pharmaceutical products as well as the GMP certification and other necessary documents or (ii) the pharmaceutical operation permit, the GSP certification and other necessary documents, and there are no records of contravening laws and regulations, it is deemed the products produced by such manufacturers qualified products; and (2) the examination of goods during transaction: the GSP only requires distributor to verify the relevant invoice, inspection report as well as doing batch sampling for each shipment of pharmaceutical products, for which our inspection personnel are only required to check the appearance, packaging, labelling, product description and other relevant supporting documents of such sampling products, and there is no mandatory requirement for pharmaceutical distributor to examine the internal components and quality of the pharmaceutical products. Since we have adopted the above quality control measures, our Directors and PICO are of the view that our quality control measures are in line with the industry norm.

PRODUCT RETURN

Except for quality issues and damages in packaging, we generally do not accept product returns or provide refunds for our pharmaceutical products sold. Such policy complies with relevant PRC laws and regulations. Our suppliers generally provide quality assurance and they shall bear all liabilities if we become aware of any quality issues regarding the pharmaceutical products supplied by them. According to PICO, the quality control measures adopted by pharmaceutical distributors over the goods supplied by their suppliers are mainly two folded, including (1) pre-transaction qualification inspection: in general as long as the enterprises have (i) obtained the permit for production of pharmaceutical products as well as the GMP certification and other necessary documents or (ii) the pharmaceutical operation permit, the GSP certification and other necessary documents, and there are no records of contravening laws and regulations, it is deemed the products produced by such manufacturers qualified product; and (2) the examination of goods during transaction: the GSP only requires distributor to verify the relevant invoice, inspection report as well as doing batch sampling for each shipment of pharmaceutical products, for which our inspection personnel are only required to check the appearance, packaging, labelling, product description and other relevant supporting documents of such sampling products, and there is no mandatory requirement for pharmaceutical distributor to examine the internal components and quality of the pharmaceutical products. Moreover, since pharmaceutical distributors usually have large number of suppliers and distribute large number of products, it would be difficult for distributor to check the internal quality of each product. As such, in the case that there are no damage in packaging and relevant documentation including inspection report are properly attached, the distributors would not be able to know whether there are any problem in the internal quality of the products and hence pharmaceutical distributors (including us) could be subject to administrative punishment for selling inferior drugs if our suppliers fail to supply goods that meet the quality standard.

For the years ended 31 December 2012, 2013 and 2014, and six months ended 30 June 2015, sales returns by all customers (including distributor customers) amounted to approximately RMB5.6 million, RMB5.2 million, RMB9.9 million and RMB6.1 million, respectively, representing less than 0.5% of our total turnover for each of such period.

PRODUCT RECALL

During the Track Record Period, we had one major incident of product recall, which was related to poisonous capsules and such product recall was requested by the office of CFDA. The poisonous capsule incident was a nationwide incident and was caused by the use of sub-standard gelatin by the raw material manufacturer. We consider that it is a major incident as the poisonous capsules were used by numerous pharmaceutical manufacturers to produce a variety of pharmaceutical products (including 3 products which we were affected as selling inferior drugs as described below). The incident led to a nationwide recall on a large volume of pharmaceutical products in the market. Upon the pharmaceutical manufacturers initiated a product recall and sent us the recall notice on the affected products in April and May 2012, our staff started reaching out to our customers to recall the relevant products in the same months. The manufacturers of the capsules bore all the liabilities and provided replacement. The incident did not have a material adverse effect on our sales, results of operations and business operations. We are of the view that the incident did not have a material adverse impact on our reputation as the focus of the incident is on the raw material manufacturing enterprises supplying the relevant batches of poisonous capsules, who were liable for such incident.

We were involved in 11 incidents of selling inferior drugs that the Company sourced from manufacturer suppliers from 2012 to 2013, in which 3 of them were related to the poisonous capsule incidents which subjected to product recall as described above. The remaining 8 incidents (including having visible particles in the products) did not trigger product recall as those inferior drugs did not pose unreasonable risk to endanger human health and life, and hence recall is not required under the Administrative Measures on Drug Recalls. Please refer to the section headed "Regulatory Overview — Other Relevant PRC Laws and Regulations — Drug Recalls" for details of the PRC regulation on product recall. The reason for such 11 incidents was primarily due to the failure of our suppliers in supplying drugs that meet the quality standard. Such incident individually or in the aggregate have not had or may not have in the future, a material financial or operational impact on the Group taken as a whole as the administrative punishment for a single incident did not exceed RMB90,000 and the aggregate administrative punishment did not exceed RMB260,000. As advised by the PRC Legal Advisers, the penalty to the Company as a result of the quality issues of the drugs supplied shall be borne by the suppliers. The Directors confirmed that the Company has paid the penalty and has recovered the relevant penalty it paid from the relevant suppliers. The turnover derived from selling of inferior drugs and products related to the poisonous capsules amounted to approximately RMB0.4 million, RMB0.1 million, nil and nil, respectively, for the years ended 31 December 2012, 2013 and 2014 and the six months ended 30 June 2015, representing approximately 0.02%, 0.004%, nil and nil of our total turnover during the same periods.

Apart from the abovementioned poisonous capsule incidents, our suppliers had initiated product recalls, which we reached out to our customers on 2, 3, 10, 8 products for the years ended 31 December 2012, 2013 and 2014 and the six months ended 30 June 2015, respectively. All of such product recall incidents were initiated by the suppliers of the relevant products, and the amount of such products recalled was insignificant, representing less than approximately 0.01% of our turnover during each of the Track Record Period and therefore we did not consider them as major incidents. We did not have any other customer complaints and product liability claims during the Track Record Period.

LOGISTICS

As of 30 June 2015, we had two logistic centres located in Shantou and Foshan, the Guangdong Province. Our logistic centres are our warehouses for the pharmaceutical products we sourced from suppliers and for distribution of products to customers.

We have our own logistics team which is responsible for the delivery of products. Our logistics team consisted of 146 personnel as of 30 June 2015. As of 30 June 2015, we owned and operated 59 ordinary delivery vehicles and 3 refrigerated delivery vehicles, which we use to deliver products within approximately 150 km radius of our logistic centres in Shantou and Foshan. For delivery of products to places outside approximately 150 km radius, we retain third-party logistics providers, which have been reviewed by our quality control department and regarded as qualified, to ensure timely delivery of products to our customers. During the Track Record Period, we have not experienced material disputes with our third-party logistics providers. These third-party logistics providers bear the risk of product loss or damage during delivery and transportation.

RESEARCH AND DEVELOPMENT

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

AWARDS AND RECOGNITIONS

We have received awards and recognitions from various entities in the PRC. The table below sets forth our major awards:

Year(s)	Awards and recognitions	Awarding issuing authority
2015	"Triple A Credit Rating Enterprise in China" ("中國AAA級信用企業")	International Trade and Economic Cooperation Research Institute of the MOFCOM (商務部國際貿易經濟合作研究院) and the China Cooperate Trade Enterprises Association (中國合作貿易企業協會)
2015	Trustworthy Enterprise in Guangdong Province for Fourteen Consecutive Years (2001-2014) (連續14年(2001-2014)"廣東省守合同重信用企業")	Guangdong Provincial Administration for Industry and Commerce (廣東省工商行政管理局)
2015	Trustworthy Model Enterprise in Guangdong Province (2011-2014) (連續4年(2011-2014) "廣東省誠信示範企業")	Guangdong Provincial Enterprise Confederation (廣東省企業聯合會) and Guangdong Provincial Association of Entrepreneurs (廣東省企業家協會)
2015	Top 100 Enterprises of Service Industry in Guangdong Province for the Year 2014 to 2015 (2014-2015年廣東省服務業百強企業)	Guangdong Provincial Enterprise Confederation (廣東省企業聯合會) and Guangdong Provincial Association of Entrepreneurs (廣東省企業家協會)

Year(s)	Awards and recognitions	Awarding issuing authority
2015	A-Class Model Enterprise of Integrity of Wholesale Chain Stores of Pharmacy Industry in Foshan of Year 2014 (2014年度佛山市藥品批發(連鎖)企業信用等級A級誠信示範企業)	Foshan Medicines & Health Products Industry Association (佛山市醫藥保健品行業協會)
2015	Major Wholesaler and Retailer of Year 2014 (2014年度"批發零售大戶")	Longhu District Party Committee (中共汕頭市龍湖區委員會) and People's Government of Longhu District (汕頭市龍湖區人民政府)
2015 (2011 to 2015)	Major taxpayer (納稅大戶)	Shantou City Longhu District Party Committee (中共汕頭市龍湖區委員會) and People's Government of Longhu District, Shantou City (汕頭市龍湖區人民政府)
2015 (2011 to 2015)	Top 500 Enterprises in Guangdong Province (廣東省企業500強)	Guangdong Provincial Enterprise Confederation (廣東省企業聯合會) and Guangdong Provincial Association of Entrepreneurs (廣東省企業家協會)
2014	Awards of "Best Innovation in Quality Management", "Best Innovation in Logistics Management", " Best Service to Suppliers" of Pharmaceutical Distribution Industry in China for the Year 2013 to 2014 (2013-2014年全國藥品流通行業"最佳質量管理創新獎"、"最佳物流管理創新獎"、"最佳對供應商服務獎")	China Association of Pharmaceutical Commerce (中國醫藥商業協會)
2014 (2004 to 2014)	Grade A Taxpayer (A級納稅人)	Shantou Municipal Office, SAT (汕頭市國家稅務局) and Shantou Municipal Local Taxation Bureau (汕頭市地方稅務局)
2014	Trustworthy Enterprise in the PRC for the Year 2012 to 2013 (2012-2013年度國家"守合同重信用"企業	SAIC
2013	Model Unit of Safety of Health Products Enterprise in Shantou of Year 2013 (2013年度汕頭市保健食品經營企業安全示範點)	Shantou Food and Drug Administration (汕頭市食品藥品監督管理局)
2013	Trustworthy Enterprise in the PRC for the Year 2010 to 2011 (2010-2011年度國家"守合同重信用"企業)	SAIC
2013	Renowned Trademark in the Guangdong Province	Guangdong Provincial Administration for Industry and Commerce (廣東省工商行政管理局)

Year(s)	Awards and recognitions	Awarding issuing authority
2013	"100 Key Enterprises in Shantou City" (汕頭市百家骨幹企業) and "100 Largest Enterprises in Modern Service Industry in Shantou City" (汕頭市百家現代服務業企業)	Party Committee of Shantou City (中共汕頭市委) and People's Government of Shantou City (汕頭市人民政府)
2011	"Leading Brand in Pharmaceutical Distribution Industry in Guangdong Province" (廣東省醫藥流通行業領軍品牌)	Guangdong Pharmaceutical Professional Association (廣東省醫藥行業協會)
2011	"Top 500 Modern Industry Unit in Guangdong Province" ("廣東省現代產業500強項目"單位)	Guangdong Provincial Development and Reform Commission (廣東省發展和改革委員會), Guangdong Provincial Commission of The Economy and Information Commission of Guangdong Province (廣東省經濟和信息化委員會), Guangdong Provincial Department of Science and Technology (廣東省科學技術廳), Department of Land and Resources of Guangdong Province (廣東省國土資源廳), Agriculture Department of Guangdong Province (廣東省農業廳) and Statistic Department of Guangdong Province (廣東省統計局)

Anti-corruption and Anti-bribery measures

As part of our risk management and internal control measures, we have the following policies applicable across our Group:

- Our management is responsible for the formulation and execution of anti-corruption and anti-bribery policies and measures.

- We conduct an assessment of risks of corruption and bribery each year.

- We conduct background investigations, including educational backgrounds, work experiences, criminal records, of any person to be employed or promoted for key positions as well as our distributors, suppliers and other intermediaries.

- We circulate our anti-bribery and anti-corruption guidelines and work ethics standards to all of our Directors and employees. The anti-bribery and anti-corruption systems prohibit all of our Directors and employees from providing or accepting any forms of gifts or rebates while conducting business. Our work ethics standards set out various guidelines concerning conflict of interest, confidentiality and reporting mechanism, etc.

- If corruption or bribery takes place within our Group, written reports of assessment and rectification measures will be circulated internally.

Our Directors, to the best of their knowledge, confirm that during the Track Record Period and up to the Latest Practicable Date, our Group and its employees were not involved in any fraudulent and bribery activities or under investigation by relevant authorities in relation to bribery or fraud.

EMPLOYEES

As of 31 December 2012, 2013 and 2014 and the six months ended 30 June 2015, we had 563, 583, 630 and 604 full-time employees, respectively. All of them are located in the PRC. The table below sets out a breakdown of our employees by function as of 30 June 2015:

Function	Number of employees	% of total employees
Management	7	1.2%
Procurement	40	6.6%
Sales	148	24.5%
Inventory	120	19.9%
Logistics	146	24.2%
Quality control	22	3.6%
Finance and accounting	52	8.6%
Human resources and administration	44	7.3%
Others	25	4.1%
Total	604	100%

Remuneration

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

Our relationship with employees

We consider our relationships with our employees are good. We have not experienced any strikes, work stoppages or significant labour disputes and have not experienced any significant difficulties in recruiting or retaining staff during the Track Record Period.

Training

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

OCCUPATIONAL HEALTH AND SAFETY

We are subject to PRC safety laws and regulations which set out legal standards for health and safety measures which our operation team must comply with. We are required to provide our employees with work safety education and training, as well as work safety articles that meet the local and national standards. Moreover, we supervise and organise training for our employees to make sure that they strictly follow our work safety rules and procedures. We confirmed that we have not breached, in all material aspects, any PRC laws or regulations related to occupational health and safety.

We have adopted and implemented a series of occupational health and safety procedures and measures for our business operations. We have formulated guidelines on occupational safety, such as safety measures for operating various facilities in our logistic centres, to our employees.

As confirmed by our Directors, during the Track Record Period, no material work safety incident has occurred, and no claim was made by our employees against us on the ground of violation of work safety laws and regulations.

ENVIRONMENT

We believe that the nature of our business does not involve substantial risks regarding the environmental matters. We confirmed that during the Track Record Period, we have complied in all material respects with all environmental laws and regulations applicable to us.

INSURANCE

We have maintained different types of insurance policies to cover our assets and operations, including insurance for our vehicles and property, comprehensive insurance for our inventories, as well as group accident insurance policies to cover our staff who are exposed to higher risks such as drivers and sales personnel stationed outside of the Guangdong Province. Our Directors are of the view that our current insurance is adequate. We will review and assess our risk portfolio and make necessary and appropriate adjustments to our insurance practice aligned with our needs and with industry practice in China. During the Track Record Period, we did not submit any material insurance claims.

OUR INTELLECTUAL PROPERTIES

As of the Latest Practicable Date, we had 21 registered trademarks in the PRC and Hong Kong, and 11 registered domain names which were material to our business. Further details regarding our intellectual properties are set out in "Appendix VII — Statutory and General Information — Further Information About Our Business — Intellectual Property Rights" to this Prospectus.

Our Directors confirm that as of the Latest Practicable Date, there had not been any material infringement on our trademarks. However, if there is any infringement on our trademarks in the future, our image and profitability may be adversely affected, and we may take action against third parties in respect of such infringement.

COMPETITION

According to PICO, the pharmaceutical distribution industry maintained a steady growth from 2010 to 2014 with total sales revenue increased from RMB580.9 billion to RMB1,201.7 billion, representing a CAGR of 19.9%. The pharmaceutical distribution industry is currently highly concentrated but there are also numerous market participants. The total market share of the top enterprises in the pharmaceutical distribution industry in Southern China in 2014 showed that the pharmaceutical distribution industry in Southern China is considered as a moderately concentrated market where these leading enterprises have an obvious scale advantage. However, considering there are approximately 2,350 distribution enterprises in Southern China in 2014, leading enterprises occupied substantially the bigger piece of the market share and the remaining market is shared by many small-sized distributors. Our Directors believe that a market consolidation is currently underway in the PRC pharmaceutical distribution industry. We believe that while competition will continue to increase, not all participants within the pharmaceutical distribution industry can be considered as our competitors due to differences in target customer bases, business models and product portfolios.

We are an established distributor of pharmaceutical products in Southern China. According to PICO, we are ranked seventh among all pharmaceutical distribution companies (including state-owned enterprises in Southern China) and ranked third among all privately owned pharmaceutical distribution companies in Southern China as measured by revenue generated from pharmaceutical distribution business in 2014. For the years ended 31 December 2012, 2013 and 2014, our market share in the pharmaceutical distribution market accounts for approximately 2.3%, 2.2% and 2.4%, respectively, in Southern China, and accounts for approximately 0.2%, 0.2% and 0.3%, respectively, in the PRC, according to PICO. We mainly face competition from large national and regional distributors operate in Southern China according to PICO. We compete with our competitors on the basis of penetration of distribution network, type of customer served, our relationship with our suppliers, breadth of product portfolio, service and delivery, logistics, geographic coverage, credit terms and customer support.

Regardless of the degree or type of competition, we intend to continue to explore new customer relationships and business opportunities and further serve our existing customers by providing a broad product portfolio, maintaining efficient inventory controls and providing quality services to remain competitive.

CERTIFICATE AND PERMITS

During the Track Record Period and up to the Latest Practicable Date, we possessed all requisite licences, approvals and permits from the relevant government authorities that are material for our business operations in China and such licences, approvals and permits remained in full effect, and no circumstances existed that would render their revocation or cancellations. Our PRC Legal Advisers also advised us that they do not expect any legal impediment for us to renewing such licences, permits and approvals.

The following table sets forth details of our certificates, permits and approvals for our existing operations:

Certificates/Permits/ Approvals	Issuing Entity	Awardee	Certificate/Permit/ Approval Number	Expiry Date
Pharmaceutical Trade Permit (藥品經營許可證)	Guangdong FDA	Our Company	Yue AA7540177	17 April 2019
	Guangdong FDA	Foshan Chuangmei	Yue AA7571663	28 May 2019
Food Circulation Permit (食品流通許可證)	Food and Drug Administration of Longhu District, Shantou City (汕頭市龍湖區食品藥品監督管理局)	Our Company	SP4405071510382191	30 June 2018
	Food & Drug Administration of Foshan District, Chancheng City (佛山市禪城區食品藥品監督管理局)	Foshan Chuangmei	SP4406021110093481	9 August 2018
Hygiene Permit (衛生許可證)	Food and Drug Administration of Longhu District, Shantou City (汕頭市龍湖區食品藥品監督管理局)	Our Company	GDFDA Jian Zheng Zi (2005) No. 0501J0069	9 October 2016
	Food and Drug Administration of Chancheng District, Foshan City (佛山市禪城區食品藥品監督管理局)	Foshan Chuangmei	GDFDA Jian Zheng Zi (2015) No. 0604J0138	6 August 2019
GSP Certificate (藥品經營質量管理規範認證證書)	Guangdong Food and Drug Administration (廣東省食品藥品監督管理局)	Our Company	A-GD-14-0061	19 January 2019

Certificates/Permits/ Approvals	Issuing Entity	Awardee	Certificate/Permit/ Approval Number	Expiry Date
	Guangdong Food and Drug Administration (廣東省食品藥品監督管理局)	Foshan Chuangmei	A-GD-14-0394	17 April 2019
Medical Devices Operation Permit (醫療器械經營許可證)	Shantou Food and Drug Administration (汕頭市食品藥品監督管理局)	Our Company	Yue 341051	7 August 2016
	Shantou Food and Drug Administration (汕頭市食品藥品監督管理局)	Our Company	Yue 341051 (reagent)	1 February 2020
	Guangdong Food and Drug Administration (廣東省食品藥品監督管理局)	Foshan Chuangmei	Yue 351068	9 December 2016
	Guangdong Food and Drug Administration (廣東省食品藥品監督管理局)	Foshan Chuangmei	Yue 350524 (reagent)	11 January 2017
The Second Category of Medical Devices Operation Registration Certificate (第二類醫療器械經營備案憑證)	Shantou Food and Drug Administration (汕頭市食品藥品監督管理局)	Our Company	Yue Shan Shi Yao Jian Xie Jing Ying Bei No. 20150065 (粵汕食藥監械經營備20150065號)	N/A *(Note)*
Internet Medicine Information Service — Certificate (互聯網藥品信息服務資格證書)	Guangdong FDA	Our Company	(Yue) Jing Ying Xing 2012-0001 ((粵)經營性2012-0001)	10 January 2017

Certificates/Permits/ Approvals	Issuing Entity	Awardee	Certificate/Permit/ Approval Number	Expiry Date
Approval on the Consent of Shantou City Chuangmei Pharmaceutical Company Limited to carry out third-party logistics services (關於同意汕頭市創美藥業有限公司開展第三方藥品現代物流業務的批覆)	Guangdong FDA	Our Company	Yue Shi Yao Jian Tong Zhuan (2010) No. 48 (粵食藥監通專[2010] 48號)	N/A *(Note)*
Approval on the Consent of Shantou City Chuangmei Pharmaceutical Company Limited as a third party medical device logistics pilot enterprises (關於同意汕頭市創美藥業有限公司作為第三方醫療器械現代物流試點企業的批覆)	Guangdong FDA	Our Company	Yue Shi Yao Jian Xie Zhuan (2011) No.4 (粵食藥監械專[2011] 4號)	N/A *(Note)*
Road Transport Operation Permit (道路運輸經營許可證)	Shantou Transportation Management Service Centre (汕頭市交通運輸管理服務中心)	Our Company	Yue Jiao Yun Guan Xu Ke Shantou Zi No.440500000053 (粵交運管許可汕頭字440500000053號)	30 June 2016
Internet Medicine Dealership Certificate (互聯網藥品交易服務資格證書)	Guangdong FDA	Our Company	Yue B20150001	18 June 2020

Note: These certificates or approvals do not stipulate the expiry date.

PROPERTIES

Owned properties

Land use rights

As of 30 September 2015, we held the Stated-owned Land Use Rights Certificate for a parcel of land with a site area of approximately 16,828 sq.m. located in Chancheng District, Foshan City, Guangdong Province ("Foshan Land") and a parcel of land with a site area of 16,406.8 sq.m. located in Longhu District Shantou City, Guangdong Province ("Shantou Land") for a term of 50 years purchased at a consideration RMB27,300,000 on 28 July 2015. A land premium of RMB27,300,000 has been paid by us. The Company has obtained the land use right certificate for Shantou Land in September 2015. The annual depreciation expenses to be incurred for the Shantou Land is estimated to be approximately RMB562,000.

Buildings

As of the 30 September 2015, we held one building ownership certificate for building located in the Foshan Land with a total gross floor area of approximately 26,376.25 sq.m.. We also own properties with a total gross floor area of 13,890.31 sq.m. located in the Shantou Land, and the details of which are set out below.

Properties with defective titles in the PRC

Defects

The properties located at the Shantou Land as owned by the Company comprise the warehouse, ancillary office and employee dormitory.

The warehouse and office occupied a gross floor area of 11,348.51 sq.m., where the formal construction works planning permit (建設工程規劃許可證), and the construction works commencement permit (建築工程施工許可證) have not been obtained and the filing of construction acceptance approval has not been completed yet.

The employee dormitory occupied a gross floor area of 2,541.8 sq.m., where the filing of construction acceptance approval has not been completed yet.

The Stated-owned Land Use Right Certificate for the land occupied by the abovementioned properties was not obtained until September 2015.

Accordingly, the building ownership certificates (房產證) for such properties have not yet been obtained.

Reasons

The Shantou Land was owned by Rulong Economy Community of Longxiang Street, Longhu District, Shantou (汕頭市龍湖區龍祥街道如龍經濟聯合社) ("Rulong Economy Community") prior to the transfer in July 2015. Before July 2015, the Company rented the Shantou Land from Rulong Economy Community, which had completed the application procedures and obtained the approval for the construction use of land, construction use of land planning permit, project approval, environmental impact appraisal approval, environmental protection acceptance approval, approval of fire control design upon review, fire control design acceptance approval and planning acceptance approval for the warehouse, office and employee dormitory, as well as the formal construction works planning permit and construction works commencement permit for the employee dormitory.

However, Rulong Economy Community had not applied to the competent construction authority for the formal construction works planning permits and construction works commencement permits for the warehouse and ancillary office. Although the construction acceptance procedures of the warehouse, office and employee dormitory have been completed, the relevant filings have not been submitted to the relevant competent construction authority.

Possible Legal Consequences

As confirmed by our PRC Legal Advisers, the possible legal consequences for the lack of permits due to the reasons above are set forth below:

(i) As to the failure to apply for the formal construction works planning permit of the warehouse and office, according to the Urban and Rural Planning Law of the PRC (中華人民共和國城鄉規劃法) promulgated by the Standing Committee of the National People's Congress, if a construction project proceeds without obtaining the construction works planning permit, the relevant planning authorities can order the construction entity to stop construction. If it is still possible for the construction entity to take measures to eliminate the impact on the implementation of the planning, the relevant planning authorities can order the construction entity to correct within a prescribed time limit and impose a fine ranging from above 5% to below 10% of the construction cost.

(ii) As to failure to apply for the formal construction works commencement permit of the warehouse and office, according to the Regulation on the Quality Management of Construction Projects (建設工程質量管理條例) promulgated by the State Council, the construction entity which starts construction without the relevant construction works commencement permit, or without its construction commencement report being approved, can be ordered to cease construction activities and take remedial action within a prescribed period of time and can be subject to a fine ranging from above 1% to below 2% of the construction cost.

(iii) As to failure to fulfil the relevant filing requirements, according to the Regulation on the Quality Management of Construction Projects promulgated by the State Council on 30 January 2000, the construction entity shall be ordered to take remedial action and be subject to a fine of not more than RMB200,000 but not less than RMB500,000.

The Company confirms the total construction cost of the relevant building structures was approximately RMB29.706 million. As such, the relevant authority may impose a fine up to RMB4.065 million.

A construction entity generally refers to the entity responsible for the application and registration of relevant permits as well as the relevant filings. According to our interview with the Shantou Municipal Urban Integrated Management Bureau (汕頭市城市綜合管理局), the bureau confirmed that it would penalise the construction entity responsible for the application and registration of relevant permits as well as the relevant filings in respect of administrative penalties relating to urban planning, if any. Currently, the construction entity is Rulong Economy Community which is responsible for application for the relevant permits of the constructions as well as filing of required documents. However, since we are in fact the investor financing the construction of the properties, we may also be subject to the risk of being fined by the competent authority as mentioned above.

Regarding the legal consequences of (i) to (iii) above, after our interview with and /or confirmation by the relevant competent authorities, the risk of being penalised due to lack of permits is remote, and we would not be ordered to demolish or relocate from the building structures, primarily because: (a) we have acquired the land use rights for the Shantou Land through tender, auction and listing process, and the Shontou Land have been transferred to us by Shantou Municipal Bureau of Land and Resources (汕頭市國土資源局); (b) as confirmed by Shantou Municipal Bureau of Urban and Rural Planning (汕頭市城鄉規劃局), the warehouse, ancillary office and employee dormitory can be converted into permanent building structures, and there is no legal impediment for us to apply for formal construction works planning permits and the planning acceptance approval (規劃驗收批復) for our warehouse, office and employee dormitory; (c) as confirmed by Shantou Municipal Urban Integrated Management Bureau, if the temporary building structures are converted into permanent building structures upon the consent of Shantou Municipal Bureau of Urban and Rural Planning, such buildings will not be regarded as temporary building structures and thereby shall not be subject to the regulations or penalties applicable to temporary building structures; (d) as confirmed by Shantou Municipal Bureau of Housing and Urban and Rural Construction Longhu District (汕頭市龍湖區住房和城鄉建設局), our warehouse, ancillary office and employee dormitory would not be demolished, nor would we be investigated or penalised for failure to obtain the construction works commencement permit for our warehouse and ancillary office and file the construction acceptance approval for our warehouse, ancillary office and employee dormitory, and there is no legal impediment for us to apply for the construction works commencement permits.

According to our PRC Legal Advisers, the above-mentioned government departments are the competent authorities in respect of this matter.

As advised by our PRC Legal Advisers, according to the PRC Property Law, our right as owner or occupant of these properties may be adversely affected due to the absence of such title certificates, such as our rights to transfer or lease the land and buildings thereon or subject the Shantou Land and the buildings thereon to mortgage loans.

As confirmed by our Directors, we have no intention to sell those properties, or pledge such properties to banks as collateral.

Remedial measures in relation to the defects

The Company has obtained the relevant formal construction works planning permits (建設工程規劃許可證). The Company is in the course of applying for relevant construction works commencement permits (建築工程施工許可證) for the properties. After obtaining such certificates and permits, we will promptly apply for the relevant building ownership certificates. The Company expects to obtain the building ownership certificates by the first half of 2016. As advised by our PRC Legal Advisers, there is no legal impediment for us to obtain the relevant construction works commencement permits (建築工程施工許可證) and building ownership certificates. According to the construction acceptance report dated 10 April 2009, the construction entity, supervision entity, construction undertaking entity, survey entity and design entity all agreed that the properties with defective titles are in conformity with the relevant PRC laws, regulations and mandatory standard requirements and the relevant building structures have met the inspection requirements. Based on the above, our Directors confirm that the safety condition of the properties with defective titles is in compliance with the relevant fire safety requirements in material respects during the Track Record Period.

In the event that the Company is required to relocate from the warehouse, office and employee dormitory located at the Shantou Land, the Company plans to relocate its warehouse and office to the properties on Foshan Land while leasing suitable properties in Foshan as employee dormintory. Our Directors expect that the relocation could be completed in one month and the total cost of relocation will be approximately RMB1.2 million. The Directors are of the view that there will not be any difficulties in finding suitable properties in Foshan for relocating the employee dormitory. As such, the Directors are of the view that there is no material impact on our operation and financial performance.

Accordingly, we believe that the defects will not cause any material adverse effect on the Company, even though the properties with defective titles are crucial to our operation. In particular, accordingly to the PRC Legal Advisers, there is no risk of being required to relocate from logistic centre in Shantou. Accordingly, no provision has been made in the Group's financial information.

In addition, our Controlling Shareholder has undertaken to indemnify us for any loss from the above defective titles.

The Group has established a project team comprising three members, including Mr. Yao and Mr. Lin Zhixiong, the executive Directors, and Mr. Zhou Tao, the independent non-executive Director, who are responsible for overseeing the whole application process for the relevant permits and filing of documents. The project team will supervise the application of all required licences, permits and approvals and coordinate the timely preparation and submission of relevant applications, with the advice from relevant professional advisers if necessary, and report to the Board on a monthly basis as required.

Save for as disclosed above, as advised by PRC Legal Advisers, we have obtained the land use rights certificates and/or building ownership certificates to our land and properties in the PRC.

Roma Appraisals Limited, an independent property valuer, has valued the property interest of our Group as of 30 September 2015. Details of the valuation and the text of the letter, summary of values from Roma Appraisals Limited are set forth in the section headed "Property Valuation Report" in Appendix III to this prospectus.

LEGAL AND COMPLIANCE MATTERS

Our PRC Legal Advisers have confirmed that our Group has obtained all necessary licences, permits, approvals and certificates required for our business operations in all material respects, that such licences, permits, approvals and certificates are valid and subsisting and that our Group has complied with all applicable laws and regulations during the Track Record Period in all material respects save as otherwise disclosed below.

Set forth below is a summary of our major non-compliance matter during the Track Record Period, as well as rectification actions and preventive measures that we have taken in respect of such matter.

Event of non-compliance	Particulars of non-compliance	Reason(s) for the non-compliance	Relevant laws and regulations and legal consequence(s) and maximum potential penalty and other financial liabilities	Remedial action(s) taken/to be taken
Failure to register with the relevant housing provident fund authority and make adequate housing provident fund payment by our Company and Foshan Chuangmei before December 2014	Prior to December 2014, the Company and Foshan Chuangmei did not register with the relevant provident fund authority and did not make housing provident fund payments for its employees. During the Track Record Period and up to the Latest Practicable Date, no fines or penalties were imposed on the Company and Foshan Chuangmei.	The failure is due to unintentional oversight of the employee responsible for this.	According to the Administrative Regulations on the Housing Provident Fund of the PRC (住房公積金管理條例) and other relevant regulations, PRC companies are required to register with the relevant housing provident fund authority and make housing provident fund contribution for employees. Failure to do so may be subject to a fine ranging from RMB10,000 to 50,000. According to the relevant PRC laws and regulations, the relevant governmental authority may require us to make the unsubscribed contribution within a given period of time, and, if we fail to do so within the given period of time, may file before a PRC court for an order to enforce the payment.	Foshan Chuangmei conducted a face-to-face interview on 30 July 2015 with Foshan Housing Provident Fund Management Centre (佛山市住房公積金管理中心), it was confirmed that (1) Foshan Chuangmei has not been penalised by the centre for matters relating to housing provident fund, and there is no ongoing or potential conflict or dispute with the centre; (2) it will request payment if it receives complaint from employees, but the centre has not received any complaint from employees of Foshan Chuangmei for non-payment of housing provident fund. The Company conducted a face-to-face interview on 5 August 2015 with Shantou Housing Provident Fund Management Centre (汕頭市住房公積金管理中心), it was confirmed that the Company would not be penalised if the Company would repay the unpaid housing provident fund for its employees or if the employees voluntarily give up their participation in the housing provident fund and do not pay their contribution to the housing provident fund.

Event of non-compliance	Particulars of non-compliance	Reason(s) for the non-compliance	Relevant laws and regulations and legal consequence(s) and maximum potential penalty and other financial liabilities	Remedial action(s) taken/to be taken
				For those employees who have expressed their willingness to pay their contribution to the housing provident fund, the Company has repaid the housing provident fund. Based on the aforesaid interviews with the competent authorities, our PRC legal adviser is of the view that the likelihood that the relevant authority will order us to make up for any past outstanding housing provident fund contributions or penalise us for the past non-compliances is relatively low. Since April 2015, the Company and Foshan Chuangmei have been in compliance with the relevant requirements under the Administrative Regulations on the Housing Provident Fund of the PRC by paying housing provident fund for all of its employees in accordance with the relevant laws and regulations.

In addition, the Controlling Shareholder will enter into a Deed of Indemnity with and in favour of the Group to provide indemnities in respect of monetary fines, settlements payments and any associated costs and expenses which would be incurred or suffered by them in connection with the aforesaid non-compliance occurred on or before the Listing Date.

Accordingly, no provision has been made in the Group's financial information.

Our PRC Legal Advisers are of the view that these non-compliance incidents are not material to the Group as a whole, and all the PRC governmental authorities referred to in the above table are the competent authorities for the respective matters mentioned in such table.

Measures to prevent occurrence of non-compliance

In order to continuously improve our corporate governance and to prevent recurrence of non-compliance in the future, our Group intends to adopt or have adopted the following measures:

(1) we will provide our Directors and senior management with training regarding the legal and regulatory requirements applicable to the business operations of our Group from time to time;

(2) we will appoint external Hong Kong and PRC legal counsels to advise us on compliance with the Listing Rules and the applicable laws and regulations in Hong Kong and the PRC, respectively;

(3) in relation to the non-compliance incident on the housing provident fund, we will improve the human resource administration for employees, amongst the others, (i) making personal employment records for each of the employees, (ii) proper registration of the corresponding employment terms with the local authority; (iii) making detailed pay slips available to employees after the review and approval by human resource manager and finance manager, (iv) timely publication of the relevant performance review requirements; and (v) finance department being responsible for timely payment made each month; and

(4) we will establish an internal reporting system for our employees to report potential issues to the management and also an internal audit system to ensure the compliance of the relevant laws and regulations, where company secretary will engage in supervising the implementation of the relevant laws and regulations.

Views of our Directors and the Sole Sponsor

Our Directors and the Sole Sponsor have reviewed the relevant corporate governance measures adopted by our Group, and the Sole Sponsor has discussed with the Company's internal control consultant, a Hong Kong professional firm specialising in corporate governance, internal audit and internal control review services. Our Directors and the Sole Sponsor believe that the above corporate governance measures, when adopted, will be sufficient to prevent recurrence of such non-compliance incidents, and our non-compliance incidents do not have any material impacts on the suitability of our Directors under Rules 3.08, 3.09 and 8.15 of the Listing Rules and the suitability for listing of our Company under Rule 8.04 of the Listing Rules.

Legal Proceedings

Our Group may from time to time become a party to various legal or administrative proceedings arising in the ordinary course of our business. As of the Latest Practicable Date, we were not a party to any material arbitration, litigation or administrative proceedings which we expect to have a material adverse effect on our business or results of operations. We are not aware of any pending or threatened arbitration, litigation or administrative proceedings against us, which we expect will have a material adverse effect on our business or results of operations.

New Pharmaceutical Regulations issued in 2015

New pharmaceutical regulations have been issued in 2015. The following is a summary of these regulations as well as our Directors' view on the impact on the Group's operations and financial performance of such regulations.

Name of new pharmaceutical regulations	Main changes of the new pharmaceutical regulations	Directors' views on the impact on the Group's operations and financial performance of such regulation
Notice on Relevant Matters of Full Implementation of Electronic Monitoring of Drugs on Pharmaceutical Manufacturers (2015 No.1) (關於藥品生產經營企業全面實施藥品電子監管有關事宜的公告 (2015年第1號)) issued by the CFDA (the "2015 Notice")	Before 31 December 2015, all pharmaceutical wholesale and retail enterprises shall complete online registration procedures strictly in accordance with the revised GSP, and scan all codes of their drugs with codes for timely registration, verification and information upload in order to ensure the completeness and accuracy of the information, and duly handle warning information in the drug electronic supervision system.	Since we have been operating in compliance with the regulation and has completed online registration in accordance with the 2015 Notice, the 2015 Notice has relatively small impact on us.

Name of new pharmaceutical regulations	Main changes of the new pharmaceutical regulations	Directors' views on the impact on the Group's operations and financial performance of such regulation
Guiding Opinions of General Office of the State Council on Enhancing Centralised Procurement of Pharmaceutical Products by Public Hospitals" (《國務院辦公廳關於完善公立醫院藥品集中採購工作的指導意見》) issued by the General Office of the State Council on 28 February 2015 (the "Guiding Opinions")	Express guiding opinions in enhancing the public hospitals centralised procurement work, and require all drugs (except for decoction pieces) used by the hospitals be procured through provincial centralised drug procurement platform.	Since the turnover attributed to hospital customer is less than 2.0% during the Track Record Period, the Guiding Opinions does not have material impact on the operations and financial performance of the Group. In addition, on 12 November 2001, MOH, CFDA and other departments formulated the Working Regulations on Centralised Procurement of Pharmaceutical Products by Medical Institutions (for trial implementation)《醫療機構藥品集中採購工作規範》(試行) ("2001 Working Regulations"), which stipulate that public medical institutions established by the government in the county level or higher or owned by stated-owned enterprises shall participate in the centalised procurement of pharmaceutical products. On 7 July 2010, MOH, NDRC, CFDA and other departments formulated the Working Regulations on Centralised Procurement of Pharmaceutical Products by Medical Institutions《醫療機構藥品集中採購工作規範》based on the revising abovementioned 2001 Working Regulations, which stipulates that public medical institutions established by the government in the county level or higher or owned by stated-owned enterprises are required to procure through non-profit earning centralised pharmaceutical procurement platform established by provincial or municipal government authority. The Guiding Opinions further describe the detail and do not materially affect the existing provincial centralised drug procurement practice by hospital.

Name of new pharmaceutical regulations	Main changes of the new pharmaceutical regulations	Directors' views on the impact on the Group's operations and financial performance of such regulation
The decision of Standing Committee of the National People's Congress on amending Pharmaceutical Administration Law of the People's Republic of China (2015) (《全國人大常委會關於修改〈中華人民共和國藥品管理法〉的決定(2015)》) issued by the Standing Committee of the National People's Congress (全國人民代表大會常務委員會) on 24 April 2015	The government stop directly fixing and guiding most of the drug's prices.	For the impact of relaxing the price control on drug price, please refer to the below.
Circular on Issuing the Opinions on Promoting Drug Price Reform (關於印發推進藥品價格改革意見的通知) promulgated on 4 May 2015 and implemented since 1 June 2015	Since 1 June 2015, except that the prices of narcotic drugs and psychotropic drugs in category I will still be governed by the NDRC through fixing the ex-factory ceiling price and retail ceiling price, prices of other drugs will not be fixed by the government.	Historically, certain pharmaceutical manufacturing enterprises ceased to produce certain drugs subject to government's price restriction policy as the gross profit margin of such products was suppressed by the government. The implementation of this policy enables the pharmaceutical manufacturing enterprises to resume the production of such drugs since the drugs can now be traded under the free market and the price can be restored to the market level. We believe that this not only leads to an increase in the types of pharmaceutical products available in the market, but also increases the sales for the pharmaceutical distribution industry, including us.

Name of new pharmaceutical regulations	Main changes of the new pharmaceutical regulations	Directors' views on the impact on the Group's operations and financial performance of such regulation
Circular on Strengthening the Supervision of the Medicine Market Price Behaviour (《關於加強藥品市場價格行為監管的通知》) implemented by the NDRC on 4 May 2015 (the "Supervisory Notice")	The pricing departments at all levels have to commence forthwith a six-month special inspection on pricing of pharmaceutical products, the inspection objects are pharmaceutical manufacturing enterprises, medical institutions, the Centres for Disease Control and Prevention (疾病預防控制中心), blood banks, centralised drug procurement platform, etc. The focus of inspection shall be the pricing of non-competitive drugs and specialty drugs for patients with special needs, and the content of inspection is to check whether the above-mentioned entities have engaged in illegal acts in disrupting the market price during the drugs pricing reform.	Since most of the drugs distributed by us are subject to normal market competition, the Supervisory Notice has relative small impact on us.
Good Supply Practice for Pharmaceutical Product amended on 18 May 2015 and became effective on 25 June 2015	The main amendment is to require pharmaceutical products operation enterprises to examine newly suppliers' the last year annual report announcement (上一年度企業年度報告公示情況) instead of annual statutory inspection in respect of industry and commerce (工商年檢證明).	The main amendment is due to the regulatory requirements change in respect of industry and commerce and hence would not have impact on us.

Name of new pharmaceutical regulations	Main changes of the new pharmaceutical regulations	Directors' views on the impact on the Group's operations and financial performance of such regulation
Circular on Publishing Clinical Data Onsite Authentication of Pharmaceutical Products (《關於發佈藥物臨床試驗數據現場核查要點的公告》) (CFDA Circular 2015 No. 228) published by CFDA on 10 November 2015 ("Circular 228")	Circular 228 mainly is about CFDA to conduct clinical data onsite authentication on pharmaceutical product registration application that has passed self-examination and has furnished relevant information. It is the sole responsibility for drug clinical experimentation institution (臨床試驗機構) or drug clinical experimentation contract research organization (臨床試驗合同研究組織) to furnish the pharmaceutical product registration application.	Circular 228 may have impact on drug clinical experimentation institution (臨床試驗機構) or drug clinical experimentation contract research organization (臨床試驗合同研究組織). As we are not a drug clinical experimentation institution (臨床試驗機構) or drug clinical experimentation contract research organization (臨床試驗合同研究組織) and did not involve in conducting any drug clinical experimentation, the Directors are of the view that Circular 228 is not applicable to us, but may have indirect impact on the supply of pharmaceutical products to us. Since we had 865 suppliers in total, of which 638 were manufacturer suppliers as of 30 June 2015, to source a variety of pharmaceutical products, the Directors are of the view that Circular 228 has no direct impact on us and hence there is no material impact on our operations and financial performance.

Name of new pharmaceutical regulations	Main changes of the new pharmaceutical regulations	Directors' views on the impact on the Group's operations and financial performance of such regulation
Circular on Certain Policies Regarding Review and Approval for Pharmaceutical Products Registration (《關於藥品註冊審評審批若干政策的公告》) (CFDA Circular 2015 No. 230) published by CFDA on 11 November 2015 ("Circular 230")	Circular 230 introduced a number of measures to resolve the problem of backlogged pharmaceutical products registration applications and to enhance the quality and efficiency of review and approval of pharmaceutical product registration.	Circular 230 may have impact on pharmaceutical manufacturers. As we are not a pharmaceutical manufacturer and did not apply for any pharmaceutical product registration, the Directors are of the view that Circular 230 is not applicable to us, but may have indirect impact on the supply of pharmaceutical products to us. Since we had 865 suppliers in total, of which 638 were manufacturer suppliers as of 30 June 2015, to source a variety of pharmaceutical products, the Directors are of the view that Circular 230 has no direct impact on us and hence there is no material impact on our operations and financial performance.

Name of new pharmaceutical regulations	Main changes of the new pharmaceutical regulations	Directors' views on the impact on the Group's operations and financial performance of such regulation
Circular on Publication of Comments Regarding the General Evaluation on Quality and Efficacy of Generic Drugs (Consultation Paper) (《關於發布〈關於開展仿製藥質量和療效一致性評價的意見(徵求意見稿)〉意見的公告》) (CFDA Circular 2015 No. 231) published by CFDA on 18 November 2015 ("Circular 231")	Circular 231 is mainly threefold: (1) specified the importance of conducting general evaluation on quality and efficacy of generic drugs. Such evaluation is important for enhancing the general level of the PRC pharmaceutical industry, facilitating the adjustment of the economic structure of the pharmaceutical industry and the upgrading of the industry as well as strengthening the international competitiveness of the PRC pharmaceutical industry in order to meet the pharmaceutical demand from the public; (2) further defined various aspects of evaluation on quality and efficacy of generic drugs, including the evaluation target and time limit; and (3) emphasized pharmaceutical manufacturers are responsible for evaluation on quality and efficacy.	The main focus of Circular 231 is on pharmaceutical manufacturers, and may have impact on pharmaceutical manufacturers. However, as we are not a pharmaceutical manufacturer, the Directors are of the view that Circular 231 is not applicable to us, but may have indirect impact on the supply of pharmaceutical products to us. Since we had 865 suppliers in total, of which 638 were manufacturer suppliers as of 30 June 2015, to source a variety of pharmaceutical products, the Directors are of the view that Circular 231 has no direct impact on us and hence there is no material impact on our operations and financial performance.

You should read the following discussion and analysis in conjunction with our consolidated financial information, including the notes thereto, as of and for the years ended 31 December 2012, 2013 and 2014 and the six months ended 30 June 2015 included in the Accountant's Report set out in "Appendix I — Accountant's Report" of this Prospectus, which has been prepared in accordance with HKFRS.

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

OVERVIEW

We are one of the leading pharmaceutical distributors in Southern China. Our distribution network includes Southern China and other regions, such as Fujian Province. We are the third largest privately-owned pharmaceutical distribution company in Southern China in terms of turnover generated from pharmaceutical distribution business in 2014 according to PICO.

We distribute pharmaceutical products to (i) distributor customers, (ii) retail pharmacy stores, and (iii) hospitals, clinics, health centres and others. We have a wide and growing customer base as of 30 June 2015, we had approximately 4,495 customers in our distribution network, including approximately 672 pharmaceutical distributor customers, 2,807 retail pharmacy stores, and 1,016 hospitals, clinics, health centres and others.

We have a variety of product offerings, for the six months ended 30 June 2015, we distributed 5,756 products including Western medicines, Chinese patent medicines, healthcare products, Chinese medicine material and decoction pieces, medical devices and cosmetic products.

We also derive our services income by providing consultancy services on marketing strategies and related information services to our suppliers.

We derive our turnover substantially from sales of goods we procured from suppliers which accounts for approximately 99.7%, 99.6%, 99.7% and 99.4% of our total turnover for the three years ended 31 December 2012, 2013 and 2014 and the six months ended 30 June 2015, respectively. We also derive turnover from services income which accounts for approximately 0.3%, 0.4%, 0.3% and 0.6% of our total turnover for the three years ended 31 December 2012, 2013 and 2014 and the six months ended 30 June 2015, respectively.

During the Track Record Period, we experienced continuous growth in turnover as a result of our expansion of business and distribution network coverage following the commencement of business of

Foshan Chuangmei in January 2012. From 2012 to 2014, our turnover and profit attributable to the owners of the Company grew at a CAGR of approximately 22.2% and 60.7%, respectively. Our turnover increased by approximately 19.1% from approximately RMB2,016.9 million for the year ended 31 December 2012 to RMB2,401.2 million for the year ended 31 December 2013, by 25.5% from RMB2,401.2 million for the year ended 31 December 2013 to RMB3,014.1 million for the year ended 31 December 2014 and by 12.8% from RMB1,449.5 million for the six months ended 30 June 2014 to RMB1,635.4 million for the six months ended 30 June 2015. Our profit attributable to the owners of the Company increased by approximately 57.4% from approximately RMB14.1 million for the year ended 31 December 2012 to RMB22.2 million for the year ended 31 December 2013, by 64.0% from RMB22.2 million for the year ended 31 December 2013 to RMB36.4 million for the year ended 31 December 2014. Our profit attributable to the owners of the Company decreased by approximately 4.5% from approximately RMB26.4 million for the six months ended 30 June 2014 to RMB25.2 million for the six months ended 30 June 2015, this was attributable to the incurrence of listing expenses of approximately RMB5.4 million for the six months ended 30 June 2015, but no listing expenses were incurred for the same period in 2014. Should such listing expenses and the relevant tax effects be excluded, our profit attributable to the owners of the Company for the six months ended 30 June 2015 would have been approximately RMB29.3 million.

For further information about our business and operations, please refer to the ''Business'' section in this Prospectus.

BASIS OF PRESENTATION

Chuangmei Pharmaceutical Co., Ltd. (創美藥業股份有限公司) was originally incorporated in China as an enterprise owned by whole people (全民所有制企業) on 18 February 1984 and was converted into a joint stock company with limited liability on 28 May 2015. Our Company and Foshan Chuangmei, now comprising our Group, have adopted 31 December as our financial year end date. Our financial information has been prepared in accordance with HKFRS, which includes all applicable individual HKFRSs and HKASs and Interpretations issued by the HKICPA. All intra-group transactions and balances have been eliminated on consolidations. The financial information is presented in RMB, which is our functional currency.

FACTORS AFFECTING OUR RESULTS OF OPERATIONS

Our results of operations have been and will continue to be affected by a number of external factors, including the following:

Growth of the PRC and Southern China pharmaceutical markets

Our results of operations are significantly affected by the demand for pharmaceutical products in the PRC, which is one of the world's largest and fastest growing pharmaceutical markets. According to PICO, the total end market sales of pharmaceutical products in the PRC were approximately RMB955.5 billion, RMB1,098.5 billion and RMB1,245.7 billion in 2012, 2013 and 2014, respectively. The rapid growth of the pharmaceutical market in the PRC has been driven by a number of favourable socioeconomic factors, such as (i) the rapid growth of the PRC's GDP; (ii) the increase in disposable income of its population; (iii) the increase in healthcare spending; (iv) the ageing of its population; and (v) medical insurance reform and other supports provided by the PRC government.

According to PICO, the total sales of pharmaceutical distribution market in Southern China grew at a CAGR of 23.5% from 2010 to 2014. PICO expects that until 2018, sales of the pharmaceutical distribution industry in Southern China will reach RMB228.9 billion, representing a CAGR of 16.0%. As an established pharmaceutical distribution company in Southern China, we are well positioned to capture the continuous, rapid growth of the PRC and Southern China pharmaceutical markets. However, if these pharmaceutical markets do not grow as rapidly as projected, our future turnover growth may be adversely affected.

Gross profit margin

Our gross profit margin depends on both our selling price to our customers and the procurement cost we negotiated with our suppliers. Our selling price to customers was determined with reference to our procurement costs and target profit margin and market competition. In addition, the prices of our products are subject to designed selling prices set by certain manufacturer suppliers. We earn purchase discounts directly or indirectly from manufacturer suppliers upon fulfilment of certain purchase targets as stipulated on the annual purchase agreements. Such purchase discounts directly deduct the cost of procurement at the time we purchase their products. The purchase discounts provided by the manufacturer suppliers were relatively higher during the first half of the year after the confirmation of annual sales from the previous year, as such, our profit margin is generally relatively higher in the first half of the year. Therefore, our gross profit margin was to a great extent influenced by our ability to negotiate favourable cost of procurement and the purchase discounts from suppliers. This was the nature for pharmaceutical distribution business. For the years ended 31 December 2012, 2013 and 2014 and the six months ended 30 June 2015, our gross profit margin was approximately 4.3%, 4.3%, 4.5% and 5.1%, respectively.

Our ability to collect our trade and bills receivables

We generally grant to our customers credit periods not exceeding 180 days based on factors such as their scale of operations, business relationships with us and historical repayment records. Our trade and bills receivables turnover days for the years ended 31 December 2012, 2013 and 2014 and the six months ended 30 June 2015 were approximately 87.7 days, 100.0 days, 96.3 days and 100.2 days, respectively. For further details, see "Selected Consolidated Statement of Financial Position Information — Trade and other receivables" in this Prospectus.

In the event that we are unable to collect our trade and bills receivables, it may affect our cash flow management and our operations may be adversely affected. Any allowance required for doubtful debts or write-off of bad debts may have an adverse effect to our results of operations.

Competition

We mainly face competition from large national and regional distributors operate in Southern China according to PICO. The total market share of the top enterprises in the pharmaceutical distribution industry in Southern China in 2014 showed that the pharmaceutical distribution industry in Southern China is considered as a moderately concentrated market where these leading enterprises have an obvious scale advantage. However, considering there were approximately 2,350 distribution enterprises in Southern China in 2014, leading enterprises occupied substantially the bigger piece of the market share and the remaining market is shared by many small-sized distributors.

Although the Directors believe that we have certain competitive strengths as mentioned in the section headed "Business — Competitive Strengths" in this Prospectus, there is no assurance that we are able to remain competitive and uphold our market position. If the competition intensifies and we are not able to compete successfully with existing and potential competitors, our business, market share and financial performance may be adversely affected.

Costs and expenses relating to our staff

During the Track Record Period, we recruited staff for our management, procurement, sales, logistics, quality control, finance and accounting, and human resources and administration function. Our total staff costs were approximately RMB15.9 million, RMB18.8 million, RMB25.3 million and RMB14.9 million and accounted for approximately 18.2%, 18.1%, 18.5% and 17.8% of our gross profit for the years ended 31 December 2012, 2013 and 2014 and the six months ended 30 June 2015, respectively. If there is a significant increase in the costs and expenses relating to our staff, our profitability would be adversely affected.

PRC government policies and regulations of our industry

We operate in a highly regulated industry. Government policies, regulations and their implementation and enforcement have historically had, and are expected to continue to have, a significant impact on the supply, demand and pricing of pharmaceutical products and distribution services in the PRC as well as on the competitive environment and the cost of compliance. Healthcare reform in China has achieved significant progress and the separation of prescription and pharmacies has become the keynote of the healthcare reform, with an aim to control the costs of healthcare and enhance the efficiency of medical services in order to solve the concern of expensive costs and difficulty in getting medical services. The government has already promulgated relevant policies and conducted trial runs in various regions. As government policy encourages separation of prescription and pharmacies, users or consumers of pharmaceutical products will be directed from hospitals to Free Competition Market such as pharmacy stores. Therefore, it is expected that the Free Competition Market will see a rapid expansion.

Seasonality

Historically our sales were generally relatively higher in the last quarter and relatively lower in the first quarter of each year. Sales tend to be higher in the last quarter primarily attributable to (i) demands for products we distribute tend to be higher in the winter season as there are higher incidences of certain diseases when the weather is cold; (ii) the prices of the pharmaceutical products for the purpose of curing diseases incurred in winter tend to be higher; and (iii) stocking of inventory prior to Chinese New Year holidays as pharmaceutical production and distribution process would be interrupted. Sales tend to be relatively low in the first quarter primarily as a result of reduced business activities around Chinese New Year holidays and the advance purchases by our customers in the last quarter of the previous year. As a result, our inventory levels and trade and other payables are typically at higher levels before our peak sales period.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

We have identified certain accounting policies that are significant to the preparation of our financial statements. Our significant accounting policies, which are important for an understanding of our financial condition and results of operations, are set forth in detail in Note 3 to the accountant's report included in Appendix I to this Prospectus. In the application of the Group's accounting policies, we are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The estimates and associated assumptions were consistently applied for the Track Record Period and our Directors are satisfied with the result of the estimates and associated assumptions by comparing with actual results in the past. As of Latest Practicable Date, the Directors believe that the estimates and associated assumptions are not likely to change in the foreseeable future.

Revenue Recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold and services provided in the normal course of business, net of discounts and sales related taxes. Revenue from the sales of goods is recognised when the goods are delivered and title has passed, at which time all the following conditions are satisfied:

- we have transferred to the buyer the significant risks and rewards of ownership of the goods;
- we retain 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.

Revenue from services business is recognised when the services are rendered.

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 from a financial asset 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 assets to that asset's net carrying amount on initial recognition.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average method. Net realisable value represents the estimated selling price for inventories less all costs necessary to make the sales.

Estimated allowance for inventories

Ageing analysis is reviewed at the end of each reporting period and allowance for obsolete and slow-moving items are identified that are no longer suitable for sales or use. Allowance for inventories is made based on the assessment of the net realisable value. The management estimate on net realisable value for inventories is based primarily on the latest selling prices and current market conditions.

Estimated impairment of trade receivables

Ongoing credit evaluations of the customers are performed and their credit limits are adjusted based on payment history and current credit-worthiness, as determined by the review of their current credit information. Collections and payments from customers are continuously monitored and a provision for estimated credit losses is maintained based upon our historical experience. Credit losses have historically been within our expectations and we will continue to monitor the collections from customers and maintain an appropriate level of estimated credit losses.

Property, Plant and Equipment

Property, plant and equipment including buildings held for use in the supply of goods or services or for administrative purposes other than construction in progress as described below are stated in the consolidated statements of financial position at cost less subsequent accumulated depreciation and accumulated impairment losses, if any.

Depreciation is recognised so as to write off the cost of items of property, plant and equipment, other than construction in progress, less their residual value over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

Properties in the course of construction for supply or administrative purposes are carried at cost, less any recognised impairment loss. Costs include professional fees and, for qualifying assets, borrowing costs capitalised in accordance with our accounting policy. Such properties are classified to the appropriate categories of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

An item of plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of asset. Any gain or loss arising from the disposal or retirement of an item of plant and equipment is determined as the difference.

Borrowing Costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sales, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sales.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

RESULTS OF OPERATIONS

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

Selected Consolidated Statements of Profit or Loss

	For the year ended 31 December			For the six months ended 30 June	
	2012	2013	2014	2014	2015
			(RMB'000)		
				(unaudited)	
Turnover	2,016,943	2,401,231	3,014,059	1,449,526	1,635,397
Cost of sales	(1,929,662)	(2,297,253)	(2,877,618)	(1,378,121)	(1,551,784)
Gross Profit	87,281	103,978	136,441	71,405	83,613
Other income	4,405	4,995	5,245	2,862	2,818
Selling and distribution expenses	(22,385)	(25,137)	(35,757)	(15,659)	(18,504)
Administrative expenses	(29,076)	(33,972)	(37,162)	(15,606)	(22,674)
Finance costs	(19,660)	(20,550)	(22,832)	(10,449)	(11,538)
Profit before taxation	20,565	29,314	45,935	32,553	33,715
Income tax expense	(6,454)	(7,095)	(9,490)	(6,104)	(8,481)
Profit for the year/period attributable to the owners of the Company	14,111	22,219	36,445	26,449	25,234

COMPONENTS OF OUR STATEMENTS OF PROFIT OR LOSS

Turnover

Turnover represents the amounts received and receivable for goods sold and services provided, net of value-added tax and discounts. During the Track Record Period, over 99.0% of our turnover was derived from pharmaceutical products distribution. The remaining turnover was derived from consultancy services on marketing strategies and related information services provided to our suppliers. Our turnover increased from approximately RMB2,016.9 million in 2012 to RMB2,401.2 million in 2013, and further to RMB3,014.1 million in 2014, representing a CAGR of approximately 22.2% between 2012 to 2014. Our revenue increased from approximately RMB1,449.5 million for the six months ended 30 June 2014 to RMB1,635.4 million for the six months ended 30 June 2015, representing an increase of approximately 12.8%.

The following table sets forth the breakdown of turnover by sales of goods and services income.

	For the year ended 31 December						For the six months ended 30 June			
	2012		2013		2014		2014		2015	
					(RMB'000)					
							(unaudited)			
Turnover										
Sales of goods	2,010,946	99.7%	2,392,157	99.6%	3,004,747	99.7%	1,443,741	99.6%	1,626,237	99.4%
Services income	5,997	0.3%	9,074	0.4%	9,312	0.3%	5,785	0.4%	9,160	0.6%
Total turnover	2,016,943	100.0%	2,401,231	100.0%	3,014,059	100.0%	1,449,526	100.0%	1,635,397	100.0%

The following table sets forth the breakdown of turnover from sales of goods by customer types during the Track Record Period:

	For the year ended 31 December						For the six months ended 30 June			
Customer type	**2012**		**2013**		**2014**		**2014**		**2015**	
	Turnover (RMB'000)	*% of our turnover*	*Turnover (RMB'000)*	*% of our turnover*	*Turnover (RMB'000)*	*% of our turnover*	*Turnover (RMB'000)*	*% of our turnover*	*Turnover (RMB'000)*	*% of our turnover*
							(unaudited)			
Distributors	1,373,356	68.3%	1,694,458	70.8%	2,218,354	73.8%	1,083,217	75.0%	1,165,757	71.7%
Retail pharmacy stores	560,405	27.9%	613,864	25.7%	691,930	23.0%	316,936	22.0%	419,657	25.8%
Hospitals, clinics, health centres and others	77,185	3.8%	83,835	3.5%	94,463	3.2%	43,588	3.0%	40,823	2.5%
Total sales of goods	2,010,946	100.0%	2,392,157	100.0%	3,004,747	100.0%	1,443,741	100.0%	1,626,237	100.0%

During the Track Record Period, we generated substantially all of our turnover from sales of goods to (i) pharmaceutical distributor customers; (ii) retail pharmacy stores, and (iii) hospitals, clinics, health centres and others. During the Track Record Period, over 95.0% of our turnover was derived from distributor customers and retail pharmacy stores.

Our turnover from sales of goods increased by approximately 19.0% from approximately RMB2,010.9 million in 2012 to RMB2,392.2 million in 2013 primarily attributable to the increase in sales to pharmaceutical distributor customers by approximately 23.4% from approximately RMB1,373.4 million in 2012 to RMB1,694.5 million in 2013 and the increase in sales to retail pharmacy stores by 9.5% from RMB560.4 million in 2012 to RMB613.9 million in 2013 as a result of the expansion of our distribution network coverage in Southern China following the commencement of business of Foshan Chuangmei in January 2012.

Our turnover from sales of goods increased by approximately 25.6% from approximately RMB2,392.2 million in 2013 to RMB3,004.7 million in 2014 primarily attributable to (i) the increase in sales of products to pharmaceutical distributor customers by 30.9% from approximately RMB1,694.5 million in 2013 to RMB2,218.4 million in 2014 which in turn was driven by the increase in sales volume as a result of increase in the number of products which we are Primary Distributor from 3,105 products in 2013 to 3,461 products in 2014; and (ii) the increase in sales of products to retail pharmacy stores by approximately 12.7% from approximately RMB613.9 million in 2013 to RMB691.9 million in 2014, which was primarily driven by our marketing effort to put more focus on retail pharmacy stores in response to the Notice on Implementation of 2014 Medical Reform Keynote in Enhancement of Service Quality and Efficiency of Pharmaceutical Distribution (關於落實2014年度醫改重點任務提升藥品流通服務水平和效率工作的通知) promulgated by MOFCOM in September 2014 which encourages separation of prescription and pharmacies, and which directs users or consumers to purchase pharmaceutical products from Free Competition Market such as pharmacy stores rather than hospitals, as a result, the number of our retail pharmacy store customers increased from 1,483 in 2013 to 2,639 in 2014 in our distribution network.

Our turnover from sales of goods increased by approximately 12.6% from approximately RMB1,443.7 million for the six months ended 30 June 2014 to RMB1,626.2 million for the six months ended 30 June 2015 primarily attributable to (i) the increase in sales of products to retail pharmacy stores and distributor customers as a result of our continued marketing efforts on the expansion of retail pharmacy stores network to prepare for our future expansion of B2B e-commerce business as retail pharmacy store customers are our major target customers for B2B e-commerce business, and our number of retail pharmacy stores increased from 1,473 for the six months ended 30 June 2014 to 2,807 for the six months ended 30 June 2015; and (ii) our continued expansion of distribution network in Southern China and our number of distributor customers increased from 625 customers for the six months ended 30 June 2014 to 672 customers for the six months ended 30 June 2015.

Our services income increased during the Track Record Period as we received more engagements on consultancy and information services from our suppliers.

For the three years ended 31 December 2012, 2013 and 2014 and six months ended 30 June 2015, we distributed 6,651, 6,677, 5,929 and 5,756 products, respectively. As of 31 December 2012, 2013 and 2014 and 30 June 2015, we had 2,296, 2,381, 4,183, and 4,495 customers in aggregate of which we had 611, 660, 700 and 672 distributor customers, 1,468, 1,483, 2,639 and 2,807 retail pharmacy store customers and 217, 238, 844 and 1,016 hospitals, clinics, health centres and other customers in our distribution network, respectively.

The following table sets forth the breakdown of turnover by geographic region of which our customers locate for the periods indicated:

Geographic Location	For the year ended 31 December 2012		2013		2014		For the six months ended 30 June 2014		2015	
	Turnover (RMB'000)	*% of our total turnover*	*Turnover (RMB'000)*	*% of our total turnover*	*Turnover (RMB'000)*	*% of our total turnover*	*Turnover (RMB'000)* (unaudited)	*% of our total turnover*	*Turnover (RMB'000)*	*% of our total turnover*
Guangdong Province including:										
• Pearl River Delta region	708,885	35.2%	1,092,939	45.5%	1,265,772	42.0%	604,770	41.7%	688,611	42.1%
• Eastern Guangdong	571,532	28.3%	572,172	23.8%	895,692	29.7%	435,682	30.1%	508,226	31.1%
• Other region	94,972	4.7%	135,896	5.7%	214,586	7.1%	104,408	7.2%	130,114	8.0%
Guangdong Province subtotal	**1,375,389**	**68.2%**	**1,801,007**	**75.0%**	**2,376,050**	**78.8%**	**1,144,860**	**79.0%**	**1,326,951**	**81.2%**
Guangxi	39,417	2.0%	40,433	1.7%	37,273	1.2%	19,480	1.3%	20,130	1.2%
Hainan Province	36,939	1.8%	59,242	2.5%	93,078	3.1%	42,259	2.9%	38,245	2.3%
Southern China subtotal	**1,451,745**	**72.0%**	**1,900,682**	**79.2%**	**2,506,401**	**83.1%**	**1,206,599**	**83.2%**	**1,385,326**	**84.7%**
Fujian Province	173,542	8.6%	157,869	6.6%	171,640	5.7%	87,561	6.0%	81,934	5.0%
Others *(Note)*	391,656	19.4%	342,680	14.2%	336,018	11.2%	155,366	10.8%	168,137	10.3%
Total	**2,016,943**	**100.0%**	**2,401,231**	**100.0%**	**3,014,059**	**100.0%**	**1,449,526**	**100.0%**	**1,635,397**	**100.0%**

Note: Others include Guizhou Province, Hunan Province, Jilin Province, Jiangsu Province and Zhejiang Province, etc.

The proportion of turnover from sales of pharmaceutical products in Southern China to our total turnover increased continuously during the Track Record Period primarily attributable to the expansion of our business in Foshan which increased our sales in the Guangdong Province.

The following table sets out the breakdown of our turnover from sales of goods by product category during the Track Record Period:

	For the year ended 31 December 2012		2013		2014		For the six months ended 30 June 2014		2015	
	Turnover (RMB'000)	*% of our turnover*	*Turnover (RMB'000)*	*% of our turnover*	*Turnover (RMB'000)*	*% of our turnover*	*Turnover (RMB'000)* (unaudited)	*% of our turnover*	*Turnover (RMB'000)*	*% of our turnover*
Western medicines	973,198	48.4%	1,130,817	47.3%	1,374,004	45.7%	667,234	46.2%	748,232	46.0%
Chinese patent medicines	876,573	43.6%	1,086,120	45.4%	1,399,120	46.6%	673,671	46.6%	756,613	46.5%
Healthcare products	84,659	4.2%	90,253	3.8%	117,996	3.9%	57,184	4.0%	63,785	3.9%
Others	76,516	3.8%	84,967	3.5%	113,627	3.8%	45,652	3.2%	57,607	3.6%
Total	2,010,946	100.0%	2,392,157	100.0%	3,004,747	100.0%	1,443,741	100.0%	1,626,237	100.0%

During the Track Record Period, Western medicines and Chinese patent medicines contributed to over 90.0% of our turnover as these products are our primary focus.

Cost of Sales, Gross Profit and Gross Profit Margin

For the years ended 31 December 2012, 2013 and 2014 and the six months ended 30 June 2014 and 2015, our total cost of sales was approximately RMB1,929.7 million, RMB2,297.3 million, RMB2,877.6 million, RMB1,378.1 million and RMB1,551.8 million, respectively, and our total gross profit was approximately RMB87.3 million, RMB104.0 million, RMB136.4 million, RMB71.4 million and RMB83.6 million, respectively. Our gross profit margin was approximately 4.3%, 4.3%, 4.5%, 4.9% and 5.1%, respectively, for the same periods.

The only component of our cost of sales is the cost of pharmaceutical products procured. The increase in cost of sales during the Track Record Period was in line with the increase in turnover from sales of products. As our primary resource contributed to services income is mainly staff costs which are included in the operating expenses, we have not separately allocated the corresponding cost on the cost of services provided.

Our overall gross profit margin was relatively stable during the Track Record Period as it is the nature of our industry to earn a stable margin on top of the purchase cost on products. The gross profit margin was higher for the six months ended 30 June 2014 and 2015 as purchase discounts from manufacturer suppliers were relatively higher during the first half of the year after confirmation of annual sales from the previous year. We generally earn the purchase discounts upon fulfilment of certain purchase target as stipulated in the annual purchase agreements with manufacturer suppliers. Such purchase discounts directly deduct the cost of procurement at the time we purchase their products. The following table sets forth the analysis of purchase discounts to gross profit.

	For the year ended 31 December			**For the six months ended 30 June**	
	2012	**2013**	**2014**	**2014**	**2015**
	(RMB'000, except for %)				
				(unaudited)	
Purchase discounts	17,821	41,936	79,901	40,928	46,041
Gross profit	87,281	103,978	136,441	71,405	83,613
Purchase discounts as % of gross profit	20.4%	40.3%	58.6%	57.3%	55.1%

Purchase discounts were generally offered directly or indirectly by some of our manufacturer suppliers when we achieved a certain procurement target during a specific period of time. The amount of purchase discount entitled would be a certain portion of either (i) the procurement amount achieved or (ii) the settlement amount paid. Different manufacturers have different formulae for calculating the purchase discount. For instance, for one of our manufacturer suppliers we have to achieve an annual minimum procurement targets of approximately RMB1.5 million in order to be entitled a 1.8% purchase discounts on the total procurement amount; for another manufacturer supplier, we have to achieve an annual minimum procurement targets of approximately RMB3 million, RMB6 million and RMB10 million in order to be entitled to a 1.5%, 1.8% and 2.0% purchase discounts on total procurement amount respectively. The purchase discounts increased from approximately RMB17.8 million in 2012 to RMB41.9 million in 2013, representing an increase of approximately RMB24.1 million or 135.3%, mainly attributable to the increase in our procurement after the commencement of business operation in Foshan in 2012. The purchase discount further increased to approximately RMB79.9 million in 2014, representing an increase of approximately RMB38.0 million or 90.5% from 2013, primarily attributable to the increase in procurement of products which we acted as Primary Distributor from 3,105 products in 2013 to 3,461 products in 2014. The purchase discount increased from approximately RMB40.9 million for the six months ended 30 June 2014 to RMB46.0 million for the six months ended 30 June 2015, representing an increase of RMB5.1 million or 12.5%, mainly attributable to the increase in procurement in 2014 and during the first half of 2015. For details of the purchase discounts, please refer to the section headed "Business — Suppliers" of this Prospectus.

The following table sets out our gross profit margin generated from different product category during the Track Record Period:

	For the year ended 31 December			For the six months ended 30 June	
	2012	2013	2014	2014	2015
				(unaudited)	
Western medicines	4.3%	4.6%	4.9%	4.5%	4.7%
Chinese patent medicines	3.9%	3.7%	3.9%	4.5%	4.2%
Healthcare products	4.4%	1.5%	6.2%	6.5%	6.7%

During the Track Record Period, the gross profit of Western medicines and Chinese patent medicines accounted for over 90.0% of our total gross profit. The gross profit margin of western medicines and Chinese patent medicines remained relatively stable. For healthcare products, the gross profit margin dropped from approximately 4.4% for the year ended 31 December 2012 to 1.5% for the year ended 31 December 2013 because we had a sales promotion to sell some long stocking healthcare products at lower prices. The gross profit margin of healthcare products increased from approximately 1.5% in 2013 to 6.2% in 2014, and increased from approximately 6.5% for the six months ended 30 June 2014 to 6.7% for the six months ended 30 June 2015 respectively because we increased the sales of healthcare products that had higher profit margin.

The following table sets forth the gross profit margin by customer type during the Track Record Period:

	For the year ended 31 December			For the six months ended 30 June	
Customer type	**2012**	**2013**	**2014**	**2014**	**2015**
	Gross Profit Margin	*Gross Profit Margin*	*Gross Profit Margin*	*Gross Profit Margin* (unaudited)	*Gross Profit Margin*
Distributors	3.7%	3.6%	4.0%	4.3%	4.3%
Retail pharmacy stores	4.0%	4.1%	4.1%	4.5%	4.6%
Hospitals, clinics, health centres and others	10.6%	11.0%	10.5%	12.3%	12.6%
Overall gross profit margin from sales of goods	4.0%	4.0%	4.2%	4.5%	4.6%

The gross profit margin for sales to retail pharmacy stores and hospital, clinics, health centres and others are higher than that for sales to distributors because gross profit margin are generally higher for sales to downstream customers who are closer to the consumers. The gross profit margin of sales to distributors increased from approximately 3.6% in 2013 to 4.0% in 2014 primarily attributed to the increase in purchase discount as a result of the increase in procurement of products which we acted as Primary Distributor from 3,105 products in 2013 to 3,461 products in 2014. Overall, the gross profit margin was higher for the six months ended 30 June 2014 and 2015 as purchase discounts from manufacturer suppliers were relatively higher during the first half of the year after confirmation of annual sales from the previous year. The higher profit margin of hospital, clinic, health centre and other customers is attributable to the higher procurement price of hospitals in general.

Other Income

Our other income primarily consists of bank interest income, government grant and reversal of impairment loss on trade receivables.

The table below sets forth the breakdown of our other income for the periods indicated:

	For the year ended 31 December			For the six months ended 30 June	
	2012	2013	2014	2014	2015
			(RMB'000)		
				(unaudited)	
Bank interest income	3,106	3,988	4,733	2,286	2,259
Government grant	500	500	500	500	–
Reversal of impairment loss on trade receivables	644	–	–	67	546
Sundry income	155	507	12	9	13
Total	4,405	4,995	5,245	2,862	2,818

We receive interest income from bank balances and pledged bank deposits which are pledged for bills payable. Government grant represents subsidy granted by Shantou Municipal Bureau in relation to the business development of our Shantou logistics centre. During the Track Record Period, our bank interest income mainly arose from the pledged bank deposits.

Selling and Distribution Expenses

Our selling and distribution expenses primarily consist of salary, welfare and benefits, transportation expenses, promotional expenses, office and telecommunication expenses, utilities and business related expenses. Our selling and distribution expenses accounted for approximately 1.1%, 1.0%, 1.2%, 1.1% and 1.1% of our turnover for the years ended 31 December 2012, 2013 and 2014, and the six months ended 30 June 2014 and 2015, respectively.

The following table sets forth the breakdown of the major components of our selling and distribution expenses for the periods indicated:

	For the year ended 31 December			For the six months ended 30 June	
	2012	2013	2014	2014	2015
			(RMB'000)		
				(unaudited)	
Salary, welfare and benefits	12,063	14,143	20,758	9,511	11,665
Transportation expenses	6,365	6,777	10,025	4,438	5,071
Promotional expenses	2,310	1,826	2,738	711	691
Office and telecommunication expenses	960	1,053	884	400	440
Others	687	1,338	1,352	599	637
Total	22,385	25,137	35,757	15,659	18,504

Salary, welfare and benefits represent the remuneration for our staff engaged in sales and distribution operation. Transportation expenses represent the products delivery costs. Promotional expenses represent marketing expenses. Office and telecommunication expenses primarily consist of repair and maintenance expenses for transportation vehicles and telecommunication expenses for our sales and distribution personnel. Others consist of entertainment expenses, travelling expenses, consumables and courier expenses.

Administrative Expenses

Our administrative expenses primarily consist of depreciation and amortisation, salary, welfare and benefits, tax expenses, office, utilities and business related expenses, bank charges, provision for bad debts, travelling and business entertainment expenses, professional fees and listing expenses. Others consist of consumables and courier expenses. Our administrative expenses accounted for approximately 1.4%, 1.4%, 1.2%, 1.1% and 1.4% of our turnover for the years ended 31 December 2012, 2013 and 2014, and the six months ended 30 June 2014 and 2015, respectively.

The table below sets forth the breakdown of our administrative expenses by components during the Track Record Period:

	For the year ended 31 December			For the six months ended 30 June	
	2012	**2013**	**2014**	**2014**	**2015**
			(RMB'000)		
				(unaudited)	
Depreciation and amortisation	9,278	12,182	11,940	6,098	5,519
Salary, welfare and benefits	6,038	6,768	7,099	2,984	4,468
Tax expenses	3,345	4,073	4,267	1,928	2,485
Office, utilities and business related expenses	5,078	4,167	4,571	1,991	1,946
Bank charges	2,419	3,253	2,993	1,241	1,523
Provision for bad debts	–	106	2,357	–	–
Travelling and business entertainment expenses	372	580	755	324	617
Professional fees	279	277	343	202	134
Listing expenses	–	–	150	–	5,400
Others	2,267	2,566	2,687	838	582
Total	29,076	33,972	37,162	15,606	22,674

Depreciation and amortisation expenses primarily consist of depreciation and amortisation for property, plant and equipment. Salary, welfare and benefits represent the remuneration for our staff engaged in general and administrative functions. Tax expenses primarily consist of stamp duty, property tax, land-use tax and vehicle-use tax. Office, utilities and business related expenses primarily consist of office administrative expenses, utilities and telecommunication charges. Bank charges primarily represent bank charges on bills payable. Travelling and business entertainment expenses primarily represent travelling expenses and entertainment expenses for administrative purposes. Listing expenses incurred for the preparation of the Listing.

Finance Costs

Finance costs consist of interest expenses on bank borrowings and bills charges on discounted bills. The table below sets forth a breakdown of our finance costs for the periods indicated:

	For the year ended 31 December			For the six months ended 30 June	
	2012	2013	2014	2014	2015
			(RMB'000)		
				(unaudited)	
Interest expenses on bank borrowings	16,555	17,095	18,851	9,631	9,204
Bills charges on discounted bills	3,105	3,455	3,981	818	2,334
Total	19,660	20,550	22,832	10,449	11,538

Our finance costs accounted for approximately 1.0%, 0.9%, 0.8%, 0.7% and 0.7% of our turnover for the years ended 31 December 2012, 2013 and 2014 and the six months ended 30 June 2014 and 2015. The interest expenses represent interest expenses on bank borrowings. Our bills charges represent charges when we cashed the bills from bills receivables prior to their maturity to enhance our cash flow for our business operation.

Income Tax Expense

Income tax consists of current tax and movements in deferred tax asset and liabilities.

Current tax is the expected tax payable on the taxable income for the relevant reporting period, using tax rates enacted or substantively enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous reporting periods.

Under the EIT Law and Implementation Regulation of the EIT Law, the tax rates of our Company and our subsidiary are 25% for the Track Record Period.

Our income tax expense was approximately RMB6.5 million, RMB7.1 million, RMB9.5 million, RMB6.1 million and RMB8.5 million, respectively, for the years ended 31 December 2012, 2013 and 2014 and the six months ended 30 June 2014 and 2015. Our effective tax rate for the years ended 31 December 2012, 2013 and 2014 and the six months ended 30 June 2014 and 2015 was approximately 31.4%, 24.2%, 20.7%, 18.8% and 25.2%, respectively. The effective tax rate was significantly higher in 2012 compared to that in 2013 and 2014 because Foshan Chuangmei incurred an operating loss in 2012 and lowered the profit before tax of our Group; however, the loss could not be utilised to lower the tax expense of our Company at that period, resulting in recording a normal level of tax expense for our Company and a lower profit before tax for our Group in 2012. Our effective tax rate gradually decreased in 2013 and 2014 because Foshan Chuangmei had experienced improvement on its taxable profit which can utilise the tax loss brought forward from previous years and as a result, lower the effective tax rate. The effective tax rate increased from approximately 18.8% for the six months ended 30 June 2014 to 25.2% for the six months ended 30 June 2015 since no tax loss could be utilised to lower the tax expense.

During the Track Record Period, we paid all relevant taxes. As of the Latest Practicable Date, we do not have any disputes or unresolved tax issues with the relevant tax authorities.

Profit Attributable to the Owners of the Company

Our profit attributable to the owners of the Company increased by approximately 57.4% from approximately RMB14.1 million for the year ended 31 December 2012 to RMB22.2 million for the year ended 31 December 2013, by 64.0% from RMB22.2 million for the year ended 31 December 2013 to RMB36.4 million for the year ended 31 December 2014. Our profit attributable to the owners of the Company decreased by approximately 4.5% from approximately RMB26.4 million for the six months ended 30 June 2014 to RMB25.2 million for the six months ended 30 June 2015. This was due to the incurrence of listing expenses of approximately RMB5.4 million for the six months ended 30 June 2015, but no listing expenses were incurred for the same period in 2014. Should such listing expenses and the relevant tax effects be excluded, our profit attributable to the owners of the Company for the six months ended 30 June 2015 would have been approximately RMB29.3 million.

PERIOD TO PERIOD COMPARISON OF RESULTS OF OPERATIONS

Six Months Ended 30 June 2015 Compared to Six Months Ended 30 June 2014

Turnover

Our total turnover increased from approximately RMB1,449.5 million for the six months ended 30 June 2014 to approximately RMB1,635.4 million for the six months ended 30 June 2015, representing an increase of approximately RMB185.9 million or 12.8%. The increase in turnover was primarily attributable to the increase of turnover from sales of goods from approximately RMB1,443.7 million for the six months ended 30 June 2014 to RMB1,626.2 million for the six months ended 30 June 2015, representing an increase of approximately RMB182.5 million or by 12.6%, which was primarily attributable to (i) the increase in sales of products to retail pharmacy stores and distributor customers as a result of our continued marketing efforts on the expansion of retail pharmacy stores network to prepare for our future expansion of B2B e-commerce business as retail pharmacy store customers are our major target customers for B2B e-commerce business, our number of retail pharmacy stores increased from 1,473 stores for the six months ended 30 June 2014 to 2,807 stores for the six months ended 30 June 2015; and (ii) our continued expansion of distribution network in Southern China and our number of distributor customers increased from 625 for the six months ended 30 June 2014 to 672 for the six months ended 30 June 2015.

The increase in services income from approximately RMB5.8 million for the six months ended 30 June 2014 to RMB9.2 million for the six months ended 30 June 2015, representing an increase of approximately RMB3.4 million or 58.6%, primarily attributable to the increase in the number of manufacturer suppliers engaged us to provide consultancy services.

Cost of sales

Our cost of sales increased from approximately RMB1,378.1 million for the six months ended 30 June 2014 to RMB1,551.8 million for the six months ended 30 June 2015, representing an increase of approximately RMB173.7 million or 12.6%. The increase in our cost of sales was in line with the increase in turnover.

Gross profit and gross profit margin

Our gross profit increased from approximately RMB71.4 million for the six months ended 30 June 2014 to RMB83.6 million for the six months ended 30 June 2015, representing an increase of approximately RMB12.2 million or 17.1%. Such increase was mainly attributable to the increase in our turnover from sale of good and services provided. Meanwhile, our gross profit margin remained stable from approximately 4.9% for the six months ended 30 June 2014 to 5.1% for the six months ended 30 June 2015.

Other income

Our other income decreased slightly from approximately RMB2.9 million for the six months ended 30 June 2014 to RMB2.8 million for the six months ended 30 June 2015 since the government grant from Shantou Municipal Bureau had ceased during the six months ended 30 June 2015.

Selling and distribution expenses

Our selling and distribution expenses increased from approximately RMB15.7 million for the six months ended 30 June 2014 to RMB18.5 million for the six months ended 30 June 2015, representing an increase of approximately RMB2.8 million or 17.8%, primarily attributable to (i) the increase in salary, welfare and benefits by approximately RMB2.2 million as a result of a combination of salary increment and the number sales personnel; and (ii) the increase in transportation expenses by approximately RMB0.6 million which were in line with the increase in our sales of products.

Administrative expenses

Our administrative expenses increased from approximately RMB15.6 million for the six months ended 30 June 2014 to RMB22.7 million for the six months ended 30 June 2015, representing an increase of approximately RMB7.1 million or 45.5%, primarily attributable to (i) the increase in salary, welfare and benefits by approximately RMB1.5 million as a result of salary increment of our administrative staff, and (ii) the incurrence of listing expenses of approximately RMB5.4 million in relation to the Global Offering.

Finance costs

Our finance costs increased from approximately RMB10.4 million for the six months ended 30 June 2014 to RMB11.5 million for the six months ended 30 June 2015, representing an increase of approximately RMB1.1 million or 10.6%. Such increase was mainly attributable to the increase in bill charges on discounted bills by approximately RMB1.5 million as we cashed the bills from bills receivables prior to their maturity to enhance our cash flow for our business operation. The increase was partially offset by the decrease in interest expenses by RMB0.4 million which was as a result of the decrease in new bank borrowings raised during the six months ended 30 June 2015.

Income tax expense

Our income tax expense increased from approximately RMB6.1 million for the six months ended 30 June 2014 to RMB8.5 million for the six months ended 30 June 2015, an increase of approximately RMB2.4 million, or 39.3%, primarily attributable to the tax loss brought forward from Foshan Chuangmei which had been fully utilised for the year ended 31 December 2014, and therefore our effective tax rate increased from 18.8% for the six months ended 30 June 2014 to 25.2% for the six months ended 30 June 2015.

Profit attributable to the owners of the Company and net profit margin

As a result of the foregoing factors, our profit attributable to the owners of the Company for the period decreased from approximately RMB26.4 million for the six months ended 30 June 2014 to RMB25.2 million for the six months ended 30 June 2015, representing a decrease of approximately RMB1.2 million or 4.5%. Our net profit margin decreased from approximately 1.8% for the six months ended 30 June 2014 to 1.5% for the six months ended 30 June 2015. The decline in our net profit margin was mainly attributable to listing expenses of approximately RMB5.4 million incurred in relation to the Global Offering.

Year Ended 31 December 2014 Compared to Year Ended 31 December 2013

Turnover

Our total turnover increased from approximately RMB2,401.2 million for the year ended 31 December 2013 to RMB3,014.1 million for the year ended 31 December 2014, representing an increase of approximately RMB612.9 million or 25.5%. The increase was primarily attributable to the increase in turnover from sales of goods from approximately RMB2,392.2 million in 2013 to RMB3,004.7 million in 2014, representing an increase of approximately RMB612.5 million primarily attributable to (i) the increase in sales of products to pharmaceutical distributor customers by approximately RMB523.9 million or 30.9% from approximately RMB1,694.5 million in 2013 to RMB2,218.4 million in 2014 which in turn was driven by the increase in sales volume as a result of increase in number of products which we are Primary Distributor from 3,105 products in 2013 to 3,461 products in 2014; and (ii) the increase in sales of products to retail pharmacy stores by approximately RMB78.0 million or 12.7% from approximately RMB613.9 million in 2013 to RMB691.9 million in 2014, which was primarily driven by our marketing effort to put more focus on retail pharmacy stores in response to the Notice on Implementation of 2014 Medical Reform Keynote in Enhancement of Service Quality and Efficiency of Pharmaceutical Distribution (關於落實2014年度醫改重點任務提升藥品流通服務水平和效率工作的通知) promulgated by MOFCOM in September 2014 which encourages separation of prescription and pharmacies, and which directs users or consumers to purchase pharmaceutical products from Free Competition Market such as pharmacy stores rather than hospital, as a result, the number of our retail pharmacy store customers increased from 1,483 in 2013 to 2,639 in 2014 in our distribution network.

Cost of sales

Our cost of sales increased from approximately RMB2,297.3 million for the year ended 31 December 2013 to RMB2,877.6 million for the year ended 31 December 2014, representing an increase of approximately RMB580.3 million or 25.3%. The increase in cost of sales was in line with the increase in turnover.

Gross profit and gross profit margin

Our gross profit increased from approximately RMB104.0 million for the year ended 31 December 2013 to RMB136.4 million for the year ended 31 December 2014, representing an increase of approximately RMB32.4 million or 31.2%. Meanwhile, our gross profit margin remained relatively stable which was approximately 4.3% and 4.5% for the year ended 31 December 2013 and 2014.

Other income

Our other income increased slightly from approximately RMB5.0 million for the year ended 31 December 2013 to RMB5.2 million for the year ended 31 December 2014, representing an increase of approximately RMB0.2 million or 4.0%. The increase was mainly attributable to increase in bank interest income resulted from increased balance of pledged bank deposits.

Selling and distribution expenses

Our selling and distribution expenses increased from approximately RMB25.1 million for the year ended 31 December 2013 to RMB35.8 million for the year ended 31 December 2014, representing an increase of approximately RMB10.7 million or 42.6%, primarily attributable to (i) an increase in salary, welfare and benefits expenses by RMB6.6 million as a result of a combination of increase in salary and number of sales personnel; (ii) an increase in transportation expenses by approximately RMB3.2 million as a result of more deliveries incurred attributable to the increase in sales volume; and (iii) an increase in promotional expenses by approximately RMB0.9 million which primarily attributable to our cost spent on leaflet, posters and media advertisement.

Administrative expenses

Our administrative expenses increased from approximately RMB34.0 million for the year ended 31 December 2013 to approximately RMB37.2 million for the year ended 31 December 2014, representing an increase of approximately RMB3.2 million or 9.4%, primarily attributable to the increase in provision for bad debts of approximately RMB2.3 million as long outstanding debts from six customers had been provided for impairment. However, the administrative expenses as a percentage of turnover decreased from approximately 1.4% for the year ended 31 December 2013 to 1.2% for the year ended 31 December 2014 as economy of scales resulting from business expansion.

Finance costs

Our finance costs increased from approximately RMB20.6 million for the year ended 31 December 2013 to RMB22.8 million for the year ended 31 December 2014, representing an increase of approximately RMB2.2 million or 10.7%. Such increase was mainly attributable to the increase in interest expenses as a result of increase in our average outstanding bank borrowings in 2014.

Income tax expense

Our income tax expense increased from approximately RMB7.1 million for the year ended 31 December 2013 to RMB9.5 million for the year ended 31 December 2014, representing an increase of approximately RMB2.4 million or 33.8%. The increase was primarily attributable to the increase in our profit from operation. The effective tax rate decreased from approximately 24.2% in 2013 to 20.7% in 2014 as the utilisation of tax loss from Foshan Chuangmei brought forward from previous year.

Profit attributable to the owners of the Company and net profit margin

As a result of the foregoing factors, our profit attributable to the owners of the Company increased from approximately RMB22.2 million for the year ended 31 December 2013 to RMB36.4 million for the year ended 31 December 2014, representing an increase of approximately RMB14.2 million or 64.0%. Our net profit margin improved to approximately 1.2% in 2014 from 0.9% in 2013 as a result of business expansion.

Year Ended 31 December 2013 Compared to Year Ended 31 December 2012

Turnover

Our total turnover increased from approximately RMB2,016.9 million for the year ended 31 December 2012 to RMB2,401.2 million for the year ended 31 December 2013, representing an increase of approximately RMB384.3 million or 19.1%. The increase was primarily attributable to the increase in sales of products from approximately RMB2,010.9 million in 2012 to RMB2,392.2 million in 2013, representing an increase of approximately RMB381.3 million or 19.0%, primarily attributable to (i) the increase in sales to pharmaceutical distributor customers from approximately RMB1,373.4 million in 2012 to RMB1,694.5 million in 2013, representing an increase of approximately RMB321.1 million or 23.4%; and (ii) the increase in sales to retail pharmacy stores from RMB560.4 million in 2012 to RMB613.9 million in 2013, representing an increase of approximately RMB53.5 million or 9.5% as a result of the expansion of our distribution network coverage in Southern China following the commencement of business of Foshan Chuangmei in January 2012.

Our services income increased from approximately RMB6.0 million in 2012 to RMB9.1 million in 2013, representing an increase of approximately RMB3.1 million or 51.7% as a result of increase in the number of engagements from manufacturer suppliers for consultancy services.

Cost of sales

Our cost of sales increased from approximately RMB1,930.0 million for the year ended 31 December 2012 to RMB2,297.3 million for the year ended 31 December 2013, representing an increase of approximately RMB367.3 million or 19.0%. The increase in our cost of sales was in line with the increase in turnover.

Gross profit and gross profit margin

Our gross profit increased from approximately RMB87.3 million for the year ended 31 December 2012 to RMB104.0 million for the year ended 31 December 2013, representing an increase of approximately RMB16.7 million or 19.1%. Such increase was mainly attributable to the increase in sales. Meanwhile, our gross profit margin remained stable of approximately 4.3% for the year ended 31 December 2013 and 4.3% for the year ended 31 December 2012.

Other income

Our other income increased from approximately RMB4.4 million for the year ended 31 December 2012 to RMB5.0 million for the year ended 31 December 2013, representing an increase of approximately RMB0.6 million or 13.6%. Such increase was primarily attributable to the increase in bank interest income of about approximately RMB0.9 million from pledged bank deposits.

Selling and distribution expenses

Our selling and distribution expenses increased from approximately RMB22.4 million for the year ended 31 December 2012 to RMB25.1 million for the year ended 31 December 2013, representing an increase of approximately RMB2.7 million or 12.1%, primarily attributable to (i) the increase in salary, welfare and benefits by approximately RMB2.0 million as a result of an increase in the number of our sales personnel following the commencement of business of Foshan Chuangmei in January 2012; and (ii) an increase of transportation expenses of approximately RMB0.4 million which was in line with increase in sales of products.

Administrative expenses

Our administrative expenses increased from approximately RMB29.1 million for the year ended 31 December 2012 to RMB34.0 million for the year ended 31 December 2013, representing an increase of approximately RMB4.9 million or 16.8% primarily attributable to (i) the increase in depreciation and amortisation of approximately RMB2.9 million due to the addition of leasehold improvements of approximately RMB19.3 million for the business in Foshan in the second half of 2012; (ii) the increase in salary, welfare and benefits of approximately RMB0.7 million as a result of increase in number of administrative staff following the commencement of business in Foshan Chuangmei in January 2012; and (iii) the increase in bank charges of approximately RMB0.8 million as a result of business expansion following the commencement of business in Foshan Chuangmei in January 2012.

Finance costs

Our finance costs increased from approximately RMB19.7 million for the year ended 31 December 2012 to RMB20.6 million for the year ended 31 December 2013, representing an increase of approximately RMB0.9 million or 4.6%. Such increase was mainly attributable to the increase in interest expenses as a result of increase in our average outstanding bank borrowings.

Income tax expense

Our income tax expense increased by approximately RMB0.6 million, or 9.2%, from approximately RMB6.5 million for the year ended 31 December 2012 to RMB7.1 million for the year ended 31 December 2013, primarily attributable to the increase in our profit from operation, which was partially offset by the operating loss brought forward from Foshan Chuangmei in 2012, and our effective tax rate decreased from approximately 31.4% in 2012 to 24.2% in 2013.

Profit attributable to the owners of the Company and net profit margin

As a result of the foregoing factors, our profit attributable to the owners of the Company increased from approximately RMB14.1 million in the year ended 31 December 2012 to RMB22.2 million in the year ended 31 December 2013, representing an increase of approximately RMB8.1 million or 57.4%. Our net profit margin improved to approximately 0.9% for the year ended 31 December 2013 from 0.7% for the year ended 31 December 2012.

SELECTED CONSOLIDATED STATEMENT OF FINANCIAL POSITION INFORMATION

The table below sets out our current assets, current liabilities and net current assets/(liabilities) as of the dates indicated.

	As of 31 December			As of 30 June	As of 31 October
	2012	**2013**	**2014**	**2015**	**2015**
		(RMB'000)			*(unaudited)*
Current assets					
Inventories	210,856	256,746	244,935	242,087	250,216
Prepaid land use right	2,215	2,215	2,215	2,215	2,777
Trade and other receivables	543,298	721,210	864,395	979,627	1,017,999
Pledged bank deposits	182,258	243,067	203,131	272,758	269,750
Bank balances and cash	12,346	16,761	22,296	24,702	5,788
	950,973	1,239,999	1,336,972	1,521,389	1,546,530
Current liabilities					
Trade and other payables	714,743	932,407	981,563	1,189,839	1,218,570
Bank borrowings	258,494	299,560	301,350	278,750	306,650
Income tax payables	2,921	3,515	5,458	3,428	2,006
	976,158	1,235,482	1,288,371	1,472,017	1,527,226
Net current (liabilities)/ assets	**(25,185)**	**4,517**	**48,601**	**49,372**	**19,304**

Net Current Assets/(Liabilities)

We recorded net current liabilities of approximately RMB25.2 million as of 31 December 2012 as (i) our long-term bank borrowings of approximately RMB94.9 million for the establishment of our Foshan business were classified as current liabilities as they are repayable on demand; and (ii) the set up of logistic centre in Foshan in 2012 reduced our current assets for non-current assets, particularly the property, plant and equipment. Our net current assets position improved to approximately RMB4.5 million as of 31 December 2013 primarily attributable to (i) an approximately RMB173.2 million increase in trade and bills receivables as a result of an increase in sales, (ii) an approximately RMB60.8 million increase in pledged bank deposits; (iii) an approximately RMB45.9 million increase in inventory; which were partially offset by (i) an approximately RMB220.9 million increase in trade and bills payables, and (ii) an approximately RMB41.1 million increase in bank borrowings.

Our net current assets increased significantly from approximately RMB4.5 million as of 31 December 2013 to approximately RMB48.6 million as of 31 December 2014 primarily attributable to an approximately RMB137.8 million increase in trade and bills receivables as a result of increase in sales, which was partially offset by (i) an approximately RMB39.9 million decrease in pledged bank deposits; and (ii) an approximately RMB57.0 million increase in trade and bills payables as a result of increase in procurement.

Our net current assets increased from approximately RMB48.6 million as of 31 December 2014 to approximately RMB49.4 million as of 30 June 2015 primarily attributable to (i) an increase in trade and bills receivables of approximately RMB115.1 million as a result of increase in sales; (ii) a decrease in bank borrowings of approximately RMB22.6 million; which was partially offset by an increase in trade and bills payable of approximately RMB188.4 million.

Our net current assets decreased from approximately RMB49.4 million as of 30 June 2015 to approximately RMB19.3 million as of 31 October 2015, primarily attributable to (i) the decrease in bank balances and cash of approximately RMB18.9 million as a result of distribution of a special dividend of RMB16.0 million and payment of expenses related to the Listing of approximately RMB4.9 million; (ii) the increase in trade and other payables of approximately RMB28.7 million mainly as a result of increase in purchase of products; and (iii) the increase in bank borrowing of RMB27.9 million; which were partially offset by the increase in trade and other receivables of approximately RMB38.4 million.

Inventories

Our inventories are primarily pharmaceutical products we sourced from pharmaceutical manufacturers and distributor suppliers, which we subsequently sell to our customers.

Our inventories increased by approximately RMB45.8 million, or 21.7%, from approximately RMB210.9 million as of 31 December 2012 to RMB256.7 million as of 31 December 2013, primarily attributable to the expansion of business in Foshan.

Our inventories decreased by approximately RMB11.8 million, or 4.6%, from approximately RMB256.7 million as of 31 December 2013 to RMB244.9 million as of 31 December 2014 attributable to a better assessment of the optimal level of inventory for our logistic centre in Foshan.

Our inventories remained stable and decreased slightly by approximately RMB2.8 million, or 1.1%, from approximately RMB244.9 million as of 31 December 2014 to RMB242.1 million as of 30 June 2015.

As of 31 October 2015, we had subsequently sold approximately RMB233.3 million, or 96.4% of our inventories as of 30 June 2015.

Our inventory turnover days remained stable at approximately 39.9 days for the year ended 31 December 2012 and at approximately 40.8 days for the year ended 31 December 2013. Our inventory turnover days decreased from approximately 40.8 days for the year ended 31 December 2013 to 31.1 days for the year ended 31 December 2014 primarily attributable to a better assessment of optimal level of inventory for our logistic centre in Foshan after two years of operation of the business in Foshan.

Our inventory turnover days further decreased from approximately 31.1 days for the year ended 31 December 2014 to approximately 28.1 days for the six months ended 30 June 2015 as a result of further improvement on our inventory management of the business.

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

	Year ended 31 December			Six months ended 30 June
	2012	**2013**	**2014**	**2015**
		(days)		
Inventory turnover days	39.9	40.8	31.1	28.1

Note: Inventory turnover days are calculated using the ending inventory balances as of period end date, divided by the cost of sales for the period, and multiplied by the number of days in the period.

For the years ended 31 December 2012, 2013 and 2014 and the six months ended 30 June 2015, we made allowance of inventories of approximately RMB1.2 million, RMB0.7 million, RMB1.5 million and RMB0.4 million. For determination of the allowance amount of the inventories, we assess the deficiency on the weighted average procurement cost of the inventories against the estimated selling price of each product. After determining the amount of impairment, our finance manager then makes recommendation on provision and submits the analysis report to the Chief Finance Officer for review and approval. Upon the Chief Finance Officer’s review and confirmation, our finance department then makes impairment for the inventories. As of 31 December 2012, 2013 and 2014 and 30 June 2015, approximately RMB210.0 million, RMB256.7 million, RMB244.9 million and RMB242.1 million have been pledged as security for bank borrowings respectively.

Trade and other receivables

The following table sets out the breakdown of our trade and other receivables as of the dates indicated.

	As of 31 December			As of 30 June
	2012	2013	2014	2015
		(RMB'000)		
Trade receivables	391,101	622,377	725,869	857,950
Bills receivables	93,557	35,431	69,732	52,793
Prepayment	52,529	58,486	66,866	66,793
Other receivables	6,111	4,916	1,928	2,091
Total	543,298	721,210	864,395	979,627

Our trade and other receivables mainly comprise trade receivables, bills receivables, prepayment and other receivables. Other receivables primarily consist of the outstanding input VAT to be offset with output VAT.

Our trade and other receivables increased by approximately 13.3% from approximately RMB864.4 million as of 31 December 2014 to RMB979.6 million as of 30 June 2015, primarily attributable to an increase in trade receivables of approximately RMB132.1 million as a result of increase in sales, which was partially offset by the decrease in bills receivables of approximately RMB16.9 million attributable to endorsement of bills to suppliers near period end of June 2015.

Our trade and other receivables increased by approximately 19.9% from approximately RMB721.2 million as of 31 December 2013 to RMB864.4 million as of 31 December 2014, primarily attributable to (i) an increase of approximately RMB103.5 million in trade receivables; (ii) an increase of approximately RMB34.3 million in bills receivables due to an increase in sales; and (iii) an increase in prepayment of approximately RMB8.4 million to our suppliers, all primarily attributable to increase in procurement.

Our trade and other receivables increased by approximately RMB177.9 million or 32.7% from approximately RMB543.3 million as of 31 December 2012 to RMB721.2 million as of 31 December 2013, primarily attributable to an increase of approximately RMB231.3 million in trade receivables which was primarily attributable to the growth in our sales and the granting of longer credit period to our customers in the Pearl River Delta region in attempt to gain market share after the commencement of business in Foshan in 2012; the increase was partially offset by the decrease in bills receivables of approximately RMB58.1 million.

Trade and bills receivables analysis

We recognise our trade receivables when we have delivered the goods to the customers at which time the title has passed. Our bills receivables represent bank accepted bills receivables from customers for sales of goods. Our trade and bills receivables represented approximately 51.0%, 53.0%, 59.5% and 59.9% of our total current assets as of 31 December 2012, 2013 and 2014 and 30 June 2015, respectively.

The following table sets out the ageing analysis of our trade receivables based on the date of delivery of goods and net of allowance for doubtful debts as of the dates indicated.

	As of 31 December			As of 30 June
	2012	2013	2014	2015
		(RMB'000)		
0 to 60 days	282,211	455,053	587,856	690,414
61–180 days	82,668	135,758	114,664	106,135
181–365 days	17,109	25,719	16,523	57,263
Over 365 days	9,113	5,847	6,826	4,138
Total	391,101	622,377	725,869	857,950

The following table sets out the ageing analysis of our bills receivables as of the dates indicated.

	As of 31 December			As of 30 June
	2012	2013	2014	2015
		(RMB'000)		
0 to 60 days	84,480	30,601	53,420	39,977
61–180 days	9,077	4,830	16,312	12,816
Total	93,557	35,431	69,732	52,793

The maturity period of bills receivables is within six months while the credit period on trade receivables provided to our customers is generally not exceeding 180 days based on factors such as their scale of operations, business relationships with us and historical repayment records. As of 31 December 2012, 2013 and 2014 and 30 June 2015, the outstanding balance of the trade receivables over 180 days was approximately RMB26.2 million, RMB31.6 million, RMB23.3 million and RMB61.4 million, respectively.

The outstanding balances over 180 days increased from approximately RMB23.3 million as of 31 December 2014 to RMB61.4 million as of 30 June 2015 by approximately RMB38.1 million, or 163.5% primarily attributable to overdue balance of approximately RMB33.2 million from a sizeable PRC listed pharmaceutical company which had been our five largest customers during the Track Record Period. The delay in settlement by such customer was attributable to its internal restructuring of its payment function which leads to a longer time for payment.

For balance of approximately RMB4.1 million which was outstanding over 365 days as of 30 June 2015, approximately RMB2.3 million was due from one single customer who had long term business relationship with us. Such overdue balance had been subsequently settled in July 2015. For balance of approximately RMB0.6 million which was due from hospitals and health centres, it is not uncommon for hospital and health centres to take longer time to go through lengthy internal procedure for repayment. The remaining overdue balance of RMB1.2 million had been settled in August 2015.

Up to 31 October 2015, we had subsequently collected approximately RMB647.9 million, or 75.5%, of our outstanding trade receivables as of 30 June 2015. Up to 31 October 2015, we had subsequently collected approximately 71.9% of our outstanding trade receivables of our distribution customers as of 30 June 2015.

As of 31 December 2012, 2013 and 2014 and 30 June 2015, trade receivables of approximately RMB76.4 million, RMB91.7 million RMB27.8 million and RMB74.0 million, respectively, were past due but not impaired. The following table sets out the ageing analysis of past due trade receivables.

	As of 31 December			As of 30 June
	2012	**2013**	**2014**	**2015**
		(RMB'000)		
Neither past due nor impaired	314,702	530,703	698,035	783,970
Past due by				
Within 30 days	25,344	45,361	7,518	18,596
31-60 days	15,269	31,701	7,497	16,193
61-180 days	23,376	6,190	4,894	33,919
Over 180 days	12,410	8,422	7,925	5,272
Past due total	76,399	91,674	27,834	73,980
Total	391,101	622,377	725,869	857,950

Receivables that were neither past due nor impaired relate to a wide range of customers for whom there was no recent history of default. For receivables that were past due, the amount increased from approximately RMB27.8 million as of 31 December 2014 to RMB74.0 million as of 30 June 2015.

The following table sets out the analysis of balances past due but not impaired by customer types as of 30 June 2015:

	Within 30 days (RMB'000)	31–60 days (RMB'000)	61–180 days (RMB'000)	Over 180 days (RMB'000)	Past due total (RMB'000)	Subsequent settlement up to 31 October 2015 (RMB'000)	Percentage of subsequent settlement %	Outstanding balances (RMB'000)
Listed pharmaceutical companies	902	126	33,222	–	34,250	19,389	56.6%	14,861
Non-listed State-owned pharmaceutical distributors	132	799	–	–	931	931	100.0%	–
Hospitals	59	4,452	–	340	4,851	3,014	62.1%	1,837
Clinics and health centres	5	912	40	268	1,225	1,225	100.0%	–
Other distributors and retail pharmacy stores	17,498	9,904	657	4,664	32,723	32,723	100.0%	–
	18,596	16,193	33,919	5,272	73,980	57,282	77.4%	16,698

Approximately 46.3% of the past due balances represented trade receivables from nine companies listed on the stock exchanges in Hong Kong or the PRC. Among the past due balances of approximately RMB34.3 million from those listed companies, approximately RMB33.2 million was due from a sizeable PRC listed pharmaceutical company which had been our five largest customers during the Track Record Period. Up to 31 October 2015 of that amount, approximately RMB18.8 million or 56.6% of such balances had been settled by such customer. We believed that no impairment is necessary for the remaining outstanding past due balances of approximately RMB14.4 million because (i) we had developed long term business relationship with such customer; (ii) the delay in payment was due to its internal restructuring of its payment function; and (iii) such customer had good repayment history. We expect such past due balances will be settled within the second half of 2015 as discussed with the customer.

Up to 31 October 2015, the overdue balances from non-listed state-owned distributors, clinics and health centres and other distributors and retailers had been fully settled. For overdue balances from hospitals of approximately RMB4.9 million as of 30 June 2015, approximately RMB3.0 million or 62.1% of such balances had been settled up to 31 October 2015 due to the lengthy payment process from hospitals which is not uncommon. We believe no impairment is considered necessary because such customers had good repayment history.

We generally review our credit period as stipulated in the framework sales agreement with our customers once a year based on the credit level assessed by our sales department after reviewing the customer historical repayment record over the past two years and the customers's reputation and financial position. For new customers of relatively smaller scale, we normally require them to pay in advance on the product sold for the first three months. After three months of business trading, we determine their credit period based on their credibility. For balances of the receipt in advance from customers during the Track Record Period, please refer to sub-section headed "Trade and other payables" in this section.

Some of our customers do not follow strictly the repayment terms as stipulated in the framework sales agreement primarily as a result of the following reasons: (i) some customers choose to pay us with bills financing which takes lengthy administrative procedures; (ii) some retail pharmacy stores have mismatching in cashflow as it takes a longer period to collect cash from the Municipal Medical Insurance Bureau if their customers paid with the insurance card; and (iii) some hospitals and healthcare centres undergo lengthy administrative procedures in processing payment to us. In order to maintain business relationship with our customers, particularly those listed companies with good credibility, we may not strictly enforce the payment terms as stipulated in the framework sales agreement. Alternatively, we seek to maintain control over our outstanding receivables through implementation of a series of credit control measures to guide our sales personnel in minimising credit risk.

We have adopted certain measures to monitor the recoverability of our trade receivables, including reviewing their financial performance, credit level, operational performance and historical repayment record and keeping regular communications with customers to gain up to date understanding of changes in customers' business and financial condition.

Impairment losses in respect of trade receivables are recorded through an allowance account unless we are satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade receivables directly.

The table below sets forth the movement of the allowance account:

	As of 31 December			As of 30 June
	2012	**2013**	**2014**	**2015**
		(RMB'000)		
Balance bought forward	1,433	789	652	2,896
Write off as bad debt	–	(248)	(46)	–
Impairment losses recognised	–	111	2,357	–
Reversal of impairment losses recognised	(644)	–	(67)	(546)
Balance carried forward	789	652	2,896	2,350

We recognised impairment losses of approximately RMB0.1 million in the year ended 31 December 2013 and RMB2.4 million in the year ended 31 December 2014 for long outstanding debts which were due for over one year from six and three customers in 2013 and 2014 respectively. We recognised reversal of impairment losses of approximately RMB0.6 million, RMB0.1 million and RMB0.5 million, respectively, for the years ended 31 December 2012 and 2014, and for the six months ended 30 June 2015, because we collected certain receivables that we had made provision in previous years. We wrote off approximately RMB0.2 million and RMB0.1 million bad debts for the years ended 31 December 2013 and 2014 respectively as a result of the remote chance of recovering the debts.

For the determination of provision for doubtful debts, we consider factors such as the age of the receivables, credit history of the debtors, and prevailing market conditions. At the end of each month, our finance department compiles detailed reports on the breakdown analysis, ageing analysis, and impairment losses of our trade receivables. When reviewing the ageing analysis of trade receivables, our finance manager pays particular attention to each item that is overdue, of a large amount, of non-trade nature, and performs recoverability analysis taking into account the nature of the receivables, the relevant customer's business and financial condition, historical sales amount to the customer and the expected future sales from the customer. Upon the review result of our finance manager, our sales personnel puts efforts to collect the receivables from the relevant customers. Based on the collection result, our finance manager makes recommendations on provision for doubtful debts or write-offs and submits the related reports to the Chief Financial Officer for review. Upon the Chief Financial Officer's review and confirmation, our finance department then makes provision for doubtful debts; while the addition of Chief Executive Officer's approval is required for any write-offs. Our Directors believe that the provision made for impairment of trade receivables during the Track Record Period was adequate, after assessing the length in time of overdue trade receivables as well as their recoverability. We have individually assessed the recoverability of each outstanding receivable item by visiting the relevant customer or by telephone follow-up.

The table below sets out the turnover days of our trade and bills receivables during the Track Record Period.

	Year ended 31 December			Six months ended 30 June
	2012	**2013**	**2014**	**2015**
		(days)		
Trade and bills receivables turnover days*(Note)*	87.7	100.0	96.3	100.2

Note: Trade and bills receivables turnover days are calculated using the ending trade and bills receivables balances as of period end date, divided by the turnover for the period, and multiplied by the number of days in the period.

The increase in turnover days from approximately 87.7 days in 2012 to 100.0 days in 2013 was primarily attributable to the granting of longer credit period to our customers in the Pearl River Delta region in attempt to gain market share after the commencement of business in Foshan in 2012. The turnover days decreased to approximately 96.3 days in 2014 since we tightened the credit period to our customer after building up our sales network of Foshan business. The turnover days increased to approximately 100.2 days for the six months ended 30 June 2015 mainly due to delay in settlement by one of our major customers due to its internal restructuring of payment function.

Trade and other payables

The following table sets out the breakdown of our trade and other payables as of the dates indicated.

	As of 31 December			As of 30 June
	2012	**2013**	**2014**	**2015**
		(RMB'000)		
Trade payables	276,058	339,537	377,184	450,576
Bills payables	376,500	533,883	553,277	668,288
Receipt in advance	45,898	47,856	23,023	11,071
Other tax payables	8,595	4,682	23,115	49,088
Accrued expenses and other payables	7,692	6,449	4,964	10,816
Total	714,743	932,407	981,563	1,189,839

Our trade and other payables primarily comprise trade payables, bills payables and receipt in advance. We generally enjoy credit terms of not exceeding 120 days upon receipt of invoice from the suppliers. Receipt in advance represents advance payment from new customers from purchase of our products. Other tax payables primarily consist of payables of value-added taxes, business taxes and urban construction taxes. Accrued expenses and other payables primarily comprise accrued salaries and payable of professional fees in relation to the Listing.

Our trade and other payables increased by approximately 21.2% or RMB208.2 million from approximately RMB981.6 million as of 31 December 2014 to RMB1,189.8 million as of 30 June 2015, primarily attributable to (i) the increase in trade and bills payables of approximately RMB188.4 million as a result of increase in purchase; (ii) the increase in other tax payables of approximately RMB26.0 million as result of increase in payables of value-added taxes due to increase in our turnover; and (iii) the payable of professional fees of approximately RMB5.8 million with respect to the Listing.

Our trade and other payables increased by approximately 5.3% or RMB49.2 million from approximately RMB932.4 million as of 31 December 2013 to RMB981.6 million as of 31 December 2014, primarily attributable to (i) the increase in trade payables of approximately RMB37.6 million due to the increase in purchase which was in line with the growth in sales; (ii) the increase in bills payables of approximately RMB19.4 million as we used more bills to settle payment so as to manage our cash flow; and (iii) the increase in other tax payables of approximately RMB18.4 million due to increase in value added tax payables as a result of increase in our turnover. The above increases were partially offset by the decrease in receipt in advance from customers for purchase of our products of approximately RMB24.8 million which was attributable to the decrease in number of customers who were required to pay in advance after two years of business operation in Foshan.

Our trade and other payables increased by approximately 30.5% or RMB217.7 million from approximately RMB714.7 million as of 31 December 2012 to RMB932.4 million as of 31 December 2013, primarily attributable to (i) the increase in trade payables of approximately RMB63.5 million due to the increase in purchase which was in line with the increase in sales; and (ii) increase in bills payables of approximately RMB157.4 million due to the increase in usage of bills financing to settle trade payments for cash flow management to support the expansion of the business in Foshan.

Bills payables are related to the procurement of pharmaceutical products for our ordinary business operation. The bills payables increased from approximately RMB553.3 million as of 31 December 2014 to RMB668.3 million as of 30 June 2015, by approximately RMB115.0 million or 20.8%, primarily attributable to the increase in procurement of products from our suppliers and the increase in bills payable outstanding for our largest supplier as at 30 June 2015 compared to that as at 31 December 2014.

The bills payables remained at a stable level at RMB533.9 million as of 31 December 2013 and at RMB553.3 million as of 31 December 2014.

The bills payables increased from approximately RMB376.5 million as of 31 December 2012 to RMB533.9 million as of 31 December 2013, by approximately RMB157.4 million or 41.8%, primarily attributable to (i) the increase in purchase of products from our suppliers, (ii) bank's acceptance bills were used more often as the alternative means to settle payment for procurement from our suppliers in order to manage our cash flow, and (iii) the increase in bills payable outstanding for our largest supplier as at 31 December 2013 compared to that as at 31 December 2012.

For details on the acceptable payment methods under our agreements with the suppliers, please see the section headed "Business — Suppliers" in this Prospectus.

The table below sets out on ageing analysis of our trade payables based on the invoice date and as of the dates indicated.

	As of 31 December			As of 30 June
	2012	**2013**	**2014**	**2015**
		(RMB'000)		
0–30 days	204,641	222,526	259,906	321,712
31–60 days	45,047	61,647	60,689	69,135
61–180 days	14,970	41,996	47,360	43,824
181–365 days	4,255	8,282	4,938	10,963
Over 365 days	7,145	5,086	4,291	4,942
	276,058	339,537	377,184	450,576

The following table sets out the ageing analysis of our bills payables as of the dates indicated.

	As of 31 December			As of 30 June
	2012	2013	2014	2015
		(RMB'000)		
0 to 60 days	205,767	302,915	301,080	350,019
61–180 days	170,642	230,968	245,845	303,989
181–365 days	91	–	6,352	14,280
Total	376,500	533,883	553,277	668,288

As of 31 October 2015, we had subsequently settled approximately RMB404.9 million, or 89.9%, of our trade payables outstanding as of 30 June 2015.

The table below sets out the turnover days of our trade and bills payables during the Track Record Period.

	Year ended 31 December			Six months ended 30 June
	2012	2013	2014	2015
		(days)		
Trade and bills payable turnover days	123.4	138.8	118.0	129.8

Note: Trade and bills payable turnover days are calculated using the ending trade and bills payable balances as of period end date, divided by the cost of sales for the period, and multiplied by the number of days in the period.

The turnover days of our trade and bills payables for the three years ended 31 December 2012, 2013 and 2014 and six months ended 30 June 2015 were approximately 123.4 days, 138.8 days, 118.0 days and 129.8 days, respectively. The credit period for trade payables were generally not exceeding 120 days upon receipt of invoice from the suppliers while the credit period for bill payables were generally 90 days or 180 days. The turnover days increased slightly from 123.4 days in 2012 to 138.8 days in 2013 primarily due to the increase in bills payables as a result of (i) the increase in purchase of products from our suppliers, (ii) bank's acceptance bills were used more often as the alternative means to settle payment for procurement from our suppliers in order to manage our cash flow, and (iii) the increase in bills payable outstanding for our largest supplier as at 31 December 2013 compared to that as of 31 December 2012. The turnover days decreased to 118.0 days in 2014 as near the end of 2014, we procured popular pharmaceutical products which the suppliers requested for advance deposit such that we did not enjoy a credit period. The turnover days increased to regular level of approximately 129.8 days for the six months ended 30 June 2015.

Income tax payables

The following sets out the balances of income tax payables as of the dates indicated.

	As of 31 December			As of 30 June
	2012	2013	2014	2015
		(RMB'000)		
Income tax payables	2,921	3,515	5,458	3,428

Our income tax payables increased by approximately 20.7% from approximately RMB2.9 million as of 31 December 2012 to RMB3.5 million as of 31 December 2013 and further increased by approximately 57.1% to approximately RMB5.5 million as of 31 December 2014 primarily as a result of increase in profits from expansion of operation in Foshan. As of 30 June 2015, our income tax payables decreased by approximately 38.2% to approximately RMB3.4 million after subsequent payment of income tax during the six months ended 30 June 2015.

LIQUIDITY AND CAPITAL RESOURCES

Overview

During the Track Record Period, our capital requirements primarily relate to the funding of required working capital to support an increase in our scale of operations and purchase/upgrade of property, plant and equipment (logistic facilities and information system). During the Track Record Period, we have historically financed our working capital and other liquidity requirements from cash generated from operating activities and bank borrowings. In the future, we expect to rely on cash flows from operations, the proceeds from the Global Offering and bank and other borrowings to fund our working capital needs and finance part of our business expansion.

Cash Flows

The table below is a summary of our consolidated cash flows during the Track Record Period.

	For the year ended 31 December			For the six months ended 30 June	
	2012	2013	2014	2014	2015
			(RMB'000)		
				(unaudited)	
Net cash inflow/(outflow) from operating activities	61,700	45,104	(14,826)	323	134,379
Net cash inflow/(outflow) from investing activities	(104,218)	(61,705)	40,903	20,403	(67,835)
Net cash inflow/(outflow) from financing activities	41,854	21,016	(20,542)	(26,009)	(64,138)
Net increase/(decrease) in cash and cash equivalents	(664)	4,415	5,535	(5,283)	2,406
Cash and cash equivalents at the beginning of the year/period	13,010	12,346	16,761	16,761	22,296
Cash and cash equivalents at the end of the year/period	12,346	16,761	22,296	11,478	24,702

Cash flows from operating activities

During the Track Record Period, our cash flows from operating activities are principally derived from the receipt of payments for the sales of our products and service provided. Our primary cash outflows from operating activities are mainly for our procurement costs, distribution costs, administrative expense and other operating expenses.

For the six months ended 30 June 2015, our operating cash flows before movements in working capital was approximately RMB47.3 million, which primarily comprises (i) profit before taxation of approximately RMB33.7 million, (ii) a positive adjustment of finance cost of approximately RMB11.5 million, and (iii) a positive adjustment of depreciation of property, plant and equipment and amortisation of prepaid lease payment of approximately RMB5.5 million in aggregate.

For the six months ended 30 June 2015, our cash flows from operating activities was of a net cash inflows position of approximately RMB134.4 million, primarily reflecting:

(i) an approximately RMB47.3 million operating cash flows before movements in working capital; and

(ii) an approximately RMB188.4 million cash inflow from the increase in trade and bills payables primarily as a result of the increase in purchase which was in line with the increase in sales and the increase in use of bills financing for liquidity management;

which were partially offset by:

(i) an approximately RMB115.1 million cash outflow from the increase in trade and bills receivables primarily as a result of the increase in turnover; and

(ii) an approximately RMB10.1 million income tax paid.

For the year ended 31 December 2014, our operating cash flows before movements in working capital was approximately RMB79.0 million, which primarily comprises (i) profit before taxation of approximately RMB45.9 million, (ii) a positive adjustment of finance cost of approximately RMB22.8 million, and (iii) a positive adjustment of depreciation of property, plant and equipment and amortisation of prepaid lease payment of approximately RMB11.9 million.

For the year ended 31 December 2014, our cash flows from operating activities was of a net cash outflows position of approximately RMB14.8 million, primarily reflecting:

(i) an approximately RMB79.0 million operating cash flows before movements in working capital; and

(ii) an approximately RMB57.0 million cash inflow from the increase in trade and bills payables primarily as a result of the increase in purchase which was in line with the increase in turnover;

which were partially offset by:

(i) an approximately RMB145.5 million cash outflow from the increase in trade and other receivables primarily as a result of (i) our increase in turnover; and (ii) our increase in prepayment to our suppliers for the procurement of popular pharmaceutical products near year end of 2014; and

(ii) an approximately RMB8.3 million income tax paid.

For the year ended 31 December 2013, our operating cash flows before movements in working capital was approximately RMB57.1 million, which primarily comprises (i) profit before taxation of approximately RMB29.3 million, (ii) a positive adjustment of finance cost of approximately RMB20.6 million, and (iii) a positive adjustment of depreciation of property, plant and equipment and amortisation of prepaid lease payment of approximately RMB12.2 million.

For the year ended 31 December 2013, our cash flows from operating activities was of a net cash inflows position of approximately RMB45.1 million, primarily reflecting:

(i) an approximately RMB57.1 million operating cash flows before movements in working capital; and

(ii) an approximately RMB217.7 million cash inflow from the increase in trade and other payables primarily as a result of the increase in purchase which was in line with the increase in sales and the increase in usage of bills financing to settle trade payments for cash flow management to support the expansion of the Foshan business;

which were partially offset by:

(i) an approximately RMB178.0 million cash outflow from the increase in trade and other receivables primarily as a result of increase in sales and the granting of longer credit period to customers of Pearl River Delta region in attempt to gain market share after the commencement of Foshan business in 2012;

(ii) an approximately RMB45.4 million cash outflow from the increase in inventories as a result of the expansion of Foshan business; and

(iii) an approximately RMB6.3 million income tax paid.

For the year ended 31 December 2012, our operating cash flows before movements in working capital was approximately RMB46.5 million, which primarily comprises (i) profit before taxation of approximately RMB20.6 million, (ii) a positive adjustment of finance cost of approximately RMB19.7 million, and (iii) a positive adjustment of depreciation of property, plant and equipment and amortisation of prepaid lease payment of approximately RMB9.3 million.

For the year ended 31 December 2012, our cash flows from operating activities was of a net cash inflows position of approximately RMB61.7 million, primarily reflecting:

(i) an approximately RMB46.5 million operating cash flows before movements in working capital;

(ii) an approximately RMB17.4 million cash inflow from the decrease in inventories attributable to the stocking of inventory at the end of 2011 prior to the commencement of the Foshan business; and

(iii) an approximately RMB181.2 million cash inflow from the increase in trade and other payables primarily as a result of the increase in purchase;

which were partially offset by:

(i) an approximately RMB178.1 million cash outflow from the increase in trade and other receivables primarily as a result of our increase in turnover; and

(ii) an approximately RMB5.2 million income tax paid.

Cash flows from investing activities

During the Track Record Period, our cash used in investing activities mainly consists of payment for the purchase of property, plant and equipment and increase in pledged bank deposits. Our cash inflow from investing activities mainly represents cashing of pledged bank deposits.

For the six months ended 30 June 2015, our cash flows from investing activities was of a net cash outflows position of approximately RMB67.8 million. Our net cash outflows for investing activities mainly consisted of (i) net outflows of approximately RMB69.6 million of increase in pledged bank deposits for bills payable financing; and (ii) inflows of approximately RMB2.3 million receipts of bank interest.

For the year ended 31 December 2014, our cash flows from investing activities was of a net cash inflows position of approximately RMB40.9 million. Our net cash inflows for investing activities mainly consisted of (i) net inflows of approximately RMB39.9 million of cashing of excess pledged bank deposits pledged for bills payable financing; and (ii) inflows of approximately RMB4.7 million receipts of bank interest; notwithstanding outflows of approximately RMB4.4 million of payment for purchase of property, plant and equipment which included motor vehicles and construction works for warehouses in Foshan.

For the year ended 31 December 2013, our cash flows from investing activities was of a net cash outflows position of approximately RMB61.7 million. Our cash outflows for investing activities mainly consisted of (i) outflows of approximately RMB5.1 million for purchase of property, plant and equipment which included investment in information system, motor vehicles, office equipment and construction works for warehouse in Foshan; and (ii) net outflows of approximately RMB60.8 million of increase in pledged bank deposits for bills payable financing; notwithstanding inflows of approximately RMB4.0 million receipts of bank interest.

For the year ended 31 December 2012, our cash flows from investing activities was of a net cash outflows position of approximately RMB104.2 million. Our cash outflows for investing activities mainly consisted of (i) outflows of approximately RMB41.8 million for purchase of property, plant and equipment which included leasehold improvements, plant and machineries and construction works for business setup in Foshan; and (ii) net outflows of approximately RMB65.5 million of increase in pledged bank deposits for bills payable financing; notwithstanding inflows of approximately RMB3.1 million receipts of bank interest.

Cash flows from financing activities

During the Track Record Period, our cash inflow from financing activities mainly consists of new bank borrowings. Our cash used in financing activities primarily consists of repayments of bank borrowings, payment of interest and dividend payment.

For the six months ended 30 June 2015, our cash flows from financing activities was of a net cash outflows position of approximately RMB64.1 million. Our cash outflows from financing activities consisted of (i) approximately RMB22.6 million net repayment of bank borrowings; and (ii) payment of interest on bank borrowings of approximately RMB11.5 million; and (iii) payment of dividend of approximately RMB30.0 million.

For the year ended 31 December 2014, our cash flows from financing activities was of a net cash outflows position of approximately RMB20.5 million. Our cash outflows from financing activities consisted of approximately RMB22.8 million in payment of interest on bank borrowings; notwithstanding approximately RMB1.8 million cash inflow from net proceeds from bank borrowings.

For the year ended 31 December 2013, our cash flows from financing activities was of a net cash inflows position of approximately RMB21.0 million. Our cash inflows from financing activities consisted of approximately RMB41.1 cash inflow from net proceeds from bank borrowings; notwithstanding approximately RMB20.6 million in payment of interest on bank borrowings.

For the year ended 31 December 2012, our cash flows from financing activities was of a net cash inflows position of approximately RMB41.9 million. Our cash inflows from financing activities consisted of approximately RMB61.0 million cash inflow from net proceeds from bank borrowings; notwithstanding approximately RMB19.7 million in payment of interest on bank borrowings.

CAPITAL EXPENDITURES

Historical

Our capital expenditures primarily comprised expenditures on property, plant and equipment, which include plant and machineries (including investment in information system), motor vehicles, office equipment, leasehold improvements, buildings and construction in progress. The following table sets out our capital expenditures on property, plant and equipment during the Track Record Period.

	For the year ended 31 December			For the six months ended 30 June
	2012	**2013**	**2014**	**2015**
		(RMB'000)		
Property, plant and equipment	41,833	5,104	4,447	497

Our capital expenditures for the six months ended 30 June 2015 primarily related to the purchase of motor vehicles and investment in information system. Our capital expenditures for the years ended 31 December 2013 and 2014 primarily related to the continuing construction works for office and warehouse in Foshan, purchase of motor vehicles and investment in information system. Our capital expenditures for the year ended 31 December 2012 primarily related to leasehold improvements, construction works on the setup of offices and warehouse in Foshan and investment in information system.

Planned

We expect our capital expenditures for the year ending 31 December 2015 and 2016 will be RMB28.7 million and RMB62.4 million respectively, which are expected to primarily relate to acquiring logistic facilities and refrigerated transportation vehicles, upgrading our information systems and enhancing the system of B2B e-commerce platform. There is no guarantee that any of the planned capital expenditures will proceed as planned. We intend to fund our planned capital expenditures through a combination of the net proceeds from the Global Offering, bank borrowings and cash flows from operating activities.

INDEBTEDNESS AND CONTINGENCIES

Borrowings

We have financed our operations primarily through bank borrowings. The table below sets out our borrowings as of the dates indicated.

	As of 31 December			As of 30 June	As of 31 October
	2012	**2013**	**2014**	**2015**	**2015**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
					(Unaudited)
Bank borrowings					
– secured	203,540	228,440	225,000	208,000	195,000
– unsecured	35,000	53,000	54,350	54,350	84,350
– bills discounted with recourse	19,954	18,120	22,000	16,400	27,300
Total	258,494	299,560	301,350	278,750	306,650

Our total bank borrowings increased from approximately RMB258.5 million as of 31 December 2012 to RMB299.6 million as of 31 December 2013 and further increased to RMB301.4 million as of 31 December 2014. Such increase was mainly attributable to the higher working capital requirement after the setup of business in Foshan. Our total bank borrowings decreased from approximately RMB301.4 million as of 31 December 2014 to RMB278.8 million as of 30 June 2015, primarily reflecting the improvement on operating cash inflow which reduced the usage of debt financing. Our total bank borrowings increased from approximately RMB278.8 million as of 30 June 2015 to RMB279.4 million as of 31 October 2015, which was mainly used for working capital need.

As of 31 December 2012, 2013 and 2014, 30 June 2015 and 31 October 2015 (being the latest practicable date for purpose of the indebtedness statement in this Prospectus), all of our bank borrowings were denominated in Renminbi. All bank loans bear interest at floating interest rates of 6.0% to 8.2% per annum, 6.0% to 7.2% per annum, 6.0% to 7.2% per annum, 6.0% to 7.2% and 5.1% to 7.2% for the years ended 31 December 2012, 2013 and 2014, six months ended 30 June 2015 and ten months ended 31 October 2015, respectively. As of 31 December 2012, 2013 and 2014, 30 June 2015 and 31 October 2015, the weighted average effective interest rates of our bank borrowings were at 7.4%, 6.7%, 6.9%, 6.9% and 6.8%, respectively.

Our banking facilities include bank borrowings and bills facilities. As of 31 December 2012, our utilised banking facilities in the total amount of approximately RMB455.3 million were secured by (i) property, plant and equipment owned by the Group with carrying amount of approximately RMB39.4

million as of 31 December 2012; (ii) land use right held by the Group with carrying amount of approximately RMB77.9 million as of 31 December 2012; (iii) personal guarantees from Mr. Yao, his brother, and Ms. You Zeyan, our non-executive Director and the spouse of Mr. Yao; (iv) trade receivables of the Group with carrying amount of RMB11.1 million; and (v) inventories with carrying amount of approximately RMB210.0 million as of 31 December 2012.

As of 31 December 2013, our utilised banking facilities in the total amount of approximately RMB590.4 million were secured by (i) property, plant and equipment owned by the Group with carrying amount of approximately RMB58.1 million as of 31 December 2013; (ii) land use right held by the Group with carrying amount of approximately RMB75.7 million as of 31 December 2013; (iii) personal guarantees from Mr. Yao, his brother and Ms. You Zeyan, our non-executive Director and the spouse of Mr. Yao; (iv) trade receivables of the Group with carrying amount of approximately RMB4.5 million; and (v) inventories with carrying amount of approximately RMB256.7 million as of 31 December 2013.

As of 31 December 2014, our utilised banking facilities in the total amount of approximately RMB625.0 million were secured by (i) property, plant and equipment owned by the Group with carrying amount of approximately RMB56.8 million as of 31 December 2014; (ii) land use right held by the Group with carrying amount of approximately RMB73.5 million as of 31 December 2014; (iii) personal guarantees from Mr. Yao, his brother, and Ms. You Zeyan, our non-executive Director and the spouse of Mr. Yao; (iv) properties held by Ms. You Zeyan, Mr. Yao's brothers and sisters-in-law; and (v) inventories with carrying amount of approximately RMB244.9 million as of 31 December 2014.

As of 30 June 2015, our utilised banking facilities in the total amount of approximately RMB638.1 million were secured by (i) property, plant and equipment owned by the Group with carrying amount of approximately RMB56.1 million as of 30 June 2015; (ii) land use right held by the Group with carrying amount of approximately RMB72.4 million as of 30 June 2015; (iii) personal guarantees from Mr. Yao, his brother, and Ms. You Zeyan, our non-executive Director and the spouse of Mr. Yao; (iv) property held by Ms. You Zeyan; and (v) inventories with carrying amount of approximately RMB242.1 million as of 30 June 2015.

As of 31 October 2015, being the latest practicable date for the indebtedness statement, our utilised banking facilities in the total amount of approximately RMB655.1 million were secured by (i) property, plant and equipment owned by the Group with carrying amount of approximately RMB55.7 million as of 31 October 2015; (ii) land use right held by the Group with carrying amount of approximately RMB71.6 million as of 31 October 2015; (iii) personal guarantees from Mr. Yao and his brothers; (iv) properties held by Ms. You Zeyan, Mr. Yao's brothers and sisters-in-law; and (v) inventories with carrying amount of approximately RMB250.2 million as of 31 October 2015.

The relevant guarantees and/or securities provided by Mr. Yao, Ms. You Zeyan and Mr. Yao's brothers and the pledge on properties provided by Mr. Yao's brothers and sisters-in-law will be released upon the Listing.

Save the guarantees and/or security provided by the related parties as disclosed above and compensation of key management personnel as disclosed in Note 27 to the Accountants' Report as included in Appendix I to this Prospectus, the Company did not have other related party transactions during the Track Record Period.

Our Directors confirm that these transactions were conducted on normal commercial terms and were not less favourable to us than terms available to or from Independent Third Parties. In addition, our Directors confirm that such transactions would not distort our historical results of operations or make the historical results not reflective of our future performance.

As of 30 June 2015, our material sources of liquidity were cash and cash equivalents of approximately RMB24.7 million. As of 30 June 2015, we had aggregated total banking facilities of approximately RMB676.0 million, of which approximately RMB638.1 million was utilised and approximately RMB37.9 million was unutilised.

As of 31 October 2015, being the latest practicable date for the propose of the indebtedness statement, our material sources of liquidity were cash and cash equivalents of approximately RMB5.8 million. As of 31 October 2015, we had aggregated total banking facilities of approximately RMB668.5 million, of which approximately RMB655.1 million was utilised and RMB13.4 million was unutilised.

We did not experience any withdrawal of facilities, default in payment of bank borrowing or breach of financial covenants up to the Latest Practicable Date.

Our Directors confirmed that we had not experienced difficulties in meeting obligations during the Track Record Period and none of our Group's bank borrowings and facilities are subject to the fulfilment of covenants relating to financial ratio requirements or any other material covenants which would adversely affect our Group's ability to undertake additional debt or equity financings.

Our Directors confirm that there is no material change in our indebtedness position since 31 October 2015.

Contingent liabilities

During the Track Record Period and up to the Latest Practicable Date, except as otherwise disclosed in the section headed "Financial Information — Indebtedness and Contingencies" section of this Prospectus, we did not maintain any outstanding loan capital or bank overdraft, or carry any liabilities under acceptance or other similar indebtedness, debenture, mortgages, charges or acceptance credits or hire purchase commitments, or guarantees or other material contingent liabilities.

Capital and other commitments

Operating lease commitments

We lease the land use right in Shantou under operating lease agreements. The lease for the land use right was 20 years starting from 2004 and the rentals were fixed. In July 2015, the lease had been cancelled as we subsequently acquired the land use right. The table below sets out the aggregate minimum lease payments under the lease agreement as of the dates indicated.

	As of 31 December			As of 30 June
	2012	**2013**	**2014**	**2015**
		(RMB'000)		
Within one year	251	251	251	–
In the second to fifth years	1,004	1,004	1,004	–
Over fifth years	1,694	1,443	1,192	–
Total	2,949	2,698	2,447	–

Off-balance sheet commitments and arrangements

An off-balance sheet arrangement is any transaction, agreement or other contractual arrangement involving an unconsolidated entity under which a company has (i) made guarantees; or (ii) any obligation arising out of a material variable interest in an unconsolidated entity that provides financing, liquidity, market risk or credit risk support to the Company, or that engages in leasing, hedging, or research and development arrangements with the Company. As of the Latest Practicable Date, we did not have any material off-balance sheet arrangements.

PROPERTY INTERESTS

Roma Group Limited, an independent professional property valuer, valued the market value of the property interests (including the reference value of Shantou buildings) of our Group as of 30 September 2015 at approximately RMB186.4 million. The text of its letter and valuation certificate are set out in "Appendix III — Property Valuation Report" to this Prospectus. A reconciliation of the net book value of the relevant property interests, including (i) No.65 Fo Shan Avenue North, Chancheng District, Foshan

City, Guangdong Province, The PRC and (ii) No.235 Song Shan North Road, Longhu District, Shantou City, Guangdong Province, The PRC as of 30 June 2015 to their market value as of 30 September 2015 is as follows:

	RMB'000
Net book value of our buildings and prepaid lease payments in respect of land as of 30 June 2015	142,758
Add: Parcel of land acquired in July 2015	28,119
Less: depreciation/amortisation on buildings and prepaid lease payments (land) for the period from 1 July 2015 to 30 September 2015	(1,365)
Valuation surplus	16,888
Valuation of property interests (including the reference value of Shantou buildings) as of 30 September 2015 as set out in the property valuation report in Appendix III	186,400

WORKING CAPITAL

Working capital is critical to our financial performance and we must maintain sufficient liquidity and financial flexibility to continue our daily operations. Our current assets primarily consist of inventories, trade and other receivables, bank balances and cash, pledged bank deposits and prepaid land use rights. Our current liabilities primarily consist of interest-bearing bank borrowings, trade and other payables and income tax payables. We manage our working capital by closely monitoring the levels of our inventory, trade and bills receivables, other receivables, trade and bills payables and other payables. Our cash position consists primarily of cash and bank balances.

As of 31 October 2015, we had bank balances and cash of approximately RMB5.8 million. We distributed a special dividend of RMB16.0 million and paid non-recurring expenses related to the Listing of approximately RMB4.9 million in October 2015. Taking into account our cash and cash equivalents on hand, cash generated from our future operations, available banking facilities of approximately RMB13.4 million as of 31 October 2015 and the estimated net proceeds from the Global Offering, our Directors confirm that we have sufficient working capital for our present requirements, that is for at least the next 12 months from the date of this Prospectus.

KEY FINANCIAL RATIOS

The table below sets out our key financial ratios as of the dates or for the period indicated.

	Year ended 31 December			Six months ended 30 June
	2012	2013	2014	2015
Return on equity (%)(1)	7.5	10.6	14.8	21.0
Return on total assets (%)(2)	1.2	1.5	2.4	3.0
Interest coverage ratio (times)(3)	2.2	2.8	3.5	4.6

	As of 31 December			As of 30 June
	2012	2013	2014	2015
Gearing ratio (times)(4)	1.4	1.4	1.2	1.2
Net debt to equity ratio (times)(5)	1.3	1.4	1.1	1.1
Current ratio (times)(6)	1.0	1.0	1.0	1.0
Quick ratio (times)(7)	0.8	0.8	0.8	0.9

Notes:

(1) Return on equity is calculated based on our (annualised) profit attributable to the owners of the Company divided by our total equity as of the end of each reporting period.

(2) Return on total assets is calculated based on our (annualised) profit attributable to the owners of the Company divided by total assets as of the end of each reporting period.

(3) Interest coverage ratio is calculated based on our operating profit before finance costs and income tax divided by our finance costs during each reporting period.

(4) Gearing ratio is calculated based on our total debts (being our bank borrowings) divided by our total equity, both as of the end of each reporting period.

(5) Net debt to equity ratio is calculated based on our net debt (i.e. total debts net of cash and cash equivalents) divided by our total equity, both as of the end of each reporting period.

(6) Current ratio is calculated based on our total current assets divided by our total current liabilities, both as of the end of each reporting period.

(7) Quick ratio is calculated based on our total current assets minus our inventories, then divided by our total current liabilities, all as of the end of each reporting period.

Return on equity

Our return on equity increased from approximately 7.5% for the year ended 31 December 2012 to 10.6% for the year ended 31 December 2013 attributable to the increase in our profit attributable to the owners of the Company of approximately 57.5% as a result of increase in turnover. Our return on equity further increased to approximately 14.8% for the year ended 31 December 2014 attributable to the increase in our profit attributable to the owners of the Company of approximately 64.0% during the year. Our annualised return on equity for the six months ended 30 June 2015 increased to approximately 21.0% attributable to the increase in our profit attributable to the owners of the Company as a result of increase in turnover and the reduction of equity amount after payment of dividend of RMB30.0 million in June 2015.

Return on total asset

Our return on assets increased from approximately 1.2% for the year ended 31 December 2012 to 1.5% for the year ended 31 December 2013 attributable to the increase in our profit attributable to the owners of the Company of approximately 57.5% which outweighed the increase in total assets of approximately 24.2% from approximately RMB1,163.1 million as of 31 December 2012 to RMB1,444.6 million as of 31 December 2013. Our return on assets then further increased from approximately 1.5% as of 31 December 2013 to 2.4% as of 31 December 2014 attributable to the increase in our profit attributable to the owners of the Company of approximately 64.0% which outweighed the increase in total assets of approximately 6.2% as of 31 December 2014. Our annualised return on assets increased to approximately 3.0% as the increase in our profit attributable to the owners of the Company outweighted the increase in total assets of as of 30 June 2015.

Interest coverage ratio

Our interest coverage increased from approximately 2.2 times for the year ended 31 December 2012 to 2.8 times for the year ended 31 December 2013 and further increased to 3.5 times for the year ended 31 December 2014 attributable to the substantially increase in profit before interest and tax which outpaced the increase in finance costs. Our interest coverage further increased to approximately 4.6 times for the six months ended 30 June 2015 attributable to the increase in profit before interest and tax while the finance costs remained stable.

Gearing ratio

Our gearing ratio remained stable at approximately 1.4 times as of 31 December 2012 and 2013. As of 31 December 2014, the gearing ratio decreased to approximately 1.2 times since the bank borrowings only increased by approximately RMB1.8 million or 0.6% from approximately RMB299.6 million to RMB301.4 million during the year while the net assets increased by approximately 17.4% as a result of increase in our profit attributable to the owners of the Company. Our gearing ratio remained at approximately 1.2 times as of 30 June 2015 as our business expansion was in line with the growth in trade payables and bills financing.

Net debt to equity ratio

Our net debt to equity ratio increased from approximately 1.3 times as of 31 December 2012 to 1.4 times as of 31 December 2013 attributable to the increase in bank borrowings of approximately RMB41.1 million or 15.9% from approximately RMB258.5 million to RMB299.6 million during the same period. The net debt to equity ratio decreased from approximately 1.4 times as of 31 December 2013 to 1.1 times as of 31 December 2014 attributable to the increase in equity which outweighed the increase in bank borrowings. As of 30 June 2015, the net debt to equity ratio remained stable at 1.1 times.

Current ratio

Our current ratio remained stable at approximately 1.0 times as of 31 December 2012, 2013 and 2014 and 30 June 2015. During the Track Record Period, our current assets primarily comprised trade and other receivables, inventory and pledged bank deposits while the current liabilities primarily comprised trade and other payables and bank borrowings. Since the increase in current assets and liabilities were resulted from the increase in trade receivables and payables respectively, the increments offset with each other and led to a relatively stable current ratio.

Quick ratio

Our quick ratio remained stable from approximately 0.8 times to 0.9 times as of 31 December 2012, 2013 and 2014 and 30 June 2015. The proportion of inventories to the current assets slightly decreased during the Track Record Period, which was approximately 22.2%, 20.7%, 18.3% and 15.9% as of 31 December 2012, 2013 and 2014 and 30 June 2015, respectively. However, since the increase in trade receivables were at the same trend with the increase in trade payables, the movement in quick ratio generally similar to that of current ratio.

FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

Interest rate risk

Our exposure to the risk of changes in market interest rates relates primarily to our cash at banks, pledged bank deposits and bank borrowings. We have not used any interest rate swaps to hedge our interest rate risk, and will consider hedging significant interest rate risks should the need arise.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of our profit after tax (through the impact on floating rate borrowings):

	Change in basis points	**Increase/ (decrease) in profit after tax** *RMB'000*
For the year ended 31 December 2012:		
If interest rate increased by	50	(357)
If interest rate decreased by	50	357
For the year ended 31 December 2013:		
If interest rate increased by	50	(404)
If interest rate decreased by	50	404
For the year ended 31 December 2014:		
If interest rate increased by	50	(657)
If interest rate decreased by	50	657
For the six months ended 30 June 2015:		
If interest rate increased by	50	(94)
If interest rate decreased by	50	94

The sensitivity analysis above indicates the instantaneous change in our profit after tax and retained profits and other components of consolidated equity that would arise assuming that the change in interest rates had occurred at the end of each Track Record Period and had been applied to re-measure those financial instruments held by our Group which expose our Group to interest rate risk at the end of each Track Record Period. The analysis is performed on the same basis for the years ended 31 December 2012, 2013 and 2014 and the six months ended 30 June 2015, respectively.

Credit Risk

As of 31 December 2012, 2013 and 2014 and 30 June 2015, our maximum exposure to credit risk which will cause a financial loss to us due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated statements of financial position.

In order to minimise the 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 each Track Record Period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, our Directors consider that our credit risk is significantly reduced.

The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies.

Other than concentration of credit risk on liquid funds which are deposited with several banks with high credit ratings, we do not have any other significant concentration of credit risk. Trade receivables as of 31 December 2012, 2013 and 2014 and 30 June 2015 consist of a large number of customers, spread across diverse geographical areas.

Liquidity Risk

In management of 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. Management monitors the utilisation of bank borrowings and ensures compliance with loan covenants.

At 31 December 2012, 2013 and 2014 and 30 June 2015, the aggregate undiscounted principal amounts of the bank borrowings with a repayment on demand clause amounted to approximately RMB258.5 million, RMB299.6 million, RMB301.4 million and RMB278.8 million, respectively. Taking into account our financial position, our Directors do not believe that it is probable that the banks will exercise their discretionary rights to demand immediate repayment. Our Directors believe that such bank borrowings will be repaid more than one year but not exceeding five years after the reporting date in accordance with the scheduled repayment dates set out in the loan agreements. At that time, the aggregate principal and interest cash outflows will amount to approximately RMB274.3 million, RMB315.9 million, RMB315.3 million and RMB286.9 million, respectively.

DIVIDEND POLICY

We may declare and pay dividends by way of cash or by other means that we consider appropriate in the future. Distribution of dividends shall be formulated by our Board at its discretion and will be subject to shareholders' approval. A decision to declare or to pay any dividends in the future, and the amount of any dividends, will depend on, among other things, our results of operations, cash flows and financial condition, operating and capital expenditure requirements, distributable profits as determined under PRC GAAP, our Articles of Association, the PRC Company Law and any other applicable PRC law and regulations and other factors that our Directors may consider relevant. In any event, we will pay dividends out of our profit after tax only after we have made the following allocations:

- recovery of accumulated losses, if any;
- allocation to the statutory common reserve fund an amount equivalent to 10% of our profit after tax, as determined under PRC GAAP; and
- allocation, if any, to a discretionary common reserve fund an amount approved by the shareholders in a shareholders' meeting.

The minimum allocation to the statutory common reserve fund is 10% of our profit after tax, as determined under PRC GAAP. When the statutory common reserve fund reaches and is maintained at or above 50% of our registered capital, no further allocation to this statutory common reserve fund will be required. Under PRC law, after completion of the Global Offering, dividends may be paid only out of distributable profits as determined under PRC GAAP. Any distributable profits that are not distributed in any given year will be retained and become available for distribution in subsequent years.

There is, however, no assurance that we will be able to distribute dividends of such amount or any amount each year or in any year. In addition, declaration and/or payment of dividends may be limited by legal restrictions and/or by financing agreements that we may enter into in the future.

During the Track Record Period, we paid a cash dividend of RMB30.0 million in June 2015. We declared and paid a special cash dividend of RMB16.0 million in October 2015, satisfied by the internal resources of our Group. Dividends paid in prior years shall not be indicative of future dividend payment. Following the completion of the Global Offering, we plan to distribute not less than 20% of our distributable and accumulated undistributed profits of each financial year beginning from the year ending 31 December 2016. As at the Latest Practicable Date, we do not have plan to distribute any of our distributable and accumulated undistributed profits for the year ending 31 December 2015.

Distributable reserves

As of 30 June 2015, we had a reserves of approximately RMB20.0 million available for distribution to our Shareholders.

DISCLOSURE REQUIREMENTS UNDER RULES 13.13 TO 13.19 OF THE LISTING RULES

We confirm that as of the Latest Practicable Date, there were no circumstances that would give rise to a disclosure obligation under Rules 13.13 to 13.19 of the Listing Rules.

LISTING EXPENSES

The total estimated listing expenses incurred in relation to the Listing (including the estimated underwriting commission) are approximately RMB33.2 million (equivalent to approximately HK$41.5 million) (assuming an Offer Price of HK$8.10 per Offer Share, being the mid-point of the indicative Offer Price range of HK$7.60 to HK$8.60), of which approximately RMB11.4 million (equivalent to approximately HK$14.2 million) is directly attributable to the issue of H Shares is to be accounted for as a deduction from equity upon Listing and approximately RMB21.8 million (approximately HK$27.3 million) is to be charged as administrative expenses to our consolidated statement of profit or loss and other comprehensive income in the periods in which the expenses are incurred. We charged approximately RMB0.2 million (equivalent to approximately HK$0.2 million) and RMB5.4 million (equivalent to approximately HK$6.7 million) to our consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2014 and the six months ended 30 June 2015 respectively. The remaining estimated listing expenses of approximately RMB16.2 million (equivalent to approximately HK$20.3 million) are expected to be charged to our consolidated statement of profit or loss and other comprehensive income subsequent to 30 June 2015 and will be reflected in our administrative expenses for the year ending 31 December 2015. The estimated listing expenses are subject to adjustments based on the actual amount incurred or to be incurred. We expect that the listing expenses to be incurred in connection with the Global Offering for the year ending 31 December 2015 will have a material adverse impact on our results of operations.

SUBSEQUENT EVENT

In July 2015, our Company purchased the land use right of a parcel of land with a site area of approximately 16,406.8 sq.m located on No. 235 Song Shan North Road, Longhu District, Shantou City, Guangdong Province, the PRC, being the land occupied by our logistics centre in Shantou for a consideration of RMB27.3 million which was duly paid in July 2015.

NO MATERIAL ADVERSE CHANGE

Our Directors have confirmed that save for the listing expenses as disclosed in the section headed "Financial Information — Listing Expenses" of this Prospectus, since 30 June 2015 and up to the date of this Prospectus, there had been no material adverse change in our financial or trading position or prospects and no event had occurred that would materially and adversely affect the financial information in the Accountant's Report included as Appendix I to this Prospectus.

UNAUDITED PRO FORMA ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS

The following unaudited pro forma statement of our net tangible assets prepared in accordance with Rule 4.29 of the Listing Rules is for illustration purposes only, and is set out here to illustrate the effect of the Global Offering as if it had taken place on 30 June 2015.

The unaudited pro forma statement of adjusted consolidated net tangible assets has been prepared for illustrative purpose only and because of its hypothetical nature, it may not give a true picture of our consolidated net tangible assets as of 30 June 2015 or any future date following the Global Offering. It is prepared based on our consolidated net assets as of 30 June 2015 as set out in the Accountant's Report in Appendix I to this Prospectus, and adjusted as described below. The unaudited pro forma statement of net tangible assets does not form part of the Accountant's Report as set out in Appendix I to this Prospectus.

	Audited consolidated net tangible assets attributable to owners of the Company as of 30 June 2015	Estimated net proceeds from the Global Offering	Unaudited pro forma adjusted consolidated net tangible assets attributable to owners of the Company immediately after the completion of the Global Offering	Unaudited pro forma adjusted consolidated net tangible assets per Share as of 30 June 2015	
	RMB'000	*RMB'000*	*RMB'000*	*RMB*	*HK$*
	(Note 1)	*(Note 2)*		*(Note 3)*	*(Note 3)*
Based on the Offer Price of HK$7.60 per H Share	240,799	142,998	383,797	3.55	4.44
Based on the Offer Price of HK$8.60 per H Share	240,799	164,545	405,344	3.75	4.69

Notes:

1. The audited consolidated net tangible assets of the Group attributable to owners of the Company as of 30 June 2015 has been derived from the audited consolidated net assets of the Group attributable to the owners of the Company of approximately RMB240.8 million as of 30 June 2015 extracted from the Accountant's Report set out in Appendix I to this Prospectus.

2. The estimated net proceeds from the Global Offering are based on the respective low and high-ends of the indicative Offer Price range of HK$7.60 and HK$8.60 per H Share, respectively, after deducting the underwriting fees and commissions, estimated expenses payable by the Company and listing expenses of approximately RMB5.6 million incurred during the year ended 31 December 2014 and six months ended 30 June 2015 in relation to the Global Offering. The estimated net proceeds do not take into account any H Shares which may be issued upon the exercise of the Over-allotment Option.

3. The unaudited pro forma adjusted consolidated net tangible assets per Share is arrived at after adjustment for the estimated net proceeds from the Global Offering payable to the Company as described in note 2 and on the basis that a total of 108,000,000 Shares were in issue as of 30 June 2015 (including Shares in issue as of the date of this Prospectus and those H Shares are expected to be issued pursuant to the Global Offering but not taking into account any H Shares which may be issued upon the exercise of the Over-allotment Option).

4. The prepaid land use right and buildings of the Group is valued by Roma Appraisals Limited. According to the valuation report, the prepaid land use right and buildings of the Group as of 30 September 2015 amounted to approximately RMB186.4 million. Comparing this amount with the unaudited carrying value of the prepaid land use right and buildings of the Group as of 30 September 2015 of approximately RMB169.5 million, there is a surplus of approximately RMB16.9 million. Had the prepaid land use right and buildings been stated at the revaluation amount, additional annual amortisation and depreciation of approximately RMB0.6 million would be incurred. The surplus on revaluation is not considered in the unaudited pro forma adjusted consolidated net tangible assets of the Group and will not be incorporated in the Group's consolidated financial information in subsequent years as the Group has elected to state the properties at cost basis.

5. The unaudited pro forma adjusted consolidated net tangible assets and the unaudited pro forma adjusted consolidated net tangible assets per Share have not taken into account the cash dividend declared and paid to the shareholders of the Company amounting to RMB16.0 million in October 2015. The unaudited pro forma adjusted consolidated net tangible assets as at 30 June 2015 would have been reduced by RMB16.0 million. Based on the Offer Price range of HK$7.60 and HK$8.60 per H Share, the unaudited pro forma adjusted consolidated net tangible assets per Share would have been reduced to RMB3.41 (with equivalent to HK$4.26) and RMB3.61 (with equivalent to HK$4.51) per Share respectively, after taking into account the payment of the dividend in the sum of RMB16.0 million.

6. No adjustments have been made to reflect any trading result or other transactions of the Group enters into subsequent to 30 June 2015.

7. For the purpose of this unaudited pro forma adjusted net tangible assets, the amounts stated in Renminbi are converted into Hong Kong dollars at a rate of HK$1.00 to RMB0.80. No representation is made that Renminbi amounts have been, could have been or may be converted to Hong Kong dollar, or vice versa, at that rate.

Immediately following completion of the Global Offering (assuming the Over-allotment Option is not exercised), Mr. Yao will beneficially own approximately 64.81% of the issued share capital of our Company. Hence, Mr. Yao is considered as our Controlling Shareholder.

COMPETING INTERESTS

Each of our Controlling Shareholder and our Directors confirms that he/she and his/her respective associates do not have any interests in any business, apart from the business operated by members of our Group, that competes or is likely to compete, directly or indirectly, with the business of our Group.

DEED OF NON-COMPETITION

To better safeguard our Group from any potential competition, Mr. Yao has entered into the Deed of Non-competition with our Company whereby Mr. Yao irrevocably and unconditionally, undertakes with our Company that with effect from the Listing Date and for as long as our H Shares remain listed on the Stock Exchange and (i) Mr. Yao is, directly or indirectly, interested in not less than 30% of our Shares in issue; or (ii) Mr. Yao remains as our executive Director, Mr. Yao shall, and shall procure that his respective associates shall:

(a) not directly or indirectly engage, participate or hold any right or interest in or render any services to or otherwise be involved in any business in competition with or likely to be in competition with the existing business activities of our Group or any business activities which our Group may undertake in the future;

(b) not take any direct or indirect action which constitutes an interference with or a disruption to the business activities of our Group including, but not limited to, solicitation of customers, suppliers and staff of our Group;

(c) keep our Board informed of any matter of potential conflicts of interests between Mr. Yao (including his associates) and our Group, in particular, a transaction between Mr. Yao (including his associates) and our Group; and

(d) provide as soon as practicable upon our Company's request a written confirmation in respect of compliance by it with the terms of the Deed of Non-competition and their respective consent to the inclusion of such confirmation in our Company's annual report and all such information as may be reasonably requested by the Company for its review.

In addition, Mr. Yao hereby irrevocably and unconditionally, undertakes that if any new business opportunity relating to any products and/or services of our Group (the "Business Opportunity") is made available to him or his associates (other than members of our Group), he will direct or procure the relevant associate to direct such Business Opportunity to our Group with such required information to enable our Group to evaluate the merits of the Business Opportunity.

Mr. Yao shall provide or procure his associates to provide all such reasonable assistance to enable our Group to secure the Business Opportunity. If he (or his associates) plans to participate or engage in any new activities or new business which may, directly or indirectly, compete with the existing business activities of our Group, he shall give our Company a first right of refusal to participate or engage in the Business Opportunity and will not participate or engage in these activities unless with the prior written consent of our Company. None of Mr. Yao and his associates (other than members of our Group) will pursue the Business Opportunity until our Group decides not to pursue the Business Opportunity because of commercial reasons. Any decision of our Company will have to be approved by our independent non-executive Directors taking into consideration the prevailing business and financial resources of our Group, the financial resources required for the Business Opportunity and, where necessary, any expert opinion on the commercial viability of the Business Opportunity.

Mr. Yao further irrevocably and unconditionally, undertakes that he will (i) provide to our Group all information necessary for the enforcement of the undertakings contained in the Deed of Non-competition; and (ii) confirm to our Company on an annual basis as to whether he has complied with such undertakings.

The deed of non-competition will cease to have any effect on the earliest of the date on which:

(a) our Company becomes wholly-owned by Mr. Yao and/or his associates;

(b) the aggregate beneficial shareholding (whether direct or indirect) of Mr. Yao and/or his associates in the Shares in issue falls below 30% of the number of Shares in issue and Mr. Yao shall cease to be our executive Director; or

(c) the H Shares cease to be listed on the Stock Exchange.

INDEPENDENCE FROM OUR CONTROLLING SHAREHOLDER

Having taken into account of the following factors, our Directors are satisfied that our Group can carry on its business independently of our Controlling Shareholder following the Listing:

Management independence

Our Group's management and operational decisions are made by our Board. Our Board consists of eight members, comprising four executive Directors, one non-executive Director and three independent non-executive Directors. Each of our Directors is aware of his/her fiduciary duties as a Director of our Company which requires, among other things, that he/she acts for the benefit and in the best interests of our Company and does not allow any conflict between his/her duties as a Director and his/her personal interests. In the event that there is a potential conflict of interests arising out of any transaction to be entered into between our Group and our Directors or their respective close associates, the interested Director(s) shall abstain from voting at the relevant board meetings of our Company in respect of such transactions and shall not be counted in the quorum. Further, the independent non-executive Directors will bring independent judgement to the decision making process of our Board. Our Directors possess in-depth experience and understanding of the industry in which our Group is engaged. In this regard, our Directors are of the view that our Group can be managed independently notwithstanding that Mr. Yao being our Controlling Shareholder, is our executive Director.

Operational independence

The organisational structure of our Group is made up of a number of departments, comprising, amongst others, procurement and sales centre, products management department, distribution centre, e-commerce department, quality management department, human resources department, finance and accounting department, capital management department, audit department, administration department, information technology department etc. Each department takes a specific role in our Group's operations. For instance, each of our finance and accounting department, capital management department and audit department is responsible for the different aspects of our financing and accounting management. Our distribution centre is responsible for our logistics operations. There are internal control procedures to ensure effective operation of our Group's business. Furthermore, our Group has its own warehouses and its own sources of independent suppliers and customers. Accordingly, our Group can carry out its business operations independently.

Financial independence

Our Directors are of the view that our Group does not unduly rely on the advances from our Controlling Shareholder and his close associates for its business operations. Our Directors believe that our Group is capable of obtaining financing from external sources without reliance on our Controlling Shareholder. Furthermore, our Group has its own finance department and has established its own financial accounting system independent of our Controlling Shareholder. Our Group has its own bank accounts, makes its tax registrations and has employed a sufficient number of financial and accounting personnel. During the Track Record Period, Mr. Yao provided financial assistance for the benefit of our Company by way of provision of guarantee in favour of five PRC banks. As of 31 December 2012, 2013, 2014 and 30 June 2015, the aggregate amount of facilities guaranteed by Mr. Yao and utilised by our Company was RMB455.3 million, RMB590.4 million, RMB625.0 million and RMB638.1 million, respectively. Such guarantee arrangements are expected to be ceased upon the Listing.

Save as aforesaid, our Group does not rely on our Controlling Shareholder and/or under his close associates by virtue of financial assistance. Accordingly, our Directors consider that our Group is capable of operating independently from a financial perspective.

NON-DISPOSAL UNDERTAKINGS GIVEN BY OUR CONTROLLING SHAREHOLDER

Pursuant to Rule 10.07 of the Listing Rules, our Controlling Shareholder has undertaken with our Company and the Stock Exchange that he shall not:

(a) in the period commencing on the date of by reference to which disclosure of the shareholding of our Controlling Shareholder is made in this Prospectus and ending on the date which is six months from the Listing Date (the "First Six-month Period"), dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of the Shares in respect of which he is shown by this Prospectus to be the beneficial owner(s); and

(b) in the period of six months commencing on the date on which the First Six-month Period expires, dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of the Shares if, immediately following such disposal or upon the exercise or enforcement of such options, rights, interests or encumbrances, our Controlling Shareholder would cease to be our Controlling Shareholder of our Company, i.e. they cease to control 30% or more of the voting power at general meetings of our Company.

Further, our Controlling Shareholder has undertaken with our Company and the Stock Exchange that within a period commencing on the date by reference to which disclosure of the shareholding of our Controlling Shareholder is made in this Prospectus and ending on the date on which is 12 months from the Listing Date, he shall:

(a) when he pledges or charges any securities beneficially owned by him in favour of an authorised institution (as defined under the Banking Ordinance (Chapter 155 of the Laws of Hong Kong)) for a bona fide commercial loan, immediately inform our Company of such pledge or charge together with the number of securities so pledged or charged; and

(b) when he receives indications, either verbal or written, from the pledgee or chargee that any of the pledged or charged securities will be disposed of, immediately inform our Company of such indications.

CORPORATE GOVERNANCE MEASURES

Our Company will adopt the following governance measures to manage the potential conflict of interests between us and our Controlling Shareholder, and to safeguard the interests of our Shareholders:

(i) our independent non-executive Directors will review, at least on an annual basis, compliance and enforcement of the terms of the Deed of Non-competition;

(ii) we will disclose any decisions on matters reviewed by our independent non-executive Directors relating to compliance and enforcement of the Deed of Non-competition either through our annual report or by way of announcement;

(iii) we will disclose in the corporate governance report of our annual report on how the terms of the Deed of Non-competition have been complied with and enforced; and

(iv) in the event that any of our Directors and/or their respective associates has material interest in any matter to be deliberated by our Board in relation to compliance and enforcement of the Deed of Non-competition, he/she may not vote on the resolutions of our Board approving the matter and shall not be counted towards the quorum for the voting pursuant to the applicable provisions in the Articles of Association.

Our Directors consider that the above corporate governance measures are sufficient to manage any potential conflict of interests between our Controlling Shareholder and his associates and our Group and to protect the interests of our Shareholders, in particular, the minority Shareholders.

The senior management team of our Group comprises our executive Directors, Supervisors and senior management, and details of which are set out below:

DIRECTORS

Name	Age	Position	Date of appointment as our Director	Date of joining our Group	Principal responsibilities
Executive Directors					
Mr. Yao Chuanglong (姚創龍)	45	Chairman, executive Director and Chief Executive Officer	6 March 2000	6 March 2000	Overall management of our Group, strategic planning and decision, formulation of annual business operation plan of our Group
Ms. Zheng Yuyan (鄭玉燕)	40	Vice president, executive Director and Chief Marketing Officer	25 May 2015	8 September 2003	Marketing and products management of our Group
Mr. Fan Jianbo (范劍波)	39	Vice president, executive Director and Chief Technical Officer	25 May 2015	1 March 2011	Development of information system, logistics centre and information technology management of our Group
Mr. Lin Zhixiong (林志雄)	45	Executive Director, joint company secretary and Chief Financial Officer	25 May 2015	15 March 2010	Financial management of our Group
Non-executive Director					
Ms. You Zeyan (游澤燕)	44	Non-executive Director	25 May 2015	N/A	Responsible for providing advice on strategic development of our Group
Independent non-executive Directors					
Mr. Wan Chi Wai Anthony (尹智偉)	40	Independent non-executive Director	1 December 2015	1 December 2015	Supervising our Group's compliance and corporate governance matters, providing independent judgement to our Board

Name	Age	Position	Date of appointment as our Director	Date of joining our Group	Principal responsibilities
Mr. Zhou Tao (周濤)	32	Independent non-executive Director	1 December 2015	1 December 2015	Supervising our Group's compliance and corporate governance matters, providing independent judgement to our Board
Mr. Guan Jian (關鍵) (also known as Guan Suzhe (關蘇哲))	45	Independent non-executive Director	1 December 2015	1 December 2015	Supervising our Group's compliance and corporate governance matters, providing independent judgement to our Board

Executive Directors

Mr. Yao Chuanglong (姚創龍), aged 45, is our Chairman, executive Director and Chief Executive Officer. He is responsible for the overall management of our Group, strategic planning and decision, formulation of annual business operation plan of our Group. He is the spouse of Ms. You Zeyan, our non-executive Director.

Mr. Yao obtained a certificate in postgraduate class on civil commercial law from China University of Political Science and Law (中國政法大學) in March 2004. Mr. Yao also completed a class on selected on-job executive master of business administration course (在職工商管理碩士(EMBA)精選課程研修班) organised by the Sino-Foreign Management Research Institute of Sun Yat-sen University (中山大學中外管理研究中心) in the PRC in March 2004 and a course on "Advance Programme for Development of Leadership in Pharmaceutical Industry" (醫藥商業領導力發展高級研修班) in Zhejiang University (浙江大學) in the PRC in October 2007. Mr. Yao also completed a course on "Advanced Programme on Business Management for Executives" (高級工商管理總裁研修班) in Tsinghua University (清華大學) in the PRC in July 2008 and a course on "Telaote Strategic Positing for Executives" (特勞特戰略定位總裁班) in Peking University (北京大學) in the PRC in September 2013.

From January 1997 to January 2000, Mr. Yao was a business manager in Beijing Weilan Medicine Development Limited Shantou Company (北京衛倫醫藥開發公司汕頭公司) (currently known as Shantou Weilan Medicine Limited (汕頭市衛倫醫藥有限公司)), being responsible for the formulation and supervision of the sales planning of pharmaceutical. Mr. Yao joined our Group in March 2000 as a general manager of our Company, overseeing the daily operation and formulation of the strategic development of our Company. Since July 2011, he has also served as the general manger of Foshan Chuangmei. Mr. Yao has been acting as the chairman of our Company since May 2015.

Under code provision A.2.1 of the Corporate Governance Code and Corporate Governance Report (the "CG Code") as set out in Appendix 14 to the Listing Rules, the responsibilities between the chairman and chief executive officer should be separate and should not be performed by the same individual. Mr. Yao is our Chief Executive Officer, and he also performs as the chairman of our Board as he has considerable experience in the pharmaceutical distribution industry. Our Board believes that vesting the roles of both the chairman of our Board and the chief executive officer in the same person has the benefit of ensuring consistent leadership within our Group and enables more effective and efficient overall strategic planning of our Group.

Ms. Zheng Yuyan (鄭玉燕), aged 40, is our vice president, executive Director and Chief Marketing Officer. She is responsible for the marketing and products management of our Group. She joined our Group in September 2003 and had served various positions in our Group including procurement officer, procurement director and sales director. Ms. Zheng was promoted in August 2015 as the vice president of our Group.

In December 2007, Ms. Zheng was accredited by the Guangdong Human Resources and Social Welfare Bureau (廣東省人力資源和社會保障局) as a qualified medical products sales. Ms. Zheng obtained a Master of Business Administration degree in the Postgraduate School of Renmin University of China (中國人民大學研究生院) in the PRC in December 2008. Ms Zheng completed a course of "Training Programme for Executives Master of Business Administration Courses" (EMBA課程總裁研修班) organised by Lingnan School of Sun Yat-sen University (中山大學嶺南學院) in the PRC in August 2013 and a course of "Telaote Strategic Positing for Executives" (特勞特戰略定位總裁班) organised by Peking University (北京大學) in the PRC in November 2013.

Mr. Fan Jianbo (范劍波), aged 39, is our vice president, executive Director and Chief Technical Officer. He is responsible for the development of information system, logistics centre and information technology management of our Group. He joined our Group in March 2011 as Chief Technical Officer and is responsible for the planning and construction of the our logistics centres. Mr. Fan was promoted in August 2015 as the vice president of our Group.

Mr. Fan graduated from the Yunan University (雲南大學) in the PRC, majoring in international trade in February 2004 and obtained a postgraduate diploma on "Information Strategy and Business Transformation" from the University of Hong Kong School of Professional and Continuing Education in September 2013. He completed a course of "Telaote Strategic Positing for Executives" (特勞特戰略定位總裁班) organised by Peking University (北京大學) in the PRC in November 2013. Mr. Fan was awarded as an expert on warehouses and storage by the China Association of Warehouses and Storage (中國倉儲協會) from August 2014 to August 2016.

From February 2007 to July 2007, Mr. Fan was the logistics manager of Yuannan Gallops International Logistics Company Limited (雲南騰俊國際物流有限公司), a company engaging in the provision of delivery, logistics, warehouse management and import and export services, formulating the standard operating procedures and enhancing logistics system. Mr. Fan served as the logistics manager of Yunnan Hongxiang Yixintang Pharmaceutical Co., Ltd (雲南鴻翔一心堂(集團)藥業股份有限公司), a company listed on the Shenzhen Stock Exchange (stock code: 002727) and engaging in production and sales of pharmaceutical products, during July 2007 and December 2010, responsible for the planning of construction of and management of the logistic centre and the implementation of enterprise resource planning software.

Mr. Lin Zhixiong (林志雄), aged 45, is our executive Director, joint company secretary and Chief Financial Officer. He is responsible for the financial management of our Group. He joined our Group in March 2010 as the financial director of our Group.

Mr. Lin graduated from Hunan Institute of Finance and Economics (湖南財經學院) in the PRC with a bachelor degree in economics studies, majoring in finance planning and statistics in July 1992. He also completed a course of "Telaote Strategic Positing for Executives" (特勞特戰略定位總裁班) organised by Peking University (北京大學) in the PRC in November 2013 and obtained a postgraduate diploma on "Corporate Finance and Investment Management" from the University of Hong Kong School of Professional and Continuing Education in May 2015. Mr. Lin was an accountant accredited by the Ministry of Finance in the PRC in May 1997.

Prior to joining our Group, Mr. Lin worked in Shantou International Trust Investment Limited (汕頭國際信託投資公司), a company engaging in financing and investment activities, as an accounting and financial manager from July 1992 to December 2001, responsible for financial management and accounting, tax planning and financing. During January 2002 to March 2010, he worked in Guangdong Deming Investment Group Limited (廣東德明投資集團公司) (currently known as Shantou Deming Packaging Group Limited (汕頭市德明包裝實業集團有限公司)), a company engaging in the production and sales of tobacco, and held the position of financial director and was responsible for the financial management and accounting, tax planning, financing and investment management.

Non-executive Director

Ms. You Zeyan (游澤燕), aged 44, was appointed as our non-executive Director on 25 May 2015. She is responsible for providing advice on strategic development of our Group. She is the spouse of Mr. Yao, our Chairman, executive Director and Chief Executive Officer.

Ms. You studied financial studies and finance in the Party School of Guangdong Committee of C.P.C (中共廣東省委黨校) in the PRC from September 1996 to July 1997 and graduated from the Teaching College of Party School of Guangdong Committee of C.P.C (中共廣東省委黨校函授學院) in the PRC with a bachelor degree in administrative management in December 2004. Ms. You joined Shantou Special Economic Zone Golden Gulf Hotel Limited (汕頭經濟特區金海灣大酒店有限公司) in the PRC in September 1990 as a public relations marketing director and since January 2012, she has been serving as the assistant general manager, being responsible for the public relations, managing marketing companies and assists in customer service and sales.

Independent non-executive Directors

Mr. Wan Chi Wai Anthony (尹智偉), aged 40, was appointed as our independent non-executive Director on 1 December 2015. Mr. Wan graduated from the Hong Kong University of Science and Technology in Hong Kong in November 1997 with a bachelor degree in business administration (accounting). Mr. Wan graduated from the University of London with a bachelor degree in laws in August 2003 through distance learning. He further obtained the Postgraduate Certificate in Laws in June 2004 from the University of Hong Kong.

Mr. Wan was admitted as a member of the Hong Kong Institute of Certified Public Accountants in January 2002 and a Fellow of the Association of Chartered Certified Accountants since May 2006. Mr. Wan was also admitted as a solicitor of the High Court of Hong Kong in September 2006.

Prior to joining the legal field, Mr. Wan worked in the financial, accounting and audit industry, including as a senior associate in PricewaterhouseCoopers, an accounting and audit firm, during August 1997 and May 2001; an accounting manager in Wellink Services Limited, a company engaging in investment business, during October 2001 and January 2002; and an assistant manager in finance in MLC (Hong Kong) Limited, an insurance company, during April 2002 and September 2003. Since 2004, Mr. Wan has worked in various local and international law firms, specialising in the practice of corporate finance transactions including Hong Kong listings and mergers and acquisitions. From October 2006 to July 2007 and January 2008 to November 2008, Mr. Wan was a corporate finance associate in Herbert Smith Freehills. He was an assistant solicitor in Reed Smith Richards Butler from March 2010 to November 2010 and an associate in Morrison & Foerster from December 2010 to May 2012. Mr. Wan joined Clifford Chance in May 2012 as a senior associate and left as a consultant in April 2015. In May 2015, he became the partner and head of the corporate and securities practice of Vivien Teu & Co in association with Llinks Law Offices (通力律師事務所), a law firm in Hong Kong.

Mr. Zhou Tao (周濤), aged 32, was appointed as our independent non-executive Director on 1 December 2015. Mr. Zhou graduated from Peking University (北京大學) in the PRC with a bachelor's degree in law in July 2005. He is a qualified practising lawyer in the PRC.

Since July 2005, Mr. Zhou has been working as a lawyer in Grandway Law Offices (北京國楓律師事務所), a law firm in the PRC.

Mr. Guan Jian (關鍵) (also known as Guan Suzhe (關蘇哲)), aged 45, was appointed as our independent non-executive Director on 1 December 2015. Mr. Guan graduated from Chinese People's Liberation Army University of International Relationships (中國人民解放軍國際關係學院) in the PRC with a bachelor degree in English in July 1991 and from China Europe International Business School (中歐國際工商學院) in the PRC with a master degree in business administration in November 1997. In August 2014, he was appointed as a guest professor by Shanghai Jiao Tong University Continuing Education School (上海交通大學繼續教育學院) in the PRC.

Mr. Guan worked as a sales director in Yihaodian (一號店), a company engaging in business administration, being responsible for marketing, sales and operational management in May 2008. From July 2009 to August 2010, he was the vice president responsible for the business management in Shanghai Haolijia Electronics Commerce Limited (上海好麗家電子商務有限公司), a company engaging in the business of marketing, sales and training. Since July 2011, he has been working as the chief executive officer of Mankedao (Shanghai) Information Technology Limited (慢客島(上海)網絡科技有限公司), overseeing the general management. Mr. Guan has been consultant of China Telecom Corporation Limited Jiangsu electronics channel operations centre (中國電信股份有限公司江蘇電子渠道營運中心).

Save as disclosed in this Prospectus, each of our Directors confirmed that he/she (i) did not hold any directorships in the last three years prior to the Latest Practicable Date in public companies, the securities of which are listed on any securities market in Hong Kong or overseas; (ii) does not hold any other positions with us or other members of our Group; and (iii) does not have any relationship with other Directors, senior management or Controlling Shareholder, if any, of our Company or any interests in our Shares within the meaning of Part XV of the SFO.

Save as disclosed herein, to the best of the knowledge, information and belief of our Directors having made all reasonable enquiries, there was no other matter with respect to the appointment of our Directors that needs to be brought to the attention of our Shareholders and there was no information relating to our Directors that is required to be disclosed pursuant to Rules 13.51(2)(h) to (v) of the Listing Rules as of the Latest Practicable Date.

SUPERVISORS

Name	Age	Position	Date of appointment as Supervisor	Date of joining our Group	Principal responsibilities
Ms. Zhang Ling (張玲)	43	Chairman of the Board of Supervisors	25 May 2015	N/A	Supervision of the Board and senior management
Ms. Zheng Xiyue (鄭禧玥)	35	Employee representative Supervisor	25 May 2015	July 2001	Supervision of the Board and senior management
Ms. Zhang Hanzi (張寒孜)	36	Supervisor	25 May 2015	February 2014	Supervision of the Board and senior management

Ms. Zhang Ling (張玲), aged 43, was appointed as the Chairman of the Board of Supervisors on 25 May 2015. Ms. Zhang graduated from Beijing Wuzi University (北京物資學院) in the PRC with a bachelor degree in international trade in July 1994. She obtained a master degree in industrial economics from Shantou University (汕頭大學) in the PRC in June 2005 and a doctorate degree in accounting from Xiamen University (廈門大學) in December 2009.

From March 2000 to September 2002, Ms. Zhang was the assistant to general manager in our Company, overseeing financial and administrative matters. Since January 2010, she has been an associate professor in Shantou University Business School (汕頭大學商學院) in the PRC.

Ms. Zheng Xiyue (鄭禧玥), aged 35, was appointed as our employee representative Supervisor on 25 May 2015. Ms. Zheng graduated from China Central Radio and TV University (中央廣播電視大學) in the PRC with a bachelor degree in accounting in July 2009. She has also completed a course on "Executive Master of Business Administration (EMBA) Programme for Executives" in Market Economy Academy of Peking University (北京大學民營經濟研究學院) in the PRC in April 2010.

Ms. Zheng joined our Group in July 2001 and held positions including accounting officer and manager of settlement department. She is currently the assistant to marketing officer and the treasury manager of our Group and is responsible for providing assistance to our Chief Marketing Officer in the operation of our sales centre and overseeing treasury management of our Group.

Ms. Zhang Hanzi (張寒孜), aged 36, was appointed as our Supervisor on 25 May 2015. Ms. Zhang studied international finance in Sichuan University (四川大學) in the PRC and graduated with a bachelor degree in economics studies in July 2002. She was an intermediate accountant accredited by Guangdong Human Resources and Social Welfare Bureau (廣東省人力資源和社會保障廳) in August 2011.

During July 2008 and January 2014, Ms. Zhang was the financial vice manager in Kaiser China Holding Co., Ltd. (凱撒(中國)股份有限公司), a company listed on the Shenzhen Stock Exchange (stock code: 002425) and engaging in the wholesale and sales of apparel and leather products. She was also the director of Yuxin (Guangdong) Trading Limited (宇鑫(廣東)貿易有限公司), a subsidiary of Kaiser China Holding Co., Ltd. (凱撒(中國)股份有限公司) from July 2008 to January 2014. Since February 2014, she has been serving as the financial manager of our Company.

SENIOR MANAGEMENT AND JOINT COMPANY SECRETARIES

Name	Age	Position	Date of joining our Group	Principal responsibilities
Mr. Lin Zhijie (林志杰)	33	Vice logistics officer	January 2007	Overseeing transportation and logistics arrangement of our Group
Mr. Lin Zhixiong (林志雄)	45	Executive Director, joint company secretary and Chief Financial Officer	15 March 2010	Responsible for the secretarial and compliance matters
Ms. Ng Wing Shan (吳詠珊)	38	Joint company secretary	1 December 2015	Responsible for the secretarial and compliance matters

Mr. Lin Zhijie (林志杰), aged 33, is our vice logistics officer. Mr. Lin graduated from the Science and Technology College of Jiangxi University of Traditional Chinese Medicine (江西中醫學院科技學院) in the PRC in July 2007, majoring in pharmaceutics formulation.

Mr. Lin joined our Group in January 2007 and has been responsible for transportation and logistics arrangements of our Group, including the planning of budget for transportation.

Mr. Lin Zhixiong (林志雄), aged 45, was appointed as our joint company secretary on 9 August 2015. He is also executive Director and Chief Financial Officer. Please refer to his biographical details in the paragraph headed "Directors" in this section.

Ms. Ng Wing Shan (吳詠珊), aged 38, was appointed as our joint company secretary on 1 December 2015. She is an assistant vice president of SW Corporate Services Group Limited and is responsible for assisting listed companies in professional company secretarial work. She is currently a company secretary of Golden Throat Holdings Group Company Limited and Chen Xing Development Holdings Limited, joint company secretary of China Greenfresh Group Co., Ltd., LUZHENG FUTURES Company Limited, China Parenting Network Holdings Limited, China Railway Signal & Communication Corporation Limited and Wenzhou Kangning Hospital Co., Ltd., all of which are listed on the Stock Exchange. She has over 10 years of professional experience in the company secretarial field and is a fellow member of The Hong Kong Institute of Chartered Secretaries and The Institute of Chartered Secretaries and Administrators in the United Kingdom. Prior to joining SW Corporate Services Group Limited, she worked in KCS Hong Kong Limited, a corporate service provider and was responsible for handling secretarial and compliance matters in relation to Hong Kong listed companies and private companies incorporated in different jurisdictions.

BOARD COMMITTEES AND OTHER COMMITTEE

Audit Committee

An audit committee was established by our Company on 26 November 2015 with written terms of reference in compliance with Rule 3.21 of the Listing Rules and paragraph C.3 of the Corporate Governance Code set out in Appendix 14 to the Listing Rules. The primary duties of our audit committee are to review and approve our Group's financial reporting process and internal control system. Our audit committee comprises all independent non-executive Directors, namely, Mr. Zhou Tao, Mr. Wan Chi Wai Anthony, and Mr. Guan Jian. Mr. Wan Chi Wai Anthony is the chairman of our audit committee.

Remuneration Committee

A remuneration committee was established by our Company on 26 November 2015 with written terms of reference in compliance with Rule 3.25 of the Listing Rules and paragraph B.1 of the Corporate Governance Code set out in Appendix 14 to the Listing Rules. The primary duties of our remuneration committee include reviewing and determining the terms of remuneration packages, bonuses and other compensation payable to Directors, Supervisors and senior management of our Group. Our remuneration committee is chaired by Mr. Zhou Tao, an independent non-executive Director, and other members are Ms. You Zeyan, our non-executive Director and Mr. Wan Chi Wai Anthony, our independent non-executive Director.

Nomination Committee

A nomination committee was established by our Company on 26 November 2015 with written terms of reference in compliance with paragraph A.5 of the Corporate Governance Code set out in Appendix 14 to the Listing Rules. The primary duties of our nomination committee are to make recommendations to our Board on the appointment of Directors and the senior management of our Group. The members of our nomination committee are Mr. Yao, our Chairman and executive Director, Mr. Zhou Tao, and Mr. Guan Jian, both being our independent non-executive Directors. Mr. Yao is the chairman of our nomination committee.

Risk Management Committee

We have established a risk management committee on 26 November 2015 to review the general goals and fundamental policies of our risk and compliance management, internal control and risk management and internal audit functions and made recommendations to our Board on the same. The risk management committee comprises three members, namely Mr. Yao, our Chairman and executive Director, Mr. Lin Zhixiong, our executive Director and Mr. Wan Chi Wai Anthony, our independent non-executive Director. Mr. Yao is the chairman of our risk management committee.

REMUNERATION OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

The aggregate amount of fees, salaries, housing allowances, other allowances, benefits in kind (including contribution to the pension scheme on behalf of our Directors and Supervisors) and discretionary bonuses paid by us to our Directors and Supervisors for the years ended 31 December 2012, 2013, 2014 and the six months ended 30 June 2015 were approximately RMB0.12 million, RMB0.12 million, RMB0.21 million and RMB0.42 million, respectively.

The aggregate amount of fees, salaries, housing allowances, other allowances, benefits in kind (including contribution to the pension scheme on behalf of the five highest paid individuals of our Group) and discretionary bonuses paid to the five highest paid individuals of our Group for the years ended 31 December 2012, 2013, 2014 and the six months ended 30 June 2015 were approximately RMB0.41 million, RMB0.47 million, RMB0.74 million and RMB0.48 million, respectively.

During the Track Record Period, no remuneration was paid by us to, or receivable by, our Directors, Supervisors or the five highest paid individuals as an inducement to join or upon joining our Group or as a compensation for loss of office as a director of any member of our Group or of any other office in connection with the management of the affairs of any member of our Group. In addition, none of our Directors has waived any emoluments.

Save as disclosed above, no other payments have been paid, or are payable, by our Group to our Directors or Supervisors during the Track Record Period.

Under the arrangements currently in force, the aggregate remuneration of our Directors (including our non-executive Director and our independent non-executive Directors) and Supervisors payable in respect of the year ending 31 December 2015 is estimated to be approximately RMB1.3 million.

COMPLIANCE ADVISER

We intend to appoint Guotai Junan Capital Limited as our compliance adviser pursuant to Rule 3A.19 of the Listing Rules. Pursuant to Rule 3A.23 of the Listing Rules, the compliance adviser will advise us in the following circumstances:

(i) before the publication of any regulatory announcement, circular or financial report;

(ii) where a transaction, which might be a notifiable or connected transaction, is contemplated, including share issues and share repurchases;

(iii) if we propose to use the proceeds of the Global Offering in a manner different from that detailed in this Prospectus or if the business activities, developments or results of our Group deviate from any forecast, estimate or other information in this Prospectus; and

(iv) if the Stock Exchange makes an inquiry of our Group under Rule 13.10 of the Listing Rules.

The term of appointment of the compliance adviser shall commence on the Listing Date and end on the date on which we comply with Rule 13.46 of the Listing Rules in respect of our financial results for the first full financial year commencing after the Listing Date.

So far as our Directors are aware, as at the Latest Practicable Date and immediately following completion of the Global Offering, assuming the Over-allotment Option is not exercised, the following persons will have an interest or short position in Shares or underlying Shares which would fall to be disclosed to our Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who are, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of our Group:

		As at the Latest Practicable Date		**Upon Listing**	
Name of Shareholder	**Capacity/ Nature of Interest**	**Number and class of Shares**	**Approximate percentage of shareholding in our Company**	**Number and class of Shares**	**Approximate percentage of shareholding in our Company**
Mr. Yao *(note 1)*	Beneficial owner	70,000,000 Domestic Shares	87.5%	70,000,000 Domestic Shares	64.81%
	Interest of spouse	1,000,000 Domestic Shares *(note 2)*	1.25%	1,000,000 Domestic Shares *(note 2)*	0.93%
Ms. You Zeyan	Interest of spouse	70,000,000 Domestic Shares *(note 3)*	87.5%	70,000,000 Domestic Shares *(note 3)*	64.81%
	Interest of a controlled corporation	1,000,000 Domestic Shares *(note 4)*	1.25%	1,000,000 Domestic Shares *(note 4)*	0.93%
Madam Yao *(note 5)*	Beneficial owner	6,500,000 Domestic Shares	8.125%	6,500,000 Domestic Shares	6.01%

Notes:

1. Mr. Yao is our Chairman, executive Director and Chief Executive Officer.

2. Mr. Yao is the spouse of Ms. You Zeyan, our non-executive Director, and is deemed to be interested in these Shares under the SFO.

3. Ms. You Zeyan is our non-executive Director, the spouse of Mr. Yao, and is deemed to be interested in these Shares under the SFO.

4. These Shares are held by Zhichuang Investment. Zhichuang Investment is a limited partnership established in the PRC and is held by Ms. You Zeyan as to 53.90%. As Ms. You Zeyan is the general partner of Zhichaung Investment, she is deemed to be interested in the Shares held by Zhichuang Investment under the SFO.

5. Madam Yao is the mother of Mr. Yao.

Should the Over-allotment Option be exercised in full, Mr. Yao, Ms. You Zeyan and Madam Yao will be interested in 63.28%, 63.28% and 5.79%, respectively, in our Company.

Save as disclosed herein, our Directors are not aware of any person who will, immediately following the Global Offering (assuming the Over-allotment Option is not exercised), have an interest or short position in Shares or underlying Shares which would fall to be disclosed to our Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or be directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of our Group.

As of the date of this Prospectus, the registered share capital of our Company is RMB80,000,000, divided into 80,000,000 Domestic Shares with a nominal value of RMB1.00 each.

Assuming the Over-allotment Option is not exercised, the share capital of our Company immediately after the Global Offering will be increased to RMB108,000,000 and set out as follows:

Description of Shares	Number of Shares	Approximate percentage of total share capital (%)
Domestic Shares[1]	80,000,000	74.07
H Shares to be issued under the Global Offering	28,000,000	25.93
Total	108,000,000	100.0

Note:

(1) These Domestic Shares are held by Mr. Yao, Madam Yao, Meizhi Investment, Youran Investment and Zhichuang Investment which may be converted into H Shares. Please refer to the paragraph headed "Conversion of our unlisted Shares into H Shares" in this section.

Assuming the Over-allotment Option is exercised in full, the share capital of our Company immediately following the Global Offering will be increased to RMB112,200,000 and set out as follows:

Description of Shares	Number of Shares	Approximate percentage of total share capital (%)
Domestic Shares[1]	80,000,000	71.30
H Shares to be issued under the Global Offering	32,200,000	28.70
Total	112,200,000	100.0

Note:

(1) These Domestic Shares are held by Mr. Yao, Madam Yao, Meizhi Investment, Youran Investment and Zhichuang Investment which may be converted into H Shares. Please refer to the paragraph headed "Conversion of our unlisted Shares into H Shares" in this section.

PUBLIC FLOAT REQUIREMENTS

Rule 8.08(1)(a) and (b) of the Listing Rules requires there to be an open market in the securities for which listing is sought and for a sufficient public float of an issuer's listed securities to be maintained. This normally means that (i) at least 25% of the issuer's total issued share capital must at all times be held by the public; and (ii) where an issuer has one class of securities or more apart from the class of securities for which listing is sought, the total securities of the issuer held by the public (on all regulated market(s) including the Stock Exchange) at the time of listing must be at least 25% of the issuer's total issued share capital. However, the class of securities for which listing is sought must not be less than 15% of the issuer's total issued share capital and must have an expected market capitalisation at the time of listing of not less than HK$50 million.

Based on the information in the above tables, our Company will meet the public float requirement under the Listing Rules after the completion of the Global Offering (whether or not the Over-allotment Option is exercised in full). We will make appropriate disclosure of our public float and confirm the sufficiency of our public float in successive annual reports after Listing.

The above tables assume the Global Offering becomes unconditional and is completed.

OUR SHARES

Our Domestic Shares and H Shares are both ordinary shares in the share capital of our Company. H Shares may only be subscribed for and traded in Hong Kong dollars. Domestic Shares, on the other hand, may only be subscribed for and traded in Renminbi. Apart from certain qualified domestic institutional investors in the PRC and any subscription or trading made under several provisions on the Pilot Inter-connected Mechanism for Trading on the Shanghai Stock Market and the Hong Kong Stock Market (滬港股票市場交易互聯互通機制試點若干規定) and Pilot Measures of the Shanghai Stock Exchange for Shanghai Hong Kong Connect (上海證券交易所滬港通試點辦法), H Shares generally cannot be subscribed for by or traded between legal or natural persons of the PRC. Domestic Shares, on the other hand, can only be subscribed for by and traded between legal or natural persons of the PRC, qualified foreign institutional investors or qualified foreign investors. We must pay all dividends in respect of H Shares in Hong Kong dollars and all dividends in respect of Domestic Shares in Renminbi.

Our Promoters hold all existing Domestic Shares as promoter shares (as defined in the PRC Company Law). Under the PRC Company Law, promoter shares may not be sold within a period of one year from 28 May 2015, on which we were organised as a joint stock limited company. This lock-up period will expire on 27 May 2016. The PRC Company Law further provides that in relation to the public share offering of a company, the shares of the company which have been issued prior to the offering shall not be transferred within one year from the date of the listing on any stock exchange. Accordingly, Shares issued by our Company prior to the Listing Date shall be subject to this statutory restriction and shall not be transferred for a period of one year from the Listing Date. For further information on our Promoters' shareholding in our Company, please refer to the section headed "History, Development and Reorganisation — Promoters" of this Prospectus.

RANKING

Except as described in this Prospectus and in relation to the dispatch of notices and financial reports to our Shareholders, dispute resolution, registration of Shares in different parts of our register of Shareholders, the method of share transfer and the appointment of dividend receiving agents, which are all provided for in the Articles of Association and summarised in Appendix VI to this Prospectus, our Domestic Shares and our H Shares will rank pari passu with each other in all respects and, in particular, will rank equally for all dividends or distributions declared, paid or made after the date of this Prospectus. However, the transfer of Domestic Shares is subject to such restrictions as PRC law may impose from time to time. Save for the Global Offering, we do not propose to carry out any public or private issue or to place securities simultaneously with the Global Offering or within the next six months. We have not approved any share issue plan other than the Global Offering.

CONVERSION OF OUR UNLISTED SHARES INTO H SHARES

Conversion of Unlisted Shares

We have two classes of ordinary shares, H Shares and Domestic Shares. Our Domestic Shares are unlisted Shares which are currently not listed or traded on any stock exchange. Upon completion of the Global Offering, all unlisted Shares are Domestic Shares held by Mr. Yao, Madam Yao, Meizhi Investment, Youran Investment and Zhichuang Investment and therefore, the scope of our unlisted Shares is the same as the scope of our Domestic Shares. The term "unlisted Shares" is used to describe whether certain Shares are listed on a stock exchange and is not unique to PRC laws. Given the above, our PRC Legal Advisers have advised us that the use of the term "unlisted Shares" in the Articles of Association does not contravene, and is not inconsistent with any PRC law or regulation (including the Special Regulations and Mandatory Provisions).

According to the stipulations by the State Council's securities regulatory authority and the Articles of Association, our unlisted Shares may be converted into H Shares, and such converted H Shares may be listed or traded on an overseas exchange, provided that prior to the conversion and trading of such converted shares any requisite internal approval processes shall have been duly completed and the approval from the relevant PRC regulatory authorities, including the CSRC, shall have been obtained. In addition, such conversion, trading and listing shall in all respects comply with the regulations prescribed by the State Council's securities regulatory authorities and the regulations, requirements and procedures prescribed by the relevant overseas stock exchange.

Approval of the Stock Exchange is required if any of our unlisted Shares are to be converted into and traded as H Shares on the Stock Exchange. Based on the methodology and procedures for the conversion of our unlisted Shares into H Shares as described in this section, we can apply for the listing of all or any portion of our unlisted Shares on the Stock Exchange as H Shares in advance of any proposed conversion to ensure that the conversion process can be completed promptly upon notice to the Stock Exchange and delivery of shares for entry on the H Share register. As any listing of additional shares after our initial listing on the Stock Exchange is ordinarily considered by the Stock Exchange to be a purely administrative matter, it does not require such prior application for listing at the time of our initial listing in Hong Kong.

No Shareholder voting by class is required for the listing and trading of the converted shares on an overseas stock exchange. Any application for listing of the converted shares on the Stock Exchange after our initial Listing is subject to prior notification by way of announcement to inform our Shareholders and the public of any proposed conversion.

Following the listing of the converted shares on the Stock Exchange, any sale or possible sale of the converted shares may cause a significant decrease in the market price of the H Shares. For further information, please refer to the section headed "Risk Factors — Risks relating to our Global Offering" of this Prospectus.

Mechanism and Procedures for Conversion

After all the requisite approvals have been obtained, the following procedures will need to be completed in order to effect the conversion: the relevant unlisted Shares will be withdrawn from the Domestic Share register and we will re-register such Shares on our H Share register maintained in Hong Kong and instruct our H Share Registrar to issue H Share certificates. Registration on our H Share register will be conditional on (a) our H Share Registrar lodging with the Stock Exchange a letter confirming the proper entry of the relevant H Shares on the H Share register and the due dispatch of H Share certificates and (b) the admission of the H Shares to trade on the Stock Exchange in compliance with the Listing Rules, the General Rules of CCASS and the CCASS Operational Procedures in force from time to time. Until the converted shares are re-registered on our H Share register, such Shares would not be listed as H Shares.

So far as our Directors are aware, none of our Promoters currently proposes to convert any of the unlisted Shares held by it into H Shares.

TRANSFER OF SHARES ISSUED PRIOR TO THE LISTING DATE

The PRC Company Law provides that in relation to the Global Offering of a company, the shares issued by a company prior to the Global Offering shall not be transferred within a period of one year from the date on which the publicly offered shares are traded on any stock exchange. Accordingly, Shares issued by our Company prior to the Listing Date shall be subject to this statutory restriction and not be transferred within a period of one year from the Listing Date.

Further, each of our Directors, Supervisors, and member of senior management who were interested in our Shares as at the Latest Practicable Date, namely Mr. Yao, Ms. Zheng Yuyan, Mr. Fan Jianbo, Mr. Lin Zhixiong, Ms. You Zeyan, Ms. Zheng Xiyue, Ms. Zhang Hanzi and Mr. Lin Zhijie, signed an undertaking on 18 August 2015 pursuant which,

(i) during their employment with us, each of them shall not dispose, on an annual basis, more than 25% of our Domestic Shares held directly or indirectly by them at the relevant time; and

(ii) within six months after their resignation with us, each of them shall not dispose any of our Domestic Shares held directly or indirectly by them at the relevant time.

REGISTRATION OF SHARES NOT LISTED ON THE OVERSEAS STOCK EXCHANGE

According to《關於境外上市公司非境外上市股份集中登記存管有關事宜的通知》(the Notice of Centralised Registration and Deposit of Non-overseas Listed Shares of Companies Listed on an Overseas Stock Exchange) issued by the CSRC, an overseas listed company is required to register its shares that are not listed on the overseas stock exchange with China Securities Depository and Clearing Corporation Limited within 15 Business Days upon listing.

CONVENING OF GENERAL AND CLASS MEETINGS

Please refer to the paragraph headed "Notification and agenda of Shareholders' general meetings" in Appendix VI to this Prospectus.

OVERVIEW

FUTURE PLANS AND PROSPECTS

Please refer to the section headed "Business — Our Business Strategies" in this Prospectus for a detailed description of our future plans.

USE OF PROCEEDS

We estimate that we will receive net proceeds of approximately HK$185.2 million (or RMB148.2 million) from the Global Offering, after deducting the underwriting commissions and other estimated expenses payable by us in connection with the Global Offering, assuming that the Over-allotment Option is not exercised and assuming an Offer Price of HK$8.10 per H Share, being the mid-point of the indicative Offer Price range of HK$7.60 to HK$8.60. We intend to use such net proceeds from the Global Offering for the purposes and in the amounts set forth below:

Assuming an Offer Price of HK$8.10 per H Share,

Amount of net proceeds	Use of proceeds
(a) approximately HK$64.8 million (or RMB51.8 million, equivalent to approximately 35%)	to strengthen, expand and integrate our existing distribution network and capabilities
(b) approximately HK$18.5 million (or RMB14.8 million, equivalent to approximately 10%)	to enhance and promote our B2B e-commerce platform
(c) approximately HK$55.6 million (or RMB44.5 million, equivalent to approximately 30%)	to repay bank borrowings
(d) approximately HK$27.8 million (or RMB22.3 million, equivalent to approximately 15%)	to acquire pharmaceutical distribution business in Southern China region
(e) approximately HK$18.5 million (or RMB14.8 million, equivalent to approximately 10%)	for working capital and general corporate purposes

The details are set out below:

(a) approximately HK$64.8 million (or RMB51.8 million, representing approximately 35% of the total estimated net proceeds) will be used to strengthen, expand and integrate our existing distribution network and capabilities; the details of which are set out as follows:

- approximately HK$38.5 million (or RMB30.8 million, representing approximately 20.8% of our total estimated net proceeds) will be used for upgrading the logistic facilities of our logistic centres, such as the acquisition and installation of various logistic facilities (including conveyor system, barcode scanning equipment and forklifts);

- approximately HK$14.3 million (or RMB11.4 million, representing approximately 7.7% of our total estimated net proceeds) will be used for the acquisition of approximately 89 refrigerated transportation vehicles for our logistic centres in Shantou and Foshan. Please refer to the section headed "Business — Our Business Strategies — We plan to strengthen, expand and integrate our existing distribution network and capabilities to increase distribution coverage, capacity and operating efficiencies and lower our cost" of this Prospectus for more details; and

- approximately HK$12.0 million (or RMB9.6 million, representing approximately 6.5% of our total estimated net proceeds) will be used for upgrading our information systems;

We currently expect that the upgrading of our information systems and the logistic facilities of our logistic centres as well as the acquisition of additional refrigerated transportation vehicles to be completed by the end of 2016. The annual depreciation amount expected to be incurred for the logistic facilities, refrigerated transportation vehicles and information systems will be approximately RMB3.0 million, RMB1.5 million, RMB2.0 million, respectively.

(b) approximately HK$18.5 million (or RMB14.8 million, representing approximately 10% of the total estimated net proceeds) will be used for the enhancement and promotion of our B2B e-commerce platform; the details of which are set out below:

- approximately HK$8.9 million (or RMB7.1 million, representing approximately 4.8% of our total estimated net proceeds) will be used for enhancing the system of our B2B e-commerce platform; and

- approximately HK$9.6 million (or RMB7.7 million, representing approximately 5.2% of our total estimated net proceeds) will be used for promotional activities of our B2B e-commerce platform including (i) periodic distribution of pharmaceutical industry and self-promotional magazine to existing and potential customers, and (ii) provision of sales discounts on selected products available on the e-commerce platform;

(c) approximately HK$55.6 million (or RMB44.5 million, representing approximately 30% of the total estimated net proceeds) will be used for repayment of portion of our current bank borrowings so as to reduce our finance costs. As of 30 June 2015, the interest rate of the bank borrowings to be repaid is at 7.2% per annum and the maturity dates of those borrowings range from December 2015 to April 2016. The purpose of those bank borrowings to be repaid was to supplement our general working capital.

(d) approximately HK$27.8 million (or RMB22.3 million, representing approximately 15% of the total estimated net proceeds) will be used to acquire an established pharmaceutical distribution company based in Southern China including Shenzhen that possessed a matured market network and recorded positive profit. Such company is expected to help us to establish our third logistic centre in Southern China region, expand our distribution network, expand our customer base and increase our turnover. We have not identified any acquisition target as of the Latest Practicable Date; and

(e) approximately HK$18.5 million (or RMB14.8 million, representing approximately 10% of the total estimated net proceeds) will be used for our working capital requirement and general corporate purposes.

If the Over-allotment Option is exercised in full, we estimate that the additional net proceeds from the offering of these additional H Shares will be approximately HK$33.1 million, after deducting the underwriting commissions and other estimated expenses payable by us in connection with the Global Offering, assuming an Offer Price of HK$8.10 per Share, being the mid-point of the indicative Offer Price range. We intend to apply such additional net proceeds to the above uses on a pro-rata basis.

If the Offer Price is fixed at HK$8.60 per H Share, being the high end of the indicative Offer Price range stated in this Prospectus, we will receive additional net proceeds of approximately HK$13.5 million. If the Offer Price is fixed at HK$7.60 per H Share, being the low end of the indicative Offer Price range stated in this Prospectus, the net proceeds we receive will be reduced by approximately HK$13.5 million. If the Offer Price is set above the mid-point of the indicative Offer Price range, we intend to apply the additional amounts to the above uses on a pro-rata basis. If the Offer Price is set below the mid-point of the indicative Offer Price range, we intend to decrease the allocation of the net proceeds to the above uses on a pro rata basis.

To the extent that the net proceeds from the Global Offering are not immediately applied to the above purposes, we intend that such proceeds will be deposited into our accounts with licensed financial institutions.

We will issue an announcement if there is any material change in the abovementioned use of proceeds.

THE CORNERSTONE PLACING

We and the Sole Global Coordinator have entered into cornerstone placing agreements with the cornerstone investors (the "**Cornerstone Investors**", each a "**Cornerstone Investor**"), pursuant to which the Cornerstone Investors agreed to subscribe at the Offer Price for such number of Offer Shares (rounded to the nearest whole number or board lot of 500 H Shares) that may be purchased for an aggregate amount of approximately HK$98.0 million (the "**Cornerstone Placing**"). Assuming an Offer Price of HK$7.60, HK$8.10 and HK$8.60 (being the minimum, mid-point and maximum of the indicative Offer Price range stated in this Prospectus), the total number of H Shares to be subscribed for by the Cornerstone Investors would be approximately 12,894,000, 12,098,500 and 11,394,500 H Shares, respectively (the "**Cornerstone Investor's Shares**"), representing approximately (i) 46.1%, 43.2% and 40.7% of our Offer Shares (assuming that the Over-allotment Option is not exercised); or (ii) 11.9%, 11.2% and 10.5% of our Shares in issue immediately after completion of the Global Offering (assuming that the Over-allotment Option is not exercised).

The table below sets forth the total number of Cornerstone Investor's Shares that the Cornerstone Investors would subscribe for and the respective approximate percentages of the Shares in issue immediately after completion of the Global Offering and assuming that the Over-Allotment Option is not exercised:

	Assuming an Offer Price of HK$7.60 (being the minimum of the indicative Offer Price range stated in this Prospectus)		Assuming an Offer Price of HK$8.10 (being the mid-point of the indicative Offer Price range stated in this Prospectus)		Assuming an Offer Price of HK$8.60 (being the maximum of the indicative Offer Price range stated in this Prospectus)	
Name of Cornerstone Investor	Total number of Cornerstone Investor's Shares (rounded to the nearest whole number or board lot of 500 H Shares) to be subscribed for	Approximate percentages of the Shares in issue immediately after completion of the Global Offering[(1)]	Total number of Cornerstone Investor's Shares (rounded to the nearest whole number or board lot of 500 H Shares) to be subscribed for	Approximate percentages of the Shares in issue immediately after completion of the Global Offering[(1)]	Total number of Cornerstone Investor's Shares (rounded to the nearest whole number or board lot of 500 H Shares) to be subscribed for	Approximate percentages of the Shares in issue immediately after completion of the Global Offering[(1)]
Guangzhou Pharmaceutical Baiyunshan Hong Kong Company Limited	8,947,000	8.3%	8,395,000	7.8%	7,906,500	7.3%
Xiangxue Group (Hong Kong) Company Limited	3,947,000	3.6%	3,703,500	3.4%	3,488,000	3.2%
Total	12,894,000	11.9%	12,098,500	11.2%	11,394,500	10.5%

(1) Assuming that the Over-Allotment Option is not exercised.

The actual number of Offer Shares to be allocated to the Cornerstone Investors will be disclosed in the announcement of results of allocations to be issued by us on or around Friday, 11 December 2015.

To the best knowledge of our Directors, each of the Cornerstone Investor and its ultimate beneficial owners is an Independent Third Party, independent from our Company, our connected persons and their respective associates and not an existing Shareholder of our Company and each of the Cornerstone Investors is independent of each other. The Offer Shares to be subscribed for by the Cornerstone Investors will rank pari passu with the fully paid H Shares then in issue and will be counted towards the public float of our Shares under Rule 8.24 of the Listing Rules. The Cornerstone Investors will not subscribe for any Offer Shares under the Global Offering (other than and pursuant to the relevant cornerstone investment agreement). Immediately following the completion of the Global Offering, the Cornerstone Investors will not have any Board representation in our Company, nor will become our substantial shareholders of our Company.

The Cornerstone Placing forms part of the International Offering. The Offer Shares to be subscribed for by the Cornerstone Investors will not be affected by any reallocation of the Offer Shares between the International Offering and the Hong Kong Public Offering described in the section headed "Structure of the Global Offering — The Hong Kong Public Offering — Reallocation and Clawback" in this Prospectus.

Our Cornerstone Investors

A brief description of the Cornerstone Investors is set forth below:

Guangzhou Pharmaceutical Baiyunshan Hong Kong Company Limited ("Baiyunshan Hong Kong")

Baiyunshan Hong Kong agreed to purchase a number of International Offer Shares at the Offer Price for a total of HK$68.0 million (rounded to the nearest whole number or board lot of 500 H Shares) (exclusive of brokerage fee, the Hong Kong Stock Exchange trading fee and the SFC transaction levy) pursuant to a cornerstone placing agreement entered into among us, the Sole Global Coordinator and Baiyunshan Hong Kong dated 27 November 2015. Assuming an Offer Price of HK$8.10 (being the mid-point of the Offer Price range stated in this Prospectus), the total number of H Shares to be purchased by Baiyunshan Hong Kong would be 8,395,000 H Shares, representing (i) approximately 30.0% of our Offer Shares initially offered under the Global Offering (assuming that the Over-allotment Option is not exercised); or (ii) 7.8% of our Shares in issue immediately after completion of the Global Offering (assuming that the Over-allotment Option is not exercised).

Baiyunshan Hong Kong is a wholly-owned subsidiary of Guangzhou Baiyunshan Pharmaceutical Holdings Company Limited (廣州白雲山醫藥集團股份有限公司) ("Guangzhou Baiyunshan", together with its subsidiaries, "Guangzhou Baiyunshan Group"). Guangzhou Baiyunshan is a joint stock limited liability company established in the PRC, the A shares of which are listed on the Shanghai Stock Exchange (stock code: 600332) and the H shares of which are listed on the Main Board of the Hong Kong Stock Exchange (stock code: 874). Guangzhou Baiyunshan Group is principally engaged in (1) the research and development, manufacturing and sales of Chinese and western patent medicine, chemical active pharmaceutical ingredients (API), natural medicine, biological medicine and chemical API intermediates; (2) wholesale, retail and import and export of western and Chinese pharmaceutical products and medical apparatus; (3) research and development, production and sales of great health products; and (4) investment in health industry with healthcare, health management and health nursing, etc. Guangzhou Pharmaceuticals Corporation (廣州醫藥有限公司), a jointly controlled entity of Guangzhou Baiyunshan, was our largest supplier during the Track Record Period. Guangzhou Baiyunshan Group is also one of our suppliers.

Xiangxue Group (Hong Kong) Company Limited ("Xiangxue Hong Kong")

Xiangxue Hong Kong agreed to purchase a number of International Offer Shares at the Offer Price for a total of HK$30.0 million (rounded to the nearest whole number or board lot of 500 H Shares) (exclusive of brokerage fee, the Hong Kong Stock Exchange trading fee and the SFC transaction levy) pursuant to a cornerstone placing agreement entered into among us, the Sole Global Coordinator and Xiangxue Hong Kong dated 26 November 2015. Assuming an Offer Price of HK$8.10 (being the mid-point of the Offer Price range stated in this Prospectus), the total number of H Shares to be purchased by Xiangxue Hong Kong would be 3,703,500 H Shares, representing (i) approximately 13.2% of our Offer Shares initially offered under the Global Offering (assuming that the Over-allotment Option is not exercised); or (ii) 3.4% of our Shares in issue immediately after completion of the Global Offering (assuming that the Over-allotment Option is not exercised).

Xiangxue Hong Kong is a wholly-owned subsidiary of Xiangxue Pharmaceutical Co., Ltd. (廣州市香雪製藥股份有限公司) ("Guangzhou Xiangxue", together with its subsidiaries, "Guangzhou Xiangxue Group"). Guangzhou Xiangxue is a joint stock limited liability company established in the PRC, the A shares of which are listed on the Shenzhen Stock Exchange (stock code: 300147). Guangzhou Xiangxue Group is principally engaged in the production and sales of pharmaceutical products, medical equipment and consumables and healthcare products. Guangzhou Xiangxue Group is also one of our suppliers during the Track Record Period.

CONDITIONS PRECEDENT

The subscription obligation of each of the Cornerstone Investors is subject to, among other things, the following conditions precedent:

(i) the underwriting agreements for each of the Hong Kong Public Offering and the International Offering to be entered into by, amongst others, us and the Sole Global Coordinator; and

(ii) each of the Hong Kong Public Offering and the International Offering having become effective and unconditional and not having been terminated (in accordance with their respective original terms or as subsequently varied by agreement of the relevant parties) with one of the conditions thereto being the Listing Committee of the Stock Exchange having granted a listing of, and permission to deal in, the H Shares and not having been terminated in accordance with their respective provisions.

RESTRICTIONS ON THE CORNERSTONE INVESTORS' INVESTMENT

Each of the above Cornerstone Investors has agreed and undertaken to us and the Sole Global Coordinator, that without the prior written consent from us and the Sole Global Coordinator, it shall not, directly or indirectly, at any time during the period of six months following the Listing Date, dispose of any interest of its Cornerstone Investor's Shares subscribed for by it pursuant to the respective cornerstone placing agreement. Each of the Cornerstone Investors may transfer all or part of the H Shares so subscribed to any of its wholly-owned subsidiaries, provided that such wholly-owned subsidiaries undertakes in writing in favour of us and the Sole Global Coordinator that it will, and each of the Cornerstone Investor undertakes in writing in favour of us and the Sole Global Coordinator prior to such transfer to procure that such wholly-owned subsidiary, will, agree to be bound by, among others, the restrictions on disposal of the H Shares so subscribed.

Each of the Cornerstone Investors agrees that, save with the prior written consent from us, the aggregate holding of such Cornerstone Investor and its subsidiaries, whether direct or indirect, in our Shares in issue shall not be more than 10.0% at all times.

Pursuant to the cornerstone placing agreements, each of the Cornerstone Investors shall not, and shall procure that none of its subsidiaries shall, apply for any Offer Shares under the Global Offering (other than the H Shares so subscribed under the cornerstone placing agreement).

HONG KONG UNDERWRITERS

Sole Global Coordinator, Sole Bookrunner and Sole Lead Manager

Guotai Junan Securities (Hong Kong) Limited

Co-Managers

Ever-Long Securities Company Limited

Luk Fook Securities (HK) Limited

UNDERWRITING ARRANGEMENTS AND EXPENSES

Hong Kong Public Offering

Hong Kong Underwriting Agreement

Pursuant to the Hong Kong Underwriting Agreement, the Company is offering initially 2,800,000 Hong Kong Offer Shares for subscription by the public in Hong Kong at the Offer Price on and subject to the terms and conditions of this Prospectus and the Application Forms.

Subject to (i) the Listing Committee granting listing of, and permission to deal in, the H Shares to be issued pursuant to the Global Offering (including any additional H Shares which may be issued and/or sold pursuant to the exercise of the Over-allotment Option) as mentioned herein and (ii) certain other conditions set forth in the Hong Kong Underwriting Agreement (including, among others, the Sole Global Coordinator (on behalf of the Underwriters) and the Company agreeing on the Offer Price), the Hong Kong Underwriters have severally agreed to subscribe or procure subscriptions for their respective applicable proportions or amounts (set out in the Hong Kong Underwriting Agreement) of the Hong Kong Offer Shares now being offered but which are not taken up under the Hong Kong Public Offering, on and subject to the terms and conditions of this Prospectus, the Application Forms and the Hong Kong Underwriting Agreement.

The Hong Kong Underwriting Agreement is conditional on and subject to, among other things, the International Underwriting Agreement having been signed, becoming unconditional and not having been terminated in accordance with its terms.

Grounds for termination

The respective obligations of the Hong Kong Underwriters to subscribe for, or procure subscribers to subscribe for, the Hong Kong Offer Shares are subject to termination. The Sole Global Coordinator (for itself and on behalf of the Hong Kong Underwriters) shall be entitled by notice (orally or in writing) given to our Company to terminate the Hong Kong Underwriting Agreement with immediate effect if, at any time prior to 8:00 a.m. (Hong Kong time) on the Listing Date:

(a) there shall develop, occur or come into force:

(i) any new law or regulation or any material change in existing laws or regulations or any change in the interpretation or application thereof by any court or other competent authority in Hong Kong, the PRC or any other jurisdiction(s) relevant to our Company and our subsidiary or any other similar event which in the reasonable opinion of the Sole Global Coordinator (for itself and on behalf of the Hong Kong Underwriters) has or is likely to have a material adverse effect on the business or financial conditions or prospects of our Group or which may be expected to adversely affect the business or financial condition or prospects of our Group in a material way; or

(ii) any material change (whether or not permanent) in national, regional, international, financial, military, industrial or economic conditions or prospects, stock market, fiscal or political conditions, regulatory or market conditions and matters and/or disasters in Hong Kong, the PRC or any other jurisdiction(s) relevant to our Company and our subsidiary or any other similar event which in the reasonable opinion of the Sole Global Coordinator (for itself and on behalf of the Hong Kong Underwriters) has or is likely to have a material adverse effect on the business or financial conditions or prospects of our Group or which may be expected to adversely affect the business or financial condition or prospects of our Group in a material way; or

(iii) without prejudice to sub-paragraph (i) of paragraph above, the imposition of any moratorium, suspension or restriction on trading in securities generally on the Stock Exchange due to exceptional financial circumstances or otherwise; or

(iv) any event, or series of events, beyond the control of the Hong Kong Underwriters (including, without limitation, acts of government, strikes, lockout, fire, explosion, flooding, civil commotion, acts of war or acts of God or accident) would or might have a material adverse effect on any member of our Group; or

(v) any material change or development occurs involving a prospective change in taxation or in exchange control in Hong Kong, the PRC or any other jurisdiction(s) to which any member of our Group is subject or the implementation of any exchange controls which in the reasonable opinion of the Sole Global Coordinator (for itself and on behalf of the Hong Kong Underwriters) would or might have a material adverse effect on any member of our Group in a material way; or

(vi) any material litigation or claim of material importance to the business, financial or operations of our Group being threatened or instituted against any member of our Group; or

(vii) the imposition of economic sanctions, in whatever form, directly or indirectly, in Hong Kong, the PRC or any other jurisdiction(s) relevant to our Company and our subsidiary; or

(viii) any governmental or regulatory commission, board, body, authority or agency, or any stock exchange, self-regulatory organisation or other non-government regulatory authority, or any court, tribunal or arbitrator, whether national, central, federal, provincial, state, regional, municipal, local, domestic or foreign, or a political body or organisation in any relevant jurisdiction commencing any investigation or other action, or announcing an intention to investigate or take other action, against any members of our Group or Director; or

(ix) order or petition for the winding up of any members of our Group or any composition or arrangement made by any members of our Group with its creditors or a scheme of arrangement entered into by any members of our Group or any resolution for the winding up of any members of our Group or the appointment of a provisional liquidator, receiver or manager over all or part of the material assets or undertaking of any members of our Group or anything analogous thereto occurring in respect of any members of our Group;

which, individually, or in the aggregate, in the sole and absolute opinion of the Sole Global Coordinator (for itself and on behalf of the Hong Kong Underwriters), (i) has or may have a material adverse effect on the success of the Global Offering, or the level of applications under the Hong Kong Public Offer or the level of interest under the International Placing; or (ii) has or will or may have a material adverse effect on the assets, liabilities, business, prospects, trading or financial position of our Group as a whole; or (iii) makes it inadvisable or impracticable to proceed with the Global Offering; or (iv) has or will or may have the effect of making any part of the Hong Kong Underwriting Agreement (including underwriting) incapable of performance in accordance with its terms or preventing the processing of applications and/or payments pursuant to the Global Offering or pursuant to the underwriting thereof.

(b) there comes to the notice of the Sole Global Coordinator (for itself and on behalf of the Hong Kong Underwriters) any matter or event showing any of the representations and warranties contained in the Hong Kong Underwriting Agreement to be untrue or inaccurate or, if repeated immediately after the occurrence thereof, would be untrue or inaccurate in any respect considered by the Sole Global Coordinator (for itself and on behalf of the Hong Kong Underwriters) in its reasonable opinion to be material or showing any of the obligations or undertakings expressed to be assumed by or imposed on our Company or the covenantors under the Hong Kong Underwriting Agreement not to have been complied with in any respect which is considered by the Sole Global Coordinator (for itself and on behalf of the Hong Kong Underwriters) in its reasonable opinion to be material; or

(c) there comes to the notice of the Sole Global Coordinator (for itself and on behalf of the Hong Kong Underwriters) any material breach on the part of our Company or any of the covenantors of any provisions of the Hong Kong Underwriting Agreement in any respect which is considered by the Sole Global Coordinator (for itself and on behalf of the Hong Kong Underwriters) in its reasonable opinion to be material to the Global Offering; or

(d) any statement contained in this prospectus, notices, advertisements, announcements, application proof prospectus, post hearing information pack, the submissions, documents or information provided to the Sole Global Coordinator (for itself and on behalf of the Hong Kong Underwriters), the Stock Exchange, the legal adviser to the Sole Global Coordinator and the Underwriters and any other parties involved in the Global Offering which have been approved by our Company to be issued or used by or on behalf of our Company in connection with the Global Offering (collectively, the "Offer Documents"), which in the reasonable opinion of the Sole Global Coordinator (for itself and on behalf of the Hong Kong Underwriters) has become or been discovered to be untrue, incorrect, incomplete or misleading in any material respect; or

(e) matters have arisen or have been discovered which would, if the Offer Documents was to be issued at that time, constitute, in the reasonable opinion of the Sole Global Coordinator (for itself and on behalf of the Hong Kong Underwriters), a material omission of such information; or

(f) there is any material adverse change or prospective material adverse change in the business or in the financial or trading position or prospects of our Group which in the reasonable opinion of the Sole Global Coordinator (for itself and on behalf of the Hong Kong Underwriters) is material; or

(g) the approval of the Listing Committee of the Stock Exchange of the listing of, and permission to deal in, the Offer Shares under the Global Offering is refused or not granted, other than subject to customary conditions, on or before 8:00 a.m. (Hong Kong time) on the Listing Date, or if granted, the approval is subsequently withdrawn, qualified (other than by customary conditions) or withheld; or

(h) any expert, who has given opinion or advice which are contained in this prospectus, has withdrawn its respective consent to the issue of this prospectus with the inclusion of its reports, letters, opinions or advices and references to its name included in the form and context in which it respectively appears prior to the issue of this prospectus; or

(i) our Company withdraws this prospectus (and/or any other documents issued or used in connection with the Global Offering) or the Global Offering; or

(j) there comes to the notice of the Sole Global Coordinator or any of the Underwriters any information, matter or event which in the reasonable opinion of the Sole Global Coordinator (for itself and on behalf of the Hong Kong Underwriters):

    (i) is inconsistent in any material respect with any information contained in the Declaration and Undertaking with regard to Directors (Form H) given by any Directors pursuant to the Global Offering; or

    (ii) would cast any serious doubt on the integrity or reputation of any Director or the reputation of our Group.

Undertakings to the Hong Kong Stock Exchange Pursuant to the Listing Rules

Undertakings by the Company

Pursuant to Rule 10.08 of the Listing Rules, we have undertaken to the Hong Kong Stock Exchange that, no further Shares or securities convertible into our equity securities (whether or not of a class already listed) may be issued by us or form the subject of any agreement to such an issue within six months from the Listing Date (whether or not such issue of Shares or our securities will be completed within six months from the commencement of dealing), except pursuant to the Global Offering or in the circumstances prescribed by Rule 10.08 of the Listing Rules.

Undertakings by the Controlling Shareholder

Pursuant to Rule 10.07 of the Listing Rules, the Controlling Shareholder has undertaken to the Hong Kong Stock Exchange and to the Company that, except pursuant to the Global Offering (including the Over-allotment Option), he will not and will procure that the relevant registered holder(s) will not, without the prior written consent of the Hong Kong Stock Exchange and unless in compliance with the requirements of the Listing Rules:

(a) in the period commencing on the date by reference to which disclosure of his shareholdings in the Company is made in this Prospectus and ending on the date which is six months from the Listing Date, dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any Shares in respect of which he is shown by this Prospectus to be the beneficial owners; and

(b) in the period of six months commencing on the date on which the period referred to in paragraph (a) above expires, dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any Shares referred to in paragraph (a) above if, immediately following such disposal or upon the exercise or enforcement of such options, rights, interests or encumbrances, he would then cease to be a Controlling Shareholder of the Company for the purposes of the Listing Rules.

Pursuant to Note (3) to Rule 10.07(2) of the Listing Rules, the Controlling Shareholder has further undertaken to the Hong Kong Stock Exchange and to the Company that within the period commencing on the date by reference to which disclosure of his shareholdings is made in this Prospectus and ending on the date which is 12 months from the Listing Date, he will:

(a) when he pledges or charges any Shares beneficially owned by him in favour of an authorised institution (as defined in the Banking Ordinance, Chapter 155 of the Laws of Hong Kong) for a bona fide commercial loan, immediately inform the Company of such pledge or charge together with the number of securities so pledged or charged; and

(b) when he receives indications, either verbal or written, from the pledgee or chargee that any of the pledged or charged Shares will be disposed of, immediately inform the Company of such indications.

We will also inform the Hong Kong Stock Exchange as soon as we have been informed of the matters mentioned in (a) and (b) above by the Controlling Shareholder and disclose such matters by way of an announcement which is published in accordance with Rule 2.07C of the Listing Rules as soon as possible.

Undertakings pursuant to the Hong Kong Underwriting Agreement

The Controlling Shareholder has given an undertaking to each of our Company, the Sole Sponsor, the Sole Global Coordinator and the Hong Kong Underwriters that, without the prior written consent of the Sole Global Coordinator (on behalf of the Hong Kong Underwriters) and unless in compliance with the requirements of the Listing Rules, none of the Controlling Shareholder will, and will procure that none of its close associates will:

(i) during the period commencing on the date of the Hong Kong Underwriting Agreement and ending on, and including, the date that is six months after the Listing Date (the "**First Six Month Period**"), (a) sell, offer to sell, contract or agree to sell, mortgage, charge, pledge, hypothecate, lend, grant or sell any option, warrant, contract or right to purchase, grant or purchase any option, warrant, contract or right to sell, or otherwise transfer or dispose of or create an encumbrance over, or agree to transfer or dispose of or create an encumbrance over, either directly or indirectly, conditionally or unconditionally, any Shares or any other securities of our Company or any interest therein (including, without limitation, any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to purchase, any Shares, as applicable), or (b) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of Shares or any other securities of our Company or any interest therein (including, without limitation, any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to purchase, any Shares), or (c) enter into any transaction with the same economic effect as any transaction specified in (a) or (b) above, or (d) offer to or agree to or publicly announce any intention to effect any transaction specified in (a), (b) or (c) above, in each case, whether any of the transactions specified in (a), (b) or (c) above is to be settled by delivery of Shares or such other securities of our Company or shares or other securities of such other members of our Group, as applicable, or in cash or otherwise (whether or not the issue of Shares or such other securities will be completed within the aforesaid period);

(ii) during the period of six months commencing on the date on which the First Six Month Period expires and including, the date that is six months after the end of the First Six Month Period (the "**Second Six Month Period**"), enter into any of the transactions specified in (a), (b) or (c) under paragraph (i) above or offer to or agree to or announce any intention to effect any such transaction if, immediately following any sale, transfer or disposal or upon the exercise or enforcement of any option, right, interest or encumbrance pursuant to such transaction, he, she or it will cease to be a "controlling shareholder" (as the term is defined in the Listing Rules) of our Company; and

(iii) until the expiry of the Second Six Month Period, in the event that he, she or it enters into any of the transactions specified in (a), (b) or (c) under paragraph (i) above or offers to or agrees to or announces any intention to effect any such transaction, he, she or it will take all reasonable steps to ensure that it will not create a disorderly or false market in the securities of our Company.

Except for the offer and sale of the Offer Shares pursuant to the Global Offering (including pursuant to the Over-allotment Option), during the First Six Month Period, our Company undertakes to each of the Sole Global Coordinator, the Sole Sponsor and the Hong Kong Underwriters not to, and to procure each member of our Group not to, without the prior written consent of the Sole Global Coordinator (on behalf of the Hong Kong Underwriters) and unless in compliance with the requirements of the Listing Rules:

(i) allot, issue, sell, accept subscription for, offer to allot, issue or sell, contract or agree to allot, issue or sell, mortgage, charge, pledge, hypothecate, lend, grant or sell any option, warrant, contract or right to subscribe for or purchase, grant or purchase any option, warrant, contract or right to allot, issue or sell, or otherwise transfer or dispose of or create an encumbrance over, or agree to transfer or dispose of or create an encumbrance over, either directly or indirectly, conditionally or unconditionally, any Shares or any other securities of our Company or any shares or other securities of such other members of our Group, as applicable, or any interest in any of the foregoing (including, without limitation, any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to purchase, any Shares or any shares of such other members of our Group, as applicable); or

(ii) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of Shares or any other securities of our Company or any shares or other securities of such other members of our Group, as applicable, or any interest in any of the foregoing (including, without limitation, any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to purchase, any Shares or any shares of such members of our Group, as applicable); or

(iii) enter into any transaction with the same economic effect as any transaction specified in paragraphs (i) or (ii) above; or

(iv) offer to or agree to or publicly announce any intention to effect any transaction specified in paragraphs (i), (ii) or (iii) above,

in each case, whether any of the transactions specified in paragraphs (i), (ii) or (iii) above is to be settled by delivery of Shares or such other securities of our Company or shares or other securities of such members of our Group, as applicable, or in cash or otherwise (whether or not the issue of Shares or such other securities will be completed within the aforesaid period). In the event that, during the Second Six Month Period, our Company enters into any of the transactions specified in paragraphs (i), (ii) or (iii) above or offers to or agrees to or publicly announces any intention to effect any such transaction, our Company shall take all reasonable steps to ensure that it will not create a disorderly or false market in the securities of our Company. Each of our Company, our Controlling Shareholder and executive Directors undertakes to each of the Sole Global Coordinator, the Sole Sponsor and the Hong Kong Underwriters to procure our Company to comply with the undertakings in this paragraph.

Each of our Company, our Controlling Shareholder and executive Directors undertakes to and covenants with the Sole Sponsor, the Sole Global Coordinator and the Hong Kong Underwriters that save with the prior written consent of the Sole Global Coordinator (for itself and on behalf of the Hong Kong Underwriters), no company in our Group will during the First Six Month Period purchase any securities of our Company.

Without prejudice to the above, our Controlling Shareholder undertakes and covenants with our Company, the Sole Sponsor, the Sole Global Coordinator and the Hong Kong Underwriters that:

(i) save with the prior written consent from the Sole Global Coordinator (for itself and on behalf of the Hong Kong Underwriters) and to the extent as allowed under the Listing Rules, during the period commencing on the date by reference to which disclosure of the shareholding of our Controlling Shareholder is made in this prospectus and ending on the date which is 12 months from the Listing Date, he, she or it shall not and shall procure that none of his, her or its close associates shall pledge or charge or create any other rights or encumbrances in any Shares or any interest therein owned by him, her or it or any of their close associates or in which he, she or it or any of their close associates is, directly or indirectly, interested immediately following completion of the Global Offering (or any other Shares or securities of or interest in our Company arising or deriving therefrom as a result of capitalisation issue or scrip dividend or otherwise) or any share or interest in any company controlled by him, her or it or any of their close associates which is the beneficial owner (directly or indirectly) of such Shares or interest therein as aforesaid (or any other shares or securities of or interest in the company arising or deriving therefrom as a result of capitalisation issue or scrip dividend or otherwise); and

(ii) in the event that notification is given to the Sole Global Coordinator (for itself and on behalf of the Hong Kong Underwriters), when he, she or it or any of their close associates shall pledge, charge or create any encumbrance or other right or any of the Shares or interests referred to in (i) above, he, she or it shall give prior written notice of not less than two business days to the Stock Exchange, our Company, the Sole Sponsor and the Sole Global Coordinator (for itself and on behalf of the Hong Kong Underwriters) giving details of the number of Shares, shares in the company which is the beneficial owner of such Shares, or the interests as aforesaid, the identities of the pledgee or person (the "**Mortgagee**") in favour of whom the pledge, charge, encumbrance or interest is created and further if he, she or it or any of their close associates is aware of or receives indications or notice, either verbal or written, from the Mortgagee that the Mortgagee will dispose of or transfer any of the Shares or interests referred to in (i) above, he, she or it will immediately notify the Stock Exchange, our Company, the Sole Sponsor and the Sole Global Coordinator (for itself and on behalf of the Hong Kong Underwriters) in writing of such indications and provide details of such disposal or transfer to the Stock Exchange, our Company, the Sole Sponsor and the Sole Global Coordinator (for itself and on behalf of the Hong Kong Underwriters) as they may require.

Our Company undertakes and covenants with the Sole Sponsor, the Sole Global Coordinator and the Hong Kong Underwriters that our Company shall forthwith inform the Sole Global Coordinator (for itself and on behalf of the Hong Kong Underwriters) and the Stock Exchange in writing immediately after our Company has been informed of the matters referred to in paragraph (ii) above and our Company shall, if so required by the Stock Exchange or the Listing Rules, disclose such matters by way of an announcement and shall comply with all requirements of the Stock Exchange.

International Offering

International Underwriting Agreement

In connection with the International Offering, it is expected that we will enter into the International Underwriting Agreement with the International Underwriters and the Sole Global Coordinator. Under the International Underwriting Agreement, the International Underwriters, subject to certain conditions, will, severally and not jointly, agree to purchase, or procure purchasers for, the International Offer Shares being offered pursuant to the International Offering.

We expect to grant the Over-allotment Option to the International Underwriters, exercisable by the Sole Global Coordinator on behalf of the International Underwriters, at any time before the 30th day from the last day for the lodging of Application Forms under the Hong Kong Public Offering, to require us to issue and allot up to an aggregate of 4,200,000 additional H Shares, representing in aggregate approximately 15% of the number of the H Shares initially available under the Global Offering at the Offer Price (plus brokerage of 1.0%, SFC transaction levy of 0.0027% and Hong Kong Stock Exchange trading fee of 0.005% of the Offer Price) to cover over-allocations, if any, in the International Offering.

Commission and Expenses

The Hong Kong Underwriters will receive a gross commission of 2.8% of the aggregate Offer Price payable for the Hong Kong Offer Shares initially offered under the Hong Kong Public Offering. For unsubscribed Hong Kong Offer Shares reallocated to the International Offering, we will pay an underwriting commission at the rate applicable to the International Offering and such commission will be paid to the International Underwriters and not the Hong Kong Underwriters. The commissions payable to the Underwriters will be borne by the Company with respect to the new Offer Shares to be issued by the Company (including pursuant to the exercise of the Over-allotment Option).

The aggregate commissions and fees, together with the listing fees, SFC transaction levy, the Stock Exchange trading fee, legal and other professional fees, printing and other expenses payable by us relating to the Global Offering are estimated to amount to approximately RMB33.2 million (equivalent to approximately HK$41.5 million) in total (based on the mid-point of our indicative price range of the Global Offering and assuming the Over-allotment Option is not exercised).

Hong Kong Underwriters' Interests in the Company

Save for its obligations under the Hong Kong Underwriting Agreement and save as disclosed in this Prospectus, none of the Hong Kong Underwriters has any shareholding interests in the Company or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in the Company.

Following the completion of the Global Offering, the Hong Kong Underwriters and their affiliated companies may hold a certain portion of the H Shares as a result of fulfiling their obligations under the Hong Kong Underwriting Agreement and/or the International Underwriting Agreement.

ACTIVITIES BY SYNDICATE MEMBERS

The Underwriters of the Global Offering (the "Syndicate Members") and their affiliates are diversified financial institutions with relationships in countries around the world. These entities engage in a wide range of commercial and investment banking, brokerage, funds management, trading, hedging, investing and other activities for their own accounts and for the account of others. In relation to our H Shares, other activities could include acting as agent for buyers and sellers of our H Shares, entering into transactions with other buyers and sellers in a principal capacity, proprietary trading in our H Shares, and entering into over-the-counter or listing derivative transactions or listed and unlisted securities transactions (including issuing securities such as derivative warrants listed on a stock exchange) which have as their underlying, assets including our H Shares. Those activities may require hedging activity by those entities involving, directly or indirectly, buying and selling our H Shares. All such activities could occur in Hong Kong and elsewhere in the world and may result in the Syndicate Members and their affiliates holding long and/or short positions in our H Shares, in baskets of securities or indices including our H Shares, in units of funds that may purchase our H Shares, or in derivatives related to any of the foregoing.

In relation to issues by Syndicate Members or their affiliates of any listed securities having our H Shares as their underlying, whether on the Stock Exchange or on any other stock exchange, the rules of the stock exchange may require the issuer of other securities (or one of its affiliates or agents) to act as a market maker or liquidity provider in the security, and these will also result in hedging activity in our H Shares in most cases.

These activities may affect the market price or value of our H Shares, the liquidity or trading volume in our H Shares, and the volatility of our Share price, and the extent to which this occurs from day to day cannot be estimated.

It should be noted that when engaging in any of these activities, the Syndicate Members will be subject to certain restrictions, including the following:

(a) the Syndicate Members must not, in connection with the distribution of the Offer Shares, effect any transactions (including issuing or entering into any option or other derivative transactions relating to the Offer Shares), whether in the open market or otherwise, with a view to stabilising or maintaining the market price of any of the Offer Shares at levels other than those which might otherwise prevail in the open market; and

(b) the Syndicate Members must comply with all applicable laws and regulations, including the market misconduct provisions of the SFO, including the provisions prohibiting insider dealing, false trading, price rigging and stock market manipulation

THE GLOBAL OFFERING

This Prospectus is published in connection with the Hong Kong Public Offering as part of the Global Offering. Guotai Junan Securities (Hong Kong) Limited is the Sole Global Coordinator, the Sole Bookrunner and Sole Lead Manager.

The Global Offering consists of (subject to adjustment and the Over-allotment Option):

(a) the Hong Kong Public Offering of 2,800,000 H Shares (subject to adjustment as mentioned below) in Hong Kong as described in "— The Hong Kong Public Offering;" and

(b) the International Offering of 25,200,000 H Shares (subject to adjustment and the Over-allotment Option as mentioned below) to professional and institutional investors as described in "— The International Offering."

The Offer Shares will represent approximately 25.93% of the enlarged issued share capital of the Company immediately after completion of the Global Offering without taking into account the exercise of the Over-allotment Option. If the Over-allotment Option is exercised in full, the Offer Shares will represent approximately 28.7% of the enlarged issued share capital immediately after completion of the Global Offering and the exercise of the Over-allotment Option as set forth in "Underwriting — Underwriting Arrangements and Expenses — International Offering — International Underwriting Agreement."

Investors may apply for the Hong Kong Offer Shares under the Hong Kong Public Offering or indicate an interest, if qualified to do so, for the International Offer Shares under the International Offering, but may not do both. The Hong Kong Public Offering is open to members of the public in Hong Kong as well as to institutional and professional investors in Hong Kong. The International Offering will involve selective marketing of the International Offer Shares to institutional and professional investors and other investors expected to have a sizeable demand for the International Offer Shares in Hong Kong and other jurisdictions outside the United States in reliance on Regulation S. The International Underwriters are soliciting from prospective investors' indications of interest in acquiring the International Offer Shares. Prospective investors will be required to specify the number of International Offer Shares under the International Offering they would be prepared to acquire either at different prices or at a particular price.

The number of Hong Kong Offer Shares and International Offer Shares to be offered under the Hong Kong Public Offering and the International Offering respectively may be subject to reallocation as described in "— The Hong Kong Public Offering — Reallocation and Clawback" below.

THE HONG KONG PUBLIC OFFERING

Number of H Shares Initially Offered

The Company is initially offering 2,800,000 H Shares at the Offer Price under the Hong Kong Public Offering, representing 10% of the 28,000,000 H Shares initially available under the Global Offering, for subscription by the public in Hong Kong. Subject to adjustment as mentioned below, the number of H Shares initially offered under the Hong Kong Public Offering will represent 2.6% of our enlarged issued share capital immediately after completion of the Global Offering, assuming that the Over-allotment Option is not exercised.

In Hong Kong, individual retail investors are expected to apply for the Hong Kong Offer Shares through the Hong Kong Public Offering and individual retail investors, including individual investors in Hong Kong applying through banks and other institutions, seeking International Offer Shares will not be allotted International Offer Shares in the International Offering.

The Sole Global Coordinator (on behalf of the Underwriters) may require any investor who has been offered H Shares under the International Offering, and who has made an application under the Hong Kong Public Offering to provide sufficient information to the Sole Global Coordinator so as to allow it to identify the relevant applications under the Hong Kong Public Offering and to ensure that it is excluded from any application for the Hong Kong Offer Shares.

Allocation

For allocation purposes only, the 2,800,000 H Shares initially being offered under the Hong Kong Public Offering (after taking into account any adjustment in the number of Offer Shares allocated between the Hong Kong Public Offering and the International Offering) will be divided equally into two pools (subject to adjustment at odd lot size): Pool A comprising 1,400,000 Hong Kong Offer Shares and Pool B comprising 1,400,000 Hong Kong Offer Shares, both of which are available on an equitable basis to successful applicants. All valid applications that have been received for the Hong Kong Offer Shares with a total subscription amount (excluding brokerage, SFC transaction levy and the Hong Kong Stock Exchange trading fee) of HK$5 million or below will fall into Pool A and all valid applications that have been received for the Hong Kong Offer Shares with a total subscription amount (excluding brokerage, SFC transaction levy and Hong Kong Stock Exchange trading fee) of over HK$5 million and up to the total value of Pool B, will fall into Pool B.

Applicants should be aware that applications in Pool A and Pool B are likely to receive different allocation ratios. If the Hong Kong Offer Shares in one pool (but not both pools) are under-subscribed, the surplus Hong Kong Offer Shares will be transferred to the other pool to satisfy demand in that other pool and be allocated accordingly. Applicants can only receive an allocation of the Hong Kong Offer Shares from either Pool A or Pool B but not from both pools and only apply for Hong Kong Offer Shares in either Pool A or Pool B. When there is over-subscription, allocation of the Hong Kong Offer Shares to investors under the Hong Kong Public Offering, both in relation to Pool A and Pool B, will be based on the level of valid applications received under the Hong Kong Public Offering. The basis of allocation in each pool may vary, depending on the number of Hong Kong Offer Shares validly applied for by each applicant. The allocation of Hong Kong Offer Shares could, where appropriate, consist of balloting, which would mean that some applicants may receive a higher allocation than others who have applied for the same number of Hong Kong Offer Shares and those applicants who are not successful in the ballot may not receive any Hong Kong Offer Shares.

Reallocation and Clawback

The allocation of Shares between the Hong Kong Public Offering and the International Offering is subject to adjustment. If the number of H Shares validly applied for in the Hong Kong Public Offering represents (i) 15 times or more but less than 50 times, (ii) 50 times or more but less than 100 times, and (iii) 100 times or more, of the number of Hong Kong Offer Shares initially available under the Hong Kong Public Offering, the total number of Hong Kong Offer Shares available under the Hong Kong Public Offering will be increased to 8,400,000, 11,200,000 and 14,000,000 H Shares, respectively, representing

30% (in the case of (i)), 40% (in the case of (ii)) and 50% (in the case of (iii)), respectively, of the total number of Offer Shares initially available under the Global Offering (before any exercise of the Over-allotment Option), and such reallocation being referred to in this Prospectus as "Mandatory Reallocation." In such cases, the number of Offer Shares allocated in the International Offering will be correspondingly reduced, in such manner as the Sole Global Coordinator deems appropriate, and such additional Offer Shares will be reallocated to Pool A and Pool B. If the Hong Kong Offer Shares are not fully subscribed, the Sole Global Coordinator has the authority to reallocate all or any unsubscribed Hong Kong Offer Shares to the International Offering, in such proportions as the Sole Global Coordinator deems appropriate. In addition to any Mandatory Reallocation which may be required, the Sole Global Coordinator may, at its discretion, reallocate Shares initially allocated for the International Offering to the Hong Kong Public Offering to satisfy in whole or in part the valid applications in the Hong Kong Public Offering.

Applications

Each applicant under the Hong Kong Public Offering will also be required to give an undertaking and confirmation in the Application Form submitted by him that he and any person(s) for whose benefit he is making the application have not applied for or taken up, or indicated an interest for, and will not apply for or take up, or indicate an interest for, any Offer Shares under the International Offering, and such applicant's application is liable to be rejected if the said undertaking and/or confirmation is breached and/or untrue (as the case may be) or it has been or will be placed or allocated Offer Shares under the International Offering.

Multiple or suspected multiple applications and any application for more than 50% of the 2,800,000 H Shares initially comprised in the Hong Kong Public Offering (that is 1,400,000 Hong Kong Offer Shares) are liable to be rejected.

The listing of the Offer Shares on the Hong Kong Stock Exchange is sponsored by the Sole Sponsor. Applicants under the Hong Kong Public Offering are required to pay, on application, the maximum price of HK$8.60 per H Share in addition to any brokerage, SFC transaction levy and Hong Kong Stock Exchange trading fee payable on each Offer Share. If the Offer Price, as finally determined in the manner described in "— Pricing and Allocation" is less than the maximum price of HK$8.60 per H Share, appropriate refund payments (including the brokerage, SFC transaction levy and Hong Kong Stock Exchange trading fee attributable to the surplus application monies) will be made to successful applicants, without interest. Further details are set out below in "How to Apply for Hong Kong Offer Shares."

References in this Prospectus to applications, Application Forms, application monies or the procedure for application relate solely to the Hong Kong Public Offering.

THE INTERNATIONAL OFFERING

Number of International Offer Shares Offered

The number of International Offer Shares to be initially offered under the International Offering will be 25,200,000 Offer Shares, representing 90% of the Offer Shares under the Global Offering. Subject to any reallocation of Offer Shares between the International Offering and the Hong Kong Public Offering, the International Offer Shares will represent approximately 23.3% of our enlarged issued share capital immediately after completion of the Global Offering assuming that the Over-allotment Option is not exercised.

Allocation

Pursuant to the International Offering, the International Underwriters will conditionally place the International Offer Shares with institutional and professional investors and other investors expected to have a sizeable demand for the Shares in Hong Kong and other jurisdictions outside the United States in reliance on Regulation S. The International Offering is subject to the Hong Kong Public Offering being unconditional.

Allocation of the International Offer Shares pursuant to the International Offering will be determined by the Sole Global Coordinator and will be based on a number of factors including the level and timing of demand, total size of the relevant investor 's invested assets or equity assets in the relevant sector and whether or not it is expected that the relevant investor is likely to buy further, and/or hold or sell Offer Shares after the Listing. Such allocation may be made to professional, institutional and corporate investors and is intended to result in a distribution of our Offer Shares on a basis which would lead to the establishment of a solid shareholder base to the benefit of the Company and our Shareholders as a whole.

Reallocation

The total number of International Offer Shares to be transferred pursuant to the International Offering may change as a result of the clawback arrangement described in "— The Hong Kong Public Offering — Reallocation and Clawback," exercise of the Over-allotment Option in whole or in part and/or reallocation of all or any unsubscribed Hong Kong Offer Shares to the International Offering.

Over-allotment Option

In connection with the Global Offering, the Company is expected to grant an Over-allotment Option to the International Underwriters, exercisable by the Sole Global Coordinator at its sole and absolute discretion on behalf of the International Underwriters for up to 30 days after the last day for lodging applications under the Hong Kong Public Offering. A press announcement will be made in the event that the Over-allotment Option is exercised. Pursuant to the Over-allotment Option, the Sole Global Coordinator will have the right to require the Company to issue and allot up to an aggregate of 4,200,000 H Shares representing in aggregate 15% of the initial number of the Offer Shares at the Offer Price to cover, among other things, over-allocations in the International Offering, if any. The Sole Global Coordinator may also cover any over-allocations by purchasing Shares in the secondary market or by a combination of purchases in the secondary market and a partial exercise of the Over-allotment Option. Any such secondary market purchase will be made in compliance with all applicable laws and regulations.

PRICING AND ALLOCATION

The International Underwriters will be soliciting from prospective investors' indications of interest in acquiring Offer Shares in the International Offering. Prospective professional and institutional investors will be required to specify the number of Offer Shares under the International Offering they would be prepared to acquire either at different prices or at a particular price. This process, known as "book-building," is expected to continue up to, and to cease on or about, the last day for lodging applications under the Hong Kong Public Offering.

The Offer Price is expected to be fixed by agreement between the Sole Global Coordinator (on behalf of the Underwriters) and us on the Price Determination Date. The Price Determination Date is expected to be on or around Monday, 7 December 2015 and, in any event, not later than Thursday, 10 December 2015.

The Offer Price will be not more than HK$8.60 and is currently expected not to be less than HK$7.60, unless otherwise announced as further explained below, not later than the morning of the last day for lodging applications under the Hong Kong Public Offering. Prospective investors should be aware that the Offer Price to be determined on the Price Determination Date may be, but is not expected to be, lower than the indicative Offer Price range stated in this Prospectus. If, for any reason, the Offer Price is not agreed by Thursday, 10 December 2015 between the Sole Global Coordinator (on behalf of the Underwriters) and us, the Global Offering will not proceed and will lapse.

If, based on the level of interest expressed by prospective institutional, professional and other investors during the book-building process, the Sole Global Coordinator (on behalf of the Underwriters) considers it appropriate, the number of Offer Shares being offered under the Global Offering and/or the indicative Offer Price range may be reduced below that stated in this Prospectus at any time prior to the morning of the last day for lodging applications under the Hong Kong Public Offering. In such a case, we will, as soon as practicable following the decision to make such reduction, and in any event not later than the morning of Monday, 7 December 2015, being the last day for lodging applications under the Hong Kong Public Offering, cause to be published in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese), on the Hong Kong Stock Exchange's website at **www.hkexnews.hk**, and on the Company's website at **www.chmyy.com** notice of the reduction in the number of Offer Shares being offered under the Global Offering and/or the indicative Offer Price range. Such notice will also include confirmation or revision, as appropriate, of the working capital statement and the offering statistics as currently set forth in "Summary" and any other financial information which may change as a result of such reduction.

Before submitting applications for the Hong Kong Offer Shares, applicants should have regard to the possibility that any announcement of a reduction in the number of Offer Shares being offered under the Global Offering and/or the indicative Offer Price range may not be made until the day which is the last day for lodging applications under the Hong Kong Public Offering.

In the event there is a reduction in the Offer Shares and/or indicative Offer Price range, if the applicants have already submitted an application for the Hong Kong Offer Shares before the last day for lodging applications under the Hong Kong Public Offering, they will be allowed to subsequently withdraw their applications. In the absence of any such notice so published, the Offer Price, if agreed upon with our Company and the Sole Global Coordinator, will under no circumstances be set outside the offer price range as stated in this Prospectus.

The Hong Kong Offer Shares and the International Offer Shares may, in certain circumstances, be reallocated as between the Hong Kong Public Offering and International Offering at the discretion of the Sole Global Coordinator.

The applicable Offer Price, level of applications in the Hong Kong Public Offering, the level of indications of interest in the International Offering, the results of applications and basis of allotment of the Hong Kong Offer Shares are expected to be announced on Friday, 11 December 2015 through a variety of channels as described in "How to Apply for Hong Kong Offer Shares — 11. Publication of Results."

STABILISATION

Stabilisation is a practice used by underwriters in some markets to facilitate the distribution of securities. To stabilise, the underwriters may bid for, or purchase, the newly issued securities in the secondary market, during a specified period of time, to retard and, if possible, prevent any decline in the market price of the securities below the Offer Price. In Hong Kong and certain other jurisdictions, activity aimed at reducing the market price is prohibited and the price at which stabilisation is effected is not permitted to exceed the Offer Price.

In connection with the Global Offering, the Stabilising Manager and/or its affiliates or any person acting for it (on behalf of the Underwriters) may, to the extent permitted by applicable laws of Hong Kong or elsewhere, over-allocate or effect short sales or any other stabilising transactions with a view to stabilising or maintaining the market price of our H Shares at a level higher than that which might otherwise prevail in the open market for a limited period after the last day for the lodging of applications under the Hong Kong Public Offering. Any market purchases of H Shares will be affected in compliance with all applicable laws and regulatory requirements. However, there is no obligation on the Stabilising Manager or any person acting for it to conduct any such stabilising activity, which if commenced, will be done at the absolute discretion of the Stabilising Manager and may be discontinued at any time. Any such stabilising activity is required to be brought to an end within 30 days of the last day for the lodging of applications under the Hong Kong Public Offering. The number of H Shares that may be over-allocated will not exceed the number of Shares that may be issued and/or sold under the Over-allotment Option, namely 4,200,000 Shares, which is 15% of the Offer Shares initially available under the Global Offering.

Stabilising action will be entered into in accordance with the laws, rules and regulations in place in Hong Kong on stabilisation and stabilisation action permitted in Hong Kong pursuant to the Securities and Futures (Price Stabilising) Rules under the SFO includes: (i) over-allocation for the purpose of preventing or minimising any reduction in the market price of the H Shares; (ii) selling or agreeing to sell the H Shares so as to establish a short position in them for the purpose of preventing or minimising any reduction in the market price of the H Shares; (iii) purchasing or subscribing for, or agreeing to purchase or subscribe for, the H Shares pursuant to the Over-allotment Option in order to close out any position established under (i) or (ii) above; (iv) purchasing, or agreeing to purchase, any of the H Shares for the sole purpose of preventing or minimising any reduction in the market price of the H Shares; (v) selling or agreeing to sell any H Shares in order to liquidate any position held as a result of those purchases; and (vi) offering or attempting to do anything described in (ii), (iii), (iv) or (v).

Specifically, prospective applicants for and investors in the Offer Shares should note that:

(a) the Stabilising Manager, or any person acting for it, may, in connection with the stabilising action, maintain a long position in the H Shares;

(b) there is no certainty regarding the extent to which and the time period for which the Stabilising Manager, or any person acting for it, will maintain such a position;

(c) liquidation of any such long position by the Stabilising Manager may have an adverse impact on the market price of the H Shares;

(d) no stabilising action can be taken to support the price of the H Shares for longer than the stabilising period which will begin on the Listing Date following announcement of the Offer Price, and is expected to expire on Wednesday, 6 January 2016, being the 30th day after the last date for lodging applications under the Hong Kong Public Offering. After this date, when no further stabilising action may be taken, demand for the H Shares, and therefore the price of the Shares, could fall;

(e) the price of the H Shares cannot be assured to stay at or above the Offer Price either during or after the stabilising period by the taking of any stabilising action; and

(f) stabilising bids may be made or transactions effected in the course of the stabilising action at any price at or below the Offer Price, which means that stabilising bids may be made or transactions effected at a price below the price paid by applicants for, or investors in, the H Shares.

The Company will procure that a public announcement in compliance with the Securities and Futures (Price Stabilising) Rules will be made within seven days of the expiration of the stabilising period.

In connection with the Global Offering, the Stabilising Manager may over-allocate up to and not more than an aggregate of 4,200,000 H Shares and cover such over-allocations by (amongst other methods) exercising the Over-allotment Option, making purchases in the secondary market at prices that do not exceed the Offer Price or by any combination of these means.

UNDERWRITING

The Hong Kong Public Offering is fully underwritten by the Hong Kong Underwriters under the terms of the Hong Kong Underwriting Agreement, subject to agreement on the Offer Price between the Sole Global Coordinator (on behalf of the Underwriters) and the Company on the Price Determination Date.

We expect that the Company will, on or around determination of the Offer Price, enter into the International Underwriting Agreement relating to the International Offering. Underwriting arrangements, the Hong Kong Underwriting Agreement and the International Underwriting Agreement are summarised in "Underwriting."

CONDITIONS OF THE GLOBAL OFFERING

Acceptance of all applications for the Offer Shares will be conditional on, inter alia:

- the Listing Committee granting the listing of, and permission to deal in, the H Shares to be issued pursuant to the Global Offering (including any H Shares which may be issued pursuant to the exercise of the Over-allotment Option) (subject only to allotment and dispatch of the H Share certificates in respect thereof and such other normal conditions acceptable to the Company and the Sole Global Coordinator, on behalf of the Underwriters) and such listing and permission not subsequently having been revoked prior to the commencement of dealings in the Offer Shares on the Hong Kong Stock Exchange;

- the Company having submitted to the HKSCC all requisite documents to enable the Offer Shares to be admitted to trade on the Hong Kong Stock Exchange;

- the Offer Price having been duly determined and the execution and delivery of the International Underwriting Agreement on or around the Price Determination Date;

- the obligations of the Underwriters under the respective Underwriting Agreements becoming and remaining unconditional (including, if relevant, as a result of the waiver of any conditions by the Sole Global Coordinator, on behalf of the Underwriters) and not having been terminated in accordance with the terms of the respective agreements,

in each case on or before the dates and times specified in the respective Underwriting Agreements (unless and to the extent such conditions are validly waived on or before such dates and times) and in any event not later than the date which is 30 days after the date of this Prospectus.

If the above conditions are not fulfiled or waived prior to the times and dates specified, the Global Offering will lapse and the Hong Kong Stock Exchange will be notified immediately. We will cause a notice of the lapse of the Hong Kong Public Offering to be published by us in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) on the next day following such lapse. In such eventuality, all application monies will be returned, without interest, on the terms set forth in "How to Apply for Hong Kong Offer Shares." In the meantime, the application monies will be held in separate bank account(s) with the receiving banker(s) or other bank(s) in Hong Kong licensed under the Banking Ordinance (Chapter 155 of the Laws of Hong Kong) (as amended).

The consummation of each of the Hong Kong Public Offering and the International Offering is conditional upon, amongst other things, the other becoming unconditional and not having been terminated in accordance with its terms.

H Share certificates for the Offer Shares are expected to be issued on Friday, 11 December 2015 but will only become valid certificates of title at 8:00 a.m. on the date of commencement of the dealings in our Shares, which is expected to be on Monday, 14 December 2015, provided that (i) the Global Offering has become unconditional in all respects and (ii) neither of the Underwriting Agreements has been terminated in accordance with its terms. Investors who trade H Shares prior to the receipt of H Share certificates or prior to the H Share certificates bearing valid certificates of title do so entirely at their own risk.

H SHARES WILL BE ELIGIBLE FOR CCASS

All necessary arrangements have been made enabling the H Shares to be admitted into CCASS. If the Hong Kong Stock Exchange grants the listing of, and permission to deal in, our Shares on the Hong Kong Stock Exchange and we comply with the stock admission requirements of HKSCC, our Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the Listing Date or any other date HKSCC chooses. Settlement of transactions between participants of the Hong Kong Stock Exchange is required to take place in CCASS on the second Business Day after any trading day. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

DEALING ARRANGEMENTS

Assuming that the Hong Kong Public Offering becomes unconditional at or before 8:00 a.m. in Hong Kong on Monday, 14 December 2015, it is expected that dealings in H Shares on the Hong Kong Stock Exchange will commence on Monday, 14 December 2015. Our H Shares will be traded in board lots of 500 H Shares each. The stock code of the Company is 2289.

1. HOW TO APPLY

If you apply for Hong Kong Offer Shares, then you may not apply for or indicate an interest for International Offer Shares.

To apply for Hong Kong Offer Shares, you may:

- use a **WHITE** or **YELLOW** Application Form;
- apply online via the **White Form eIPO** Service Provider at **www.eipo.com.hk**; or
- electronically cause HKSCC Nominees to apply on your behalf.

None of you or your joint applicant(s) may make more than one application, except where you are a nominee and provide the required information in your application.

Our Company, the Sole Global Coordinator, the **White Form eIPO** service provider and their respective agents may reject or accept any application in full or in part for any reason at their discretion.

2. WHO CAN APPLY

You can apply for Hong Kong Offer Shares on a **WHITE** or **YELLOW** Application Form if you or the person(s) for whose benefit you are applying:

- are 18 years of age or older;
- have a Hong Kong address;
- are outside the United States, and are not a U.S. person (as defined in Regulation S under the U.S. Securities Act); and
- are not a legal or natural person of the PRC (unless permitted by the relevant rules and regulations).

If you apply online through the **White Form eIPO** service in addition to the above, you must also: (i) have a valid Hong Kong identity card number and (ii) provide a valid e-mail address and a contact telephone number.

If you are a firm, the application must be in the individual members' names. If you are a body corporate, the Application Form must be signed by a duly authorised officer, who must state his or her representative capacity, and stamped with your corporation's chop.

If an application is made by a person duly authorised under a power of attorney, the Sole Global Coordinator may accept it at its discretion and on any conditions if thinks fit, including evidence of the attorney's authority.

The number of joint applicants may not exceed four and they may not apply by means of **White Form eIPO** for the Hong Kong Offer Shares.

Unless permitted by the Listing Rules, you cannot apply for any Hong Kong Offer Shares if you are:

- an existing beneficial owner of Shares in our Company and/or any of its subsidiaries;
- a Director or chief executive officer of our Company and/or any of its subsidiaries;
- a connected person (as defined in the Listing Rules) of our Company or will become a connected person of our Company immediately upon completion of the Global Offering;
- an associate (as defined in the Listing Rules) of any of the above; and
- have been allocated or have applied for any International Offer Shares or otherwise participate in the International Offering.

3. APPLYING FOR HONG KONG OFFER SHARES

Which Application Channel to Use

For Hong Kong Offer Shares to be issued in your own name, use a **WHITE** Application Form or apply online through **www.eipo.com.hk**.

For Hong Kong Offer Shares to be issued in the name of HKSCC Nominees and deposited directly into CCASS to be credited to your or a designated CCASS Participant's stock account, use a **YELLOW** Application Form or electronically instruct HKSCC via CCASS to cause HKSCC Nominees to apply for you.

Where to Collect the Application Forms

You can collect a **WHITE** Application Form and a prospectus during normal business hours from 9:00 a.m. on Wednesday, 2 December 2015 to 12:00 noon on Monday, 7 December 2015 from:

(a) any of the following offices of the Hong Kong Underwriters:

Guotai Junan Securities (Hong Kong) Limited
27th Floor, Low Block
Grand Millennium Plaza
181 Queen's Road Central
Hong Kong

Ever-Long Securities Company Limited
18th Floor, Dah Sing Life Building
99–105 Des Voeux Road Central
Hong Kong

Luk Fook Securities (HK) Limited
Units 502–6, 5/F, Low Block, Grand Millennium Plaza
181 Queen's Road Central
Hong Kong

(b) any of the branches of the following receiving bank:

Industrial and Commercial Bank of China (Asia) Limited:

District	Branch Name	Address
Hong Kong Island	West Point Branch	242–244 Queen's Road West, Sai Ying Pun
	Queen's Road Central Branch	122–126 Queen's Road Central, Central
	Causeway Bay Branch	Shop A on G/F, 1/F, Hennessy Apartments, 488 & 490 Hennessy Road
Kowloon	Tsim Sha Tsui Branch	Shop 1&2, G/F, No. 35–37 Hankow Road, Tsimshatsui
	Mei Foo Branch	Shop N95A, 1/F, Mount Sterling Mall, Mei Foo Sun Chuen
	Prince Edward Branch	777 Nathan Road, Mongkok
	Ngau Tau Kok Branch	Shop Nos. G211–214, G/F, Phase II, Amoy Plaza, 77 Ngau Tau Kok Road
New Territories	Tsuen Wan Castle Peak Road Branch	G/F, 423–427 Castle Peak Road Tsuen Wan
	Kwai Fong Branch	C63A–C66, 2/F, Kwai Chung Plaza, Kwai Fong
	Tuen Mun Branch	217 A–F Central Services Building, Nan Fung Industrial City, 18 Tin Hau Road, Tuen Mun
	Tai Po Branch	Shop F, G/F, Mee Fat Building, No 34–38 Tai Wing Lane, Tai Po
	Shatin Branch	Shop 22J, Level 3, Shatin Centre

You can collect a **YELLOW** Application Form and a Prospectus during normal business hours from 9:00 a.m. on Wednesday, 2 December 2015 until 12:00 noon on Monday, 7 December 2015: from the Depository Counter of HKSCC at 1/F, One & Two Exchange Square, 8 Connaught Place, Central, Hong Kong or from your stockbroker.

Time for Lodging Application Forms

Your completed **WHITE** or **YELLOW** Application Form, together with a cheque or a banker's cashier order attached and marked payable to "ICBC (Asia) Nominee Limited — Chuangmei Pharmaceutical Public Offer" for the payment, should be deposited in the special collection boxes provided at any of the branches of the receiving bank listed above, at the following times:

Wednesday, 2 December 2015	**—**	**9:00 a.m. to 5:00 p.m.**
Thursday, 3 December 2015	**—**	**9:00 a.m. to 5:00 p.m.**
Friday, 4 December 2015	**—**	**9:00 a.m. to 5:00 p.m.**
Saturday, 5 December 2015	**—**	**9:00 a.m. to 1:00 p.m.**
Monday, 7 December 2015	**—**	**9:00 a.m. to 12:00 noon**

The application lists will be open from 11:45 a.m. to 12:00 noon on Monday, 7 December 2015, the last application day or such later time as described in "— 10. Effect of Bad Weather on the Opening of the Application Lists" in this section.

4. TERMS AND CONDITIONS OF AN APPLICATION

Follow the detailed instructions in the Application Form carefully; otherwise, your application may be rejected.

By submitting an Application Form or applying through **White Form eIPO** service, among other things, you:

(a) undertake to execute all relevant documents and instruct and authorise our Company and/or the Sole Global Coordinator (or its agents or nominees), as agents of our Company, to execute any documents for you and to do on your behalf all things necessary to register any Hong Kong Offer Shares allocated to you in your name or in the name of HKSCC Nominees as required by the Articles of Association;

(b) agree to comply with the Companies Ordinance, the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap. 32), the *PRC Company Law*, the *Special Regulations* and the Articles of Association;

(c) confirm that you have read the terms and conditions and application procedures set out in this Prospectus and in the Application Form and agree to be bound by them;

(d) confirm that you have received and read this prospectus and have only relied on the information and representations contained in this prospectus in making your application and will not rely on any other information or representations except those in any supplement to this Prospectus;

(e) confirm that you are aware of the restrictions on the Global Offering in this prospectus;

(f) agree that none of our Company, the Sole Sponsor, the Sole Global Coordinator, the Underwriters, their respective directors, officers, employees, partners, agents, advisers and any other parties involved in the Global Offering is or will be liable for any information and representations not in this Prospectus (and any supplement to it);

(g) undertake and confirm that you or the person(s) for whose benefit you have made the application have not applied for or taken up, or indicated an interest for, and will not apply for or take up, or indicate an interest for, any Offer Shares under the International Offering nor participated in the International Offering;

(h) agree to disclose to our Company, our H Share Registrar, the receiving banks, the Sole Sponsor, the Sole Global Coordinator, the Underwriters and/or their respective advisers and agents any personal data which they may require about you and the person(s) for whose benefit you have made the application;

(i) if the laws of any place outside Hong Kong apply to your application, agree and warrant that you have complied with all such laws and none of our Company, the Sole Sponsor, the Sole Global Coordinator and the Underwriters nor any of their respective officers or advisers will breach any law outside Hong Kong as a result of the acceptance of your offer to purchase, or any action arising from your rights and obligations under the terms and conditions contained in this Prospectus and the Application Form;

(j) agree that once your application has been accepted, you may not rescind it because of an innocent misrepresentation;

(k) agree that your application will be governed by the Laws of Hong Kong;

(l) represent, warrant and undertake that (i) you understand that the Hong Kong Offer Shares have not been and will not be registered under the U.S. Securities Act; and (ii) you and any person for whose benefit you are applying for the Hong Kong Offer Shares are outside the United States (as defined in Regulation S) or are a person described in paragraph (h)(3) of Rule 902 of Regulation S;

(m) warrant that the information you have provided is true and accurate;

(n) agree to accept the Hong Kong Offer Shares applied for, or any lesser number allocated to you under the application;

(o) authorise our Company to place your name(s) or the name of the HKSCC Nominees, on our Company's register of members as the holder(s) of any Hong Kong Offer Shares allocated to you, and our Company and/or its agents to send any H share certificate(s) and/or any e-Refund payment instructions and/or any refund cheque(s) to you or the first-named applicant for joint application by ordinary post at your own risk to the address stated on the application, unless you fulfil the criteria mentioned in "14. Despatch/Collection of H Share Certificates and Refund Monies — Personal Collection" in the Prospectus to collect share certificate(s) and/or refund cheque(s);

(p) declare and represent that this is the only application made and the only application intended by you to be made to benefit you or the person for whose benefit you are applying;

(q) understand that our Company, the Sole Sponsor and the Sole Global Coordinator will rely on your declarations and representations in deciding whether or not to make any allotment of any of the Hong Kong Offer Shares to you and that you may be prosecuted for making a false declaration;

(r) (if the application is made for your own benefit) warrant that no other application has been or will be made for your benefit on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC or through the **White Form eIPO** Service Provider by you or by any one as your agent or by any other person; and

(s) (if you are making the application as an agent for the benefit of another person) warrant that (i) no other application has been or will be made by you as agent for or for the benefit of that person or by that person or by any other person as agent for that person on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC; and (ii) you have due authority to sign the Application Form or give **electronic application instructions** on behalf of that other person as their agent.

Additional Instructions for YELLOW Application Form

You may refer to the **YELLOW** Application Form for details.

5. APPLYING BY USING WHITE FORM eIPO SERVICE

General

Individuals who meet the criteria in "— 2. Who Can Apply" may apply through the **White Form eIPO** service for the Offer Shares to be allotted and registered in their own names through the designated website at **www.eipo.com.hk**.

Detailed instructions for application through the **White Form eIPO** service are on the designated website. If you do not follow the instructions, your application may be rejected and may not be submitted to our Company. If you apply through the designated website, you authorise the **White Form eIPO** Service Provider to apply on the terms and conditions in this Prospectus, as supplemented and amended by the terms and conditions of the **White Form eIPO** service.

Time for Submitting Applications under the White Form eIPO

You may submit your application to the **White Form eIPO** Service Provider at **www.eipo.com.hk** (24 hours daily, except on the last application day) from 9:00 a.m. on Wednesday, 2 December 2015 until 11:30 a.m. on Monday, 7 December 2015 and the latest time for completing full payment of application monies in respect of such applications will be 12:00 noon on Monday, 7 December 2015 or such later time in "— 10. Effect of Bad Weather on the Opening of the Application Lists".

No Multiple Applications

If you apply by means of **White Form eIPO** service, once you complete payment in respect of any **electronic application instruction** given by you or for your benefit through the **White Form eIPO** service to make an application for Hong Kong Offer Shares, an actual application shall be deemed to have been made. For the avoidance of doubt, giving an **electronic application instruction** under **White Form eIPO** more than once and obtaining different application reference numbers without effecting full payment in respect of a particular reference number will not constitute an actual application.

If you are suspected of submitting more than one application through the **White Form eIPO** service or by any other means, all of your applications are liable to be rejected.

Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance

For the avoidance of doubt, our Company and all other parties involved in the preparation of this Prospectus acknowledge that each applicant who gives or causes to give **electronic application instructions** is a person who may be entitled to compensation under Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap. 32) (as applied by Section 342E of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap. 32)).

Environmental Protection

The obvious advantage of **White Form eIPO** is to save the use of papers via the self-serviced and electronic application process. Computershare Hong Kong Investor Services Limited, being the designated **White Form eIPO** Service Provider, will contribute HK$2 for each "Chuangmei Pharmaceutical Co., Ltd." **White Form eIPO** application submitted via the website **www.eipo.com.hk** to support the funding of "Source of Dong Jiang — Hong Kong Forest" project initiated by Friends of the Earth (HK).

6. APPLYING BY GIVING ELECTRONIC APPLICATION INSTRUCTIONS TO HKSCC VIA CCASS

General

CCASS Participants may give **electronic application instructions** to apply for the Hong Kong Offer Shares and to arrange payment of the money due on application and payment of refunds under their participant agreements with HKSCC and the General Rules of CCASS and the CCASS Operational Procedures.

If you are a CCASS Investor Participant, you may give these **electronic application instructions** through the CCASS Phone System by calling 2979-7888 or through the CCASS Internet System (**https://ip.ccass.com**) (using the procedures in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time).

HKSCC can also input **electronic application instructions** for you if you go to:

Hong Kong Securities Clearing Company Limited
Customer Service Centre
1/F, One & Two Exchange Square
8 Connaught Place
Central
Hong Kong

and complete an input request form.

You can also collect a Prospectus from this address.

If you are not a CCASS Investor Participant, you may instruct your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** via CCASS terminals to apply for the Hong Kong Offer Shares on your behalf.

You will be deemed to have authorised HKSCC and/or HKSCC Nominees to transfer the details of your application to our Company, the Sole Global Coordinator and our H Share Registrar.

Giving Electronic Application Instructions to HKSCC via CCASS

Where you have given **electronic application instructions** to apply for the Hong Kong Offer Shares and a **WHITE** Application Form is signed by HKSCC Nominees on your behalf:

(a) HKSCC Nominees will only be acting as a nominee for you and is not liable for any breach of the terms and conditions of the **WHITE** Application Form or this Prospectus;

(b) HKSCC Nominees will do the following things on your behalf:

- **agree** that the Hong Kong Offer Shares to be allotted shall be issued in the name of HKSCC Nominees and deposited directly into CCASS for the credit of the CCASS Participant's stock account on your behalf or your CCASS Investor Participant stock account;

- **agree** to accept the Hong Kong Offer Shares applied for or any lesser number allocated;

- **undertake** and **confirm** that you have not applied for or taken up, will not apply for or take up, or indicate an interest for, any Offer Shares under the International Offering;

- (if the **electronic application instructions** are given for your own benefit) **declare** that only one set of **electronic application instructions** has been given for your benefit;

- (if you are an agent for another person) **declare** that you have only given one set of **electronic application instructions** for the other person's benefit and are duly authorised to give those instructions as their agent;

- **confirm** that you understand that our Company, our Directors and the Sole Global Coordinator will rely on your declarations and representations in deciding whether or not to make any allotment of any of the Hong Kong Offer Shares to you and that you may be prosecuted if you make a false declaration;

- **authorise** our Company to place HKSCC Nominees' name on our Company's register of members as the holder of the Hong Kong Offer Shares allocated to you and to send H Share certificate(s) and/or refund monies under the arrangements separately agreed between us and HKSCC;

- **confirm** that you have read the terms and conditions and application procedures set out in this prospectus and agree to be bound by them;

- **confirm** that you have received and/or read a copy of this prospectus and have relied only on the information and representations in this Prospectus in causing the application to be made, save as set out in any supplement to this prospectus;

- **agree** that none of our Company, the Sole Global Coordinator, the Underwriters, their respective directors, officers, employees, partners, agents, advisers and any other parties involved in the Global Offering, is or will be liable for any information and representations not contained in this Prospectus (and any supplement to it);

- **agree** to disclose your personal data to our Company, our H Share Registrar, receiving bank, the Sole Global Coordinator, the Underwriters and/or their respective advisers and agents;

- **agree** (without prejudice to any other rights which you may have) that once HKSCC Nominees' application has been accepted, it cannot be rescinded for innocent misrepresentation;

- **agree** that any application made by HKSCC Nominees on your behalf is irrevocable before the fifth day after the time of the opening of the application lists (excluding any day which is Saturday, Sunday or public holiday in Hong Kong), such agreement to take effect as a collateral contract with our Company and to become binding when you give the instructions and such collateral contract to be in consideration of our Company agreeing that it will not offer any Hong Kong Offer Shares to any person before the fifth day after the time of the opening of the application lists (excluding any day which is Saturday, Sunday or public holiday in Hong Kong), except by means of one of the procedures referred to in this Prospectus. However, HKSCC Nominees may revoke the application before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is a Saturday, Sunday or public holiday in Hong Kong) if a person responsible for this Prospectus under Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap. 32) gives a public notice under that section which excludes or limits that person's responsibility for this Prospectus;

- **agree** that once HKSCC Nominees' application is accepted, neither that application nor your **electronic application instructions** can be revoked, and that acceptance of that application will be evidenced by our Company's announcement of the Hong Kong Public Offering results;

- **agree** to the arrangements, undertakings and warranties under the participant agreement between you and HKSCC, read with the General Rules of CCASS and the CCASS Operational Procedures, for the giving **electronic application instructions** to apply for Hong Kong Offer Shares;

- **agree** that your application, any acceptance of it and the resulting contract will be governed by the Laws of Hong Kong;

- **agree** with our Company, for itself and for the benefit of each Shareholder (and so that our Company will be deemed by its acceptance in whole or in part of the application by HKSCC Nominees to have agreed, for itself and on behalf of each of the Shareholders, with each CCASS Participant giving **electronic application instructions**) to observe and comply with the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap. 32), the *PRC Company Law*, the *Special Regulations* and the Articles of Association;

- **agree** with our Company, for itself and for the benefit of each Shareholder of our Company and each Director, Supervisor, manager and other senior officer of our Company (and so that our Company will be deemed by its acceptance in whole or in part of this application to have agreed, for itself and on behalf of each Shareholder of the Company and each Director, Supervisor, manager and other senior officer of the Company, with each CCASS Participant giving **electronic application instructions**):

  (i) to refer all differences and claims arising from the Articles of Association of our Company or any rights or obligations conferred or imposed by the *PRC Company Law* or other relevant laws and administrative regulations concerning the affairs of our Company to arbitration in accordance with the Articles of Association of our Company;

  (ii) that any award made in such arbitration shall be final and conclusive; and

  (iii) that the arbitration tribunal may conduct hearings in open sessions and publish its award;

- **agree** with our Company (for the Company itself and for the benefit of each Shareholder of our Company) that H Shares in our Company are freely transferable by their holders;

- **authorise** our Company to enter into a contract on its behalf with each Director and officer of our Company whereby each such Director and officer undertakes to observe and comply with his obligations to Shareholders stipulated in the Articles of Association of our Company.

Effect of Giving Electronic Application Instructions to HKSCC via CCASS

By giving **electronic application instructions** to HKSCC or instructing your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give such instructions to HKSCC, you (and, if you are joint applicants, each of you jointly and severally) are deemed to have done the following things. Neither HKSCC nor HKSCC Nominees shall be liable to our Company or any other person in respect of the things mentioned below:

- **instructed** and **authorised** HKSCC to cause HKSCC Nominees (acting as nominee for the relevant CCASS Participants) to apply for the Hong Kong Offer Shares on your behalf;

- **instructed** and **authorised** HKSCC to arrange payment of the maximum Offer Price, brokerage, SFC transaction levy and the Stock Exchange trading fee by debiting your designated bank account and, in the case of a wholly or partially unsuccessful application and/or if the Offer Price is less than the maximum Offer Price per H Share initially paid on application, refund of the application monies (including brokerage, SFC transaction levy and the Stock Exchange trading fee) by crediting your designated bank account; and

- **instructed** and **authorised** HKSCC to cause HKSCC Nominees to do on your behalf all the things stated in the **WHITE** Application Form and in this Prospectus.

Minimum Purchase Amount and Permitted Numbers

You may give or cause your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** for a minimum of 500 Hong Kong Offer Shares. Instructions for more than 500 Hong Kong Offer Shares must be in one of the numbers set out in the table in the Application Forms. No application for any other number of Hong Kong Offer Shares will be considered and any such application is liable to be rejected.

Time for Inputting Electronic Application Instructions

CCASS Clearing/Custodian Participants can input **electronic application instructions** at the following times on the following dates:

Wednesday, 2 December 2015	**—**	**9:00 a.m. to 8:30 p.m.**(1)
Thursday, 3 December 2015	**—**	**8:00 a.m. to 8:30 p.m.**(1)
Friday, 4 December 2015	**—**	**8:00 a.m. to 8:30 p.m.**(1)
Saturday, 5 December 2015	**—**	**8:00 a.m. to 1:00 p.m.**(1)
Monday, 7 December 2015	**—**	**8:00 a.m.**(1) **to 12:00 noon**

Note:

(1) These times are subject to change as HKSCC may determine from time to time with prior notification to CCASS Clearing/Custodian Participants.

CCASS Investor Participants can input **electronic application instructions** from 9:00 a.m. on Wednesday, 2 December 2015 until 12:00 noon on Monday, 7 December 2015 (24 hours daily, except on the last application day).

The latest time for inputting your **electronic application instructions** will be 12:00 noon Monday, 7 December 2015, the last application day or such later time as described in "— 10. Effect of Bad Weather on the Opening of the Application Lists.".

No Multiple Applications

If you are suspected of having made multiple applications or if more than one application is made for your benefit, the number of Hong Kong Offer Shares applied for by HKSCC Nominees will be automatically reduced by the number of Hong Kong Offer Shares for which you have given such instructions and/or for which such instructions have been given for your benefit. Any **electronic application instructions** to make an application for the Hong Kong Offer Shares given by you or for your benefit to HKSCC shall be deemed to be an actual application for the purposes of considering whether multiple applications have been made.

Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap. 32)

For the avoidance of doubt, our Company and all other parties involved in the preparation of this Prospectus acknowledge that each CCASS Participant who gives or causes to give **electronic application instructions** is a person who may be entitled to compensation under Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap. 32) (as applied by Section 342E of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap. 32)).

Personal Data

The section of the Application Form headed "Personal data" applies to any personal data held by our Company, our H Share Registrar, the receiving bankers, the Sole Global Coordinator, the Underwriters and any of their respective advisers and agents about you in the same way as it applies to personal data about applicants other than HKSCC Nominees.

7. WARNING FOR ELECTRONIC APPLICATIONS

The subscription of the Hong Kong Offer Shares by giving **electronic application instructions** to HKSCC is only a facility provided to CCASS Participants. Similarly, the application for Hong Kong Offer Shares through the **White Form eIPO** service is also only a facility provided by the **White Form eIPO** Service Provider to public investors. Such facilities are subject to capacity limitations and potential service interruptions and you are advised not to wait until the last application day in making your electronic applications. Our Company, our Directors, the Hong Kong Underwriters, the Sole Sponsor, the Sole Global Coordinator and the Underwriters take no responsibility for such applications and provide no assurance that any CCASS Participant or person applying through the **White Form eIPO** service will be allotted any Hong Kong Offer Shares.

To ensure that CCASS Investor Participants can give their **electronic application instructions**, they are advised not to wait until the last minute to input their instructions to the systems. In the event that CCASS Investor Participants have problems in the connection with CCASS Phone System/CCASS Internet System for submission of **electronic application instructions**, they should either (i) submit a **WHITE** or **YELLOW** Application Form, or (ii) go to HKSCC's Customer Service Centre to complete an input request form for **electronic application instructions** before 12:00 noon on Monday, 7 December 2015.

8. HOW MANY APPLICATIONS MAY YOU MAKE

Multiple applications for the Hong Kong Offer Shares are not allowed except by nominees. If you are a nominee, in the box on the Application Form marked "For nominees" you must include:

- an account number; or
- some other identification code,

for each beneficial owner or, in the case of joint beneficial owners, for each joint beneficial owner. If you do not include this information, the application will be treated as being made for your benefit.

All of your applications will be rejected if more than one application on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC or through **White Form eIPO** service, is made for your benefit (including the part of the application made by HKSCC Nominees acting on **electronic application instructions**). If an application is made by an unlisted company and:

- the principal business of that company is dealing in securities; and
- you exercise statutory control over that company,

then the application will be treated as being for your benefit.

"***Unlisted company***" *means a company with no equity securities listed on the Stock Exchange.*

"**Statutory control**" *means you*:

- control the composition of the board of directors of our Company;
- control more than half of the voting power of our Company; or
- hold more than half of the issued share capital of our Company (not counting any part of it which carries no right to participate beyond a specified amount in a distribution of either profits or capital).

9. HOW MUCH ARE THE HONG KONG OFFER SHARES

The **WHITE** and **YELLOW** Application Forms have tables showing the exact amount payable for Shares.

You must pay the maximum Offer Price, brokerage, SFC transaction levy and the Stock Exchange trading fee in full upon application for Shares under the terms set out in the Application Forms.

You may submit an application using a **WHITE** or **YELLOW** Application Form or through the **White Form eIPO** service in respect of a minimum of 500 Hong Kong Offer Shares. Each application or **electronic application instruction** in respect of more than 500 Hong Kong Offer Shares must be in one of the numbers set out in the table in the Application Form, or as otherwise specified on the designated website at **www.eipo.com.hk**.

If your application is successful, brokerage will be paid to the participants of the Sock Exchange, and the SFC transaction levy and the Stock Exchange trading fee are paid to the Stock Exchange (in the case of the SFC transaction levy, collected by the Stock Exchange on behalf of the SFC).

For further details on the Offer Price, see the section headed "Structure of the Global Offering — Pricing and Allocation." in this Prospectus.

10. EFFECT OF BAD WEATHER ON THE OPENING OF THE APPLICATION LISTS

The application lists will not open if there is:

- a tropical cyclone warning signal number 8 or above; or
- a "black" rainstorm warning,

in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Monday, 7 December 2015. Instead they will open between 11:45 a.m. and 12:00 noon on the next business day which does not have either of those warnings in Hong Kong in force at any time between 9:00 a.m. and 12:00 noon.

If the application lists do not open and close on Monday, 7 December 2015 or if there is a tropical cyclone warning signal number 8 or above or a "black" rainstorm warning signal in force in Hong Kong that may affect the dates mentioned in the section headed "Expected Timetable" in this prospectus, an announcement will be made in such event.

11. PUBLICATION OF RESULTS

Our Company expects to announce the final Offer Price, the level of indication of interest in the International Offering, the level of applications in the Hong Kong Public Offering and the basis of allocation of the Hong Kong Offer Shares on Friday, 11 December 2015 in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) and on our Company's website at **www.chmyy.com**, and the website of the Stock Exchange at **www.hkexnews.hk**.

The results of allocations and the Hong Kong identity card/passport/Hong Kong business registration numbers of successful applicants under the Hong Kong Public Offering will be available at the times and date and in the manner specified below:

- in the announcement to be posted on our Company's website at **www.chmyy.com**, and the Stock Exchange's website at **www.hkexnews.hk** by no later than 8:00 a.m. on Friday, 11 December 2015;

- from the designated results of allocations website at **www.iporesults.com.hk** with a "search by ID" function on a 24-hour basis from 8:00 a.m. on Friday, 11 December 2015 to 12:00 midnight on Thursday, 17 December 2015;

- by telephone enquiry line by calling 2862 8669, between 9:00 a.m. and 10:00 p.m. from Friday, 11 December 2015 to Monday, 14 December 2015;

- in the special allocation results booklets which will be available for inspection during opening hours from Friday, 11 December 2015, Saturday, 12 December 2015 and Monday, 14 December 2015 at all the receiving bank branches and sub-branches.

If our Company accepts your offer to purchase (in whole or in part), which it may do by announcing the basis of allocations and/or making available the results of allocations publicly, there will be a binding contract under which you will be required to purchase the Hong Kong Offer Shares if the conditions of the Global Offering are satisfied and the Global Offering is not otherwise terminated. Further details are contained in the section headed "Structure of the Global Offering".

You will not be entitled to exercise any remedy of rescission for innocent misrepresentation at any time after acceptance of your application. This does not affect any other right you may have.

12. CIRCUMSTANCES IN WHICH YOU WILL NOT BE ALLOTTED THE HONG KONG OFFER SHARES

You should note the following situations in which the Hong Kong Offer shares will not be allotted to you:

(a) If your application is revoked:

By completing and submitting an Application Form or giving **electronic application instructions** to HKSCC or to **White Form eIPO** Service Provider, you agree that your application or the application made by HKSCC Nominees on your behalf cannot be revoked on or before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is Saturday, Sunday or public holiday in Hong Kong). This agreement will take effect as a collateral contract with our Company.

Your application or the application made by HKSCC Nominees on your behalf may only be revoked on or before such fifth day if a person responsible for this prospectus under Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap. 32) (as applied by Section 342E of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap. 32)) gives a public notice under that section which excludes or limits that person's responsibility for this Prospectus.

If any supplement to this Prospectus is issued, applicants who have already submitted an application will be notified that they are required to confirm their applications. If applicants have been so notified but have not confirmed their applications in accordance with the procedure to be notified, all unconfirmed applications will be deemed revoked.

If your application or the application made by HKSCC Nominees on your behalf has been accepted, it cannot be revoked. For this purpose, acceptance of applications which are not rejected will be constituted by notification in the press of the results of allocation, and where such basis of allocation is subject to certain conditions or provides for allocation by ballot, such acceptance will be subject to the satisfaction of such conditions or results of the ballot respectively.

(b) If our Company or its agents exercise their discretion to reject your application:

Our Company, the Sole Global Coordinator, the **White Form eIPO** Service Provider and their respective agents and nominees have full discretion to reject or accept any application, or to accept only part of any application, without giving any reasons.

(c) If the allotment of Hong Kong Offer Shares is void:

The allotment of Hong Kong Offer Shares will be void if the Listing Committee does not grant permission to list the Offer Shares either:

- within three weeks from the closing date of the application lists; or
- within a longer period of up to six weeks if the Listing Committee notifies our Company of that longer period within three weeks of the closing date of the application lists.

(d) If:

- you make multiple applications or suspected multiple applications;
- you or the person for whose benefit you are applying have applied for or taken up, or indicated an interest for, or have been or will be placed or allocated (including conditionally and/or provisionally) Hong Kong Offer Shares and International Offer Shares;
- your Application Form is not completed in accordance with the stated instructions;
- your **electronic application instructions** through the **White Form eIPO** service are not completed in accordance with the instructions, terms and conditions on the designated website;
- your payment is not made correctly or the cheque or banker's cashier order paid by you is dishonoured upon its first presentation;
- the Underwriting Agreements do not become unconditional or are terminated;

- our Company or the Sole Global Coordinator believe that by accepting your application, it or they would violate applicable securities or other laws, rules or regulations; or

- your application is for more than 50% of the Hong Kong Offer Shares initially offered under the Hong Kong Public Offering.

13. REFUND OF APPLICATION MONIES

If an application is rejected, not accepted or accepted in part only, or if the Offer Price as finally determined is less than the maximum offer price of HK$8.60 per Offer Share (excluding brokerage, SFC transaction levy and the Stock Exchange trading fee thereon), or if the conditions of the Public Offering are not fulfiled in accordance with the section headed "Structure of the Global Offering — Conditions of the Global Offering" in this prospectus or if any application is revoked, the application monies, or the appropriate portion thereof, together with the related brokerage, SFC transaction levy and the Stock Exchange trading fee, will be refunded, without interest or the cheque or banker's cashier order will not be cleared.

Any refund of your application monies will be made on Friday, 11 December 2015.

14. DESPATCH/COLLECTION OF H SHARE CERTIFICATES AND REFUND MONIES

You will receive one H Share certificate for all Hong Kong Offer Shares allotted to you under the Hong Kong Public Offering (except pursuant to applications made on **YELLOW** Application Forms or by **electronic application instructions** to HKSCC via CCASS where the H Share certificates will be deposited into CCASS as described below).

No temporary document of title will be issued in respect of the H Shares. No receipt will be issued for sums paid on application. If you apply by **WHITE** or **YELLOW** Application Form, subject to personal collection as mentioned below, the following will be sent to you (or, in the case of joint applicants, to the first-named applicant) by ordinary post, at your own risk, to the address specified on the Application Form:

- H Share certificate(s) for all the Hong Kong Offer Shares allotted to you (for **YELLOW** Application Forms, H Share certificates will be deposited into CCASS as described below); and

- refund cheque(s) crossed "Account Payee Only" in favour of the applicant (or, in the case of joint applicants, the first-named applicant) for (i) all or the surplus application monies for the Hong Kong Offer Shares, wholly or partially unsuccessfully applied for; and/or (ii) the difference between the Offer Price and the maximum Offer Price per H Share paid on application in the event that the Offer Price is less than the maximum Offer Price (including brokerage, the SFC transaction levy and the Stock Exchange trading fee) but without interest. Part of the Hong Kong identity card number/ passport number, provided by you or the first-named applicant (if you are joint applicants), may be printed on your refund cheque, if any. Your banker may require verification of your Hong Kong identity card number/passport number before encashment of your refund cheque(s). Inaccurate completion of your Hong Kong identity card number/ passport number may invalidate or delay encashment of your refund cheque(s).

Subject to arrangement on despatch/collection of H Share certificates and refund monies as mentioned below, any refund cheques and H Share certificates are expected to be posted on Friday, 11 December 2015. The right is reserved to retain any H Share certificate(s) and any surplus application monies pending clearance of cheque(s) or banker's cashier's order(s).

H Share certificates will only become valid at 8:00 a.m. on Monday, 14 December 2015 provided that the Global Offering has become unconditional and the right of termination described in the section headed "Underwriting" in this prospectus has not been exercised. Investors who trade shares prior to the receipt of H Share certificates or the H Share certificates becoming valid do so at their own risk.

Personal Collection

(a) If you apply using a WHITE Application Form

If you apply for 1,000,000 or more Hong Kong Offer Shares and have provided all information required by your Application Form, you may collect your refund cheque(s) and/or H Share certificate(s) from the H Share Registrar, Computershare Hong Kong Investor Services Limited at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, from 9:00 a.m. to 1:00 p.m. on Friday, 11 December 2015 or such other date as notified by us in the newspapers.

If you are an individual who is eligible for personal collection, you must not authorise any other person to collect for you. If you are a corporate applicant which is eligible for personal collection, your authorised representative must bear a letter of authorisation from your corporation stamped with your corporation's chop. Both individuals and authorised representatives must produce, at the time of collection, evidence of identity acceptable to the H Share Registrar.

If you do not collect your refund cheque(s) and/or H share certificate(s) personally within the time specified for collection, they will be despatched promptly to the address specified in your Application Form by ordinary post at your own risk.

If you apply for less than 1,000,000 Hong Kong Offer Shares, your refund cheque(s) and/or H share certificate(s) will be sent to the address on the relevant Application Form on Friday, 11 December 2015, by ordinary post and at your own risk.

(b) If you apply using a YELLOW Application Form

If you apply for 1,000,000 Hong Kong Offer Shares or more, please follow the same instructions as described above. If you have applied for less than 1,000,000 Hong Kong Offer Shares, your refund cheque(s) will be sent to the address on the relevant Application Form on Friday, 11 December 2015, by ordinary post and at your own risk.

If you apply by using a **YELLOW** Application Form and your application is wholly or partially successful, your H Share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for credit to your or the designated CCASS Participant's stock account as stated in your Application Form on Friday, 11 December 2015, or upon contingency, on any other date determined by HKSCC or HKSCC Nominees.

If you apply through a designated CCASS Participant (other than a CCASS Investor Participant)

For Hong Kong Public Offering shares credited to your designated CCASS Participant's stock account (other than CCASS Investor Participant), you can check the number of Hong Kong Public Offering shares allotted to you with that CCASS Participant.

If you are applying as a CCASS Investor Participant

Our Company will publish the results of CCASS Investor Participants' applications together with the results of the Hong Kong Public Offering in the manner described in "Publication of results" above. You should check the announcement published by our Company and report any discrepancies to HKSCC before 5:00 p.m. on Friday, 11 December 2015 or any other date as determined by HKSCC or HKSCC Nominees. Immediately after the credit of the Hong Kong Offer Shares to your stock account, you can check your new account balance via the CCASS Phone System and CCASS Internet System.

(c) If you apply through the White Form eIPO service

If you apply for 1,000,000 Hong Kong Offer Shares or more and your application is wholly or partially successful, you may collect your H Share certificate(s) from H Share Registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, from 9:00 a.m. to 1:00 p.m. on Friday, 11 December 2015, or such other date as notified by our Company in the newspapers as the date of despatch/collection of H Share certificates/e-Refund payment instructions/refund cheques.

If you do not collect your H Share certificate(s) personally within the time specified for collection, they will be sent to the address specified in your application instructions by ordinary post at your own risk.

If you apply for less than 1,000,000 Hong Kong Offer Shares, your H Share certificate(s) (where applicable) will be sent to the address specified in your application instructions on Friday, 11 December 2015 by ordinary post at your own risk.

If you apply and pay the application monies from a single bank account, any refund monies will be dispatched to that bank account in the form of e-Refund payment instructions. If you apply and pay the application monies from multiple bank accounts, any refund monies will be despatched to the address as specified in your application instructions in the form of refund cheque(s) by ordinary post at your own risk.

(d) If you apply via electronic application instructions to HKSCC

Allocation of Hong Kong Offer Shares

For the purposes of allocating Hong Kong Offer Shares, HKSCC Nominees will not be treated as an applicant. Instead, each CCASS Participant who gives **electronic application instructions** or each person for whose benefit instructions are given will be treated as an applicant.

Deposit of H Share Certificates into CCASS and Refund of Application Monies

- If your application is wholly or partially successful, your H Share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for the credit of your designated CCASS Participant's stock account or your CCASS Investor Participant stock account on Friday, 11 December 2015, or, on any other date determined by HKSCC or HKSCC Nominees.

- Our Company expects to publish the application results of CCASS Participants (and where the CCASS Participant is a broker or custodian, our Company will include information relating to the relevant beneficial owner), your Hong Kong identity card number/passport number or other identification code (Hong Kong business registration number for corporations) and the basis of allotment of the Hong Kong Public Offering in the manner specified in the paragraph headed "Publication of results" above on Friday, 11 December 2015. You should check the announcement published by our Company and report any discrepancies to HKSCC before 5:00 p.m. on Friday, 11 December 2015 or such other date as determined by HKSCC or HKSCC Nominees.

- If you have instructed your broker or custodian to give **electronic application instructions** on your behalf, you can also check the number of Hong Kong Offer Shares allotted to you and the amount of refund monies (if any) payable to you with that broker or custodian.

- If you have applied as a CCASS Investor Participant, you can also check the number of Hong Kong Offer Shares allotted to you and the amount of refund monies (if any) payable to you via the CCASS Phone System and the CCASS Internet System (under the procedures contained in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time) on Friday, 11 December 2015. Immediately following the credit of the Hong Kong Offer Shares to your stock account and the credit of refund monies to your bank account, HKSCC will also make available to you an activity statement showing the number of Hong Kong Offer Shares credited to your CCASS Investor Participant stock account and the amount of refund monies (if any) credited to your designated bank account.

- Refund of your application monies (if any) in respect of wholly and partially unsuccessful applications and/or difference between the Offer Price and the maximum Offer Price per H Share initially paid on application (including brokerage, SFC transaction levy and the Stock Exchange trading fee but without interest) will be credited to your designated bank account or the designated bank account of your broker or custodian on Friday, 11 December 2015.

15. H SHARES WILL BE ELIGIBLE FOR ADMISSION INTO CCASS

If the Stock Exchange grants the listing of, and permission to deal in, the H Shares and we comply with the stock admission requirements of HKSCC, the H Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in H Shares or any other date HKSCC chooses. Settlement of transactions between Exchange Participants (as defined in the Listing Rules) is required to take place in CCASS on the second Business Day after any trading day.

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

Investors should seek the advice of their stockbroker or other professional adviser for details of the settlement arrangement as such arrangements may affect their rights and interests.

All necessary arrangements have been made enabling the Shares to be admitted into CCASS.

The following is the text of a report, prepared for the purpose of incorporation in this prospectus, received from the Company's reporting accountants, SHINEWING (HK) CPA Limited, Certified Public Accountants, Hong Kong.

信永中和 ShineWing

SHINEWING (HK) CPA Limited
43/F., Lee Garden One
33 Hysan Avenue
Causeway Bay, Hong Kong

2 December 2015

The Directors
Chuangmei Pharmaceutical Co., Ltd.*
Guotai Junan Capital Limited

Dear Sirs,

INTRODUCTION

We set out below our report on the financial information (the "Financial Information") regarding 創美藥業股份有限公司 (Chuangmei Pharmaceutical Co., Ltd.*) (the "Company") and its subsidiary (hereinafter collectively referred to as the "Group") for each of the three years ended 31 December 2012, 2013 and 2014 and six months ended 30 June 2015 (the "Relevant Periods") for inclusion in the prospectus of the Company dated 2 December 2015 (the "Prospectus") in connection with the initial listing of the shares of the Company on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The Company was established as an enterprise owned by the whole people in the People's Republic of China (the "PRC") under the name of 汕頭市醫藥聯合公司物資站 (Shantou Pharmaceutical Supplies Company*) on 18 February 1984. Pursuant to an approval granted by Shantou Administration for Industry & Commerce on 28 May 2015, the Company was transformed into a joint stock company with limited liability and changed to its current name, and details of which are explained in the paragraphs headed "Reorganisation" in the Section "History, Development and Reorganisation" of the Prospectus.

During the Relevant Periods and the date of this report, the Company has direct interests in the following subsidiary, which is a private company, particulars of which are set out below:

Name of subsidiary	Place and date of establishment	Issued and fully paid share capital/ registered capital	Percentage of equity interest attributable to the Company	Principal activities
佛山創美藥業有限公司 Foshan Chuangmei Medicine Co. Limited* ("Foshan Chuangmei")	the PRC 21 July 2011	Registered Capital Renminbi ("RMB") 50,000,000	100%	Trading of pharmaceutical products and provision of related services

All companies now comprising the Group have adopted 31 December as their financial year end date.

* *English name for identification purpose only*

The statutory accounts of the Company and Foshan Chuangmei for the years ended 31 December 2012, 2013 and 2014 are prepared in accordance with the relevant accounting principles and financial regulations applicable to enterprises established in the PRC and were audited by SHINEWING Certified Public Accountants ("信永中和會計師事務所(特殊普通合夥)"), a certified public accounting firm registered in the PRC.

BASIS FOR PREPARATION

For the purpose of this report, the directors of the Company have prepared the Financial Information of the Group for the Relevant Periods, which were prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") (the "Underlying Financial Statements"). We have undertaken an independent audit on the Underlying Financial Statements in accordance with Hong Kong Standards on Auditing issued by the HKICPA for the Relevant Periods.

The Financial Information has been prepared by the directors of the Company based on the Underlying Financial Statements on the basis set out in Note 1 of Section A below, with no adjustments thereto, and in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules").

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND REPORTING ACCOUNTANTS

The directors of the Company are responsible for the preparation of the Financial Information that gives a true and fair view in accordance with HKFRSs issued by the HKICPA and the applicable disclosure provisions of Listing Rules, and for such internal control as the directors of the Company determine is necessary to enable the preparation of the Financial Information that is free from material misstatement, whether due to fraud or error.

Our responsibility is to form an independent opinion on the Financial Information based on our procedures and to report our opinion thereon to you. We have examined the audited Underlying Financial Statements and carried out additional procedures as necessary in accordance with the Auditing Guideline 3.340 "Prospectus and the Reporting Accountant" as recommended by the HKICPA.

OPINION

In our opinion, for the purpose of this report, and on the basis of preparation set out in Note 1 of Section A below, the Financial Information gives a true and fair view of the Group's financial performance and consolidated cash flows for the Relevant Periods, and of the financial position of the Group and the Company as of 31 December 2012, 2013 and 2014 and 30 June 2015.

CORRESPONDING FINANCIAL INFORMATION

For the purpose of this report, we have also reviewed the unaudited financial information of the Group comprising the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the six months ended 30 June 2014 together with notes thereto (the "June 2014 Financial Information"), for which the directors of the Company are responsible, in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the HKICPA. Our responsibility is to express a conclusion on the June 2014 Financial Information based on our review.

A review consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion on the June 2014 Financial Information.

Based on our review, nothing has come to our attention that causes us to believe that the June 2014 Financial information is not prepared, in all material respects, in accordance with the accounting policies consistent with those used in the preparation of the Financial Information which conform with HKFRSs.

A. FINANCIAL INFORMATION

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

		Year ended 31 December			Six months ended 30 June	
		2012	2013	2014	2014	2015
	Notes	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Turnover	*7*	2,016,943	2,401,231	3,014,059	1,449,526	1,635,397
Cost of sales		(1,929,662)	(2,297,253)	(2,877,618)	(1,378,121)	(1,551,784)
Gross profit		87,281	103,978	136,441	71,405	83,613
Other income	*7*	4,405	4,995	5,245	2,862	2,818
Selling and distribution expenses		(22,385)	(25,137)	(35,757)	(15,659)	(18,504)
Administrative expenses		(29,076)	(33,972)	(37,162)	(15,606)	(22,674)
Finance costs	*9*	(19,660)	(20,550)	(22,832)	(10,449)	(11,538)
Profit before taxation		20,565	29,314	45,935	32,553	33,715
Income tax expense	*10*	(6,454)	(7,095)	(9,490)	(6,104)	(8,481)
Profit for the year/period attributable to the owners of the Company	*11*	14,111	22,219	36,445	26,449	25,234
Earnings per share Basic and diluted	*12*	N/A	N/A	N/A	N/A	N/A

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		The Group				The Company			
		At 31 December			At 30 June	At 31 December			At 30 June
		2012	2013	2014	2015	2012	2013	2014	2015
	Notes	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Non-current assets									
Property, plant and equipment	*15*	135,887	130,798	124,606	120,582	93,277	88,372	83,901	81,835
Prepaid land use right	*16*	75,681	73,466	71,251	70,143	75,681	73,466	71,251	70,143
Deferred taxation	*23*	518	339	1,107	702	518	339	945	644
Interest in a subsidiary	*17*	–	–	–	–	30,000	50,000	50,000	50,000
		212,086	204,603	196,964	191,427	199,476	212,177	206,097	202,622
Current assets									
Inventories	*18*	210,856	256,746	244,935	242,087	118,792	129,273	105,536	100,307
Prepaid land use right	*16*	2,215	2,215	2,215	2,215	2,215	2,215	2,215	2,215
Trade and other receivables	*19*	543,298	721,210	864,395	979,627	419,270	495,398	559,574	610,071
Amount due from a subsidiary	*28*	–	–	–	–	39,422	20,380	63,423	13,393
Pledged bank deposits	*20*	182,258	243,067	203,131	272,758	134,221	131,760	136,197	149,635
Bank balances and cash	*20*	12,346	16,761	22,296	24,702	10,739	15,188	2,157	16,405
		950,973	1,239,999	1,336,972	1,521,389	724,659	794,214	869,102	892,026
Current liabilities									
Trade and other payables	*21*	714,743	932,407	981,563	1,189,839	521,294	545,782	599,552	663,736
Bank borrowings	*22*	258,494	299,560	301,350	278,750	203,494	239,560	227,000	204,400
Income tax payables		2,921	3,515	5,458	3,428	2,921	3,515	5,293	874
		976,158	1,235,482	1,288,371	1,472,017	727,709	788,857	831,845	869,010
Net current (liabilities) assets		(25,185)	4,517	48,601	49,372	(3,050)	5,357	37,257	23,016
Total assets less current liabilities		186,901	209,120	245,565	240,799	196,426	217,534	243,354	225,638
Capital and reserves									
Paid-up capital	*24*	80,000	80,000	80,000	80,000	80,000	80,000	80,000	80,000
Reserves	*25*	106,901	129,120	165,565	160,799	116,426	137,534	163,354	145,638
		186,901	209,120	245,565	240,799	196,426	217,534	243,354	225,638

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Paid-up capital *RMB'000*	Capital reserve *RMB'000* *(Note 25 (a))*	Statutory reserve *RMB'000* *(Note 25 (b))*	Retained profits *RMB'000*	Total *RMB'000*
At 1 January 2012	80,000	57,120	4,201	31,469	172,790
Profit and total comprehensive income for the year	–	–	–	14,111	14,111
Appropriation	–	–	1,906	(1,906)	–
At 31 December 2012	80,000	57,120	6,107	43,674	186,901
Profit and total comprehensive income for the year	–	–	–	22,219	22,219
Appropriation	–	–	2,121	(2,121)	–
At 31 December 2013	80,000	57,120	8,228	63,772	209,120
Profit and total comprehensive income for the year	–	–	–	36,445	36,445
Appropriation	–	–	3,253	(3,253)	–
At 31 December 2014	80,000	57,120	11,481	96,964	245,565
Profit and total comprehensive income for the period	–	–	–	25,234	25,234
Shares reform *(note)*	–	82,530	(11,257)	(71,273)	–
Dividend	–	–	–	(30,000)	(30,000)
At 30 June 2015	80,000	139,650	224	20,925	240,799
For the six months ended 30 June 2014 (unaudited)					
At 1 January 2014 (audited)	80,000	57,120	8,228	63,772	209,120
Profit and total comprehensive income for the period	–	–	–	26,449	26,449
At 30 June 2014 (unaudited)	80,000	57,120	8,228	90,221	235,569

Note: It represents the effect of the shares reform of the Company. The retained profits and statutory reserve as of 31 March 2015 are transferred to capital reserve.

CONSOLIDATED STATEMENT OF CASH FLOW

	Year ended 31 December			Six months ended 30 June	
	2012	2013	2014	2014	2015
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(unaudited)	
OPERATING ACTIVITIES					
Profit before taxation	20,565	29,314	45,935	32,553	33,715
Adjustments for:					
Finance costs	19,660	20,550	22,832	10,449	11,538
Interest income	(3,106)	(3,988)	(4,733)	(2,286)	(2,259)
Government grant	(500)	(500)	(500)	(500)	–
Depreciation of property, plant and equipment	7,063	9,967	9,725	4,990	4,411
Impairment loss (reversed) recognised in respect of trade receivables, net	(644)	111	2,290	(67)	(546)
Amortisation of prepaid lease payment	2,215	2,215	2,215	1,107	1,108
Loss on disposal of property, plant and equipment	3	6	233	193	80
Allowance (reversal of provision) on inventories	1,232	(535)	944	(66)	(795)
Operating cash flows before movements in working capital	46,488	57,140	78,941	46,373	47,252
Decrease (increase) in inventories	17,363	(45,355)	10,867	(28,575)	3,643
Increase in trade and other receivables	(178,139)	(178,023)	(145,475)	(77,314)	(114,686)
Increase in trade and other payables	181,202	217,664	49,156	64,821	208,276
Cash generated from (used in) operations	66,914	51,426	(6,511)	5,305	144,485
PRC Enterprise Income Tax paid	(5,214)	(6,322)	(8,315)	(4,982)	(10,106)
NET CASH FROM (USED IN) OPERATING ACTIVITIES	61,700	45,104	(14,826)	323	134,379

	Year ended 31 December			Six months ended 30 June	
	2012	**2013**	**2014**	**2014**	**2015**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(unaudited)	
INVESTING ACTIVITIES					
Purchase of property, plant and equipment	(41,833)	(5,104)	(4,447)	(3,172)	(497)
Sales proceeds from disposal of property, plant and equipment	5	220	681	109	30
Withdrawal of pledged bank deposits	912,469	954,445	1,215,332	592,577	635,415
Placement of pledged bank deposit	(977,965)	(1,015,254)	(1,175,396)	(571,397)	(705,042)
Interest received	3,106	3,988	4,733	2,286	2,259
NET CASH (USED IN) FROM INVESTING ACTIVITIES	(104,218)	(61,705)	40,903	20,403	(67,835)
FINANCING ACTIVITIES					
Repayment of bank loans	(204,300)	(230,204)	(263,060)	(109,560)	(106,000)
New bank borrowings raised	265,314	271,270	264,850	93,500	83,400
Interest paid	(19,660)	(20,550)	(22,832)	(10,449)	(11,538)
Government grant	500	500	500	500	–
Dividend paid	–	–	–	–	(30,000)
NET CASH FROM (USED IN) FINANCING ACTIVITIES	41,854	21,016	(20,542)	(26,009)	(64,138)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(664)	4,415	5,535	(5,283)	2,406
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR/PERIOD	13,010	12,346	16,761	16,761	22,296
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR/PERIOD, represented by bank balances and cash	12,346	16,761	22,296	11,478	24,702

NOTES TO THE FINANCIAL INFORMATION

1. BASIS OF PRESENTATION OF THE FINANCIAL INFORMATION

The Company was incorporated as an enterprise owned by the whole people in the PRC under the name of 汕頭市醫藥聯合公司物資站 (Shantou Pharmaceutical Supplies Company*) on 18 February 1984. Pursuant to an approval granted by the relevant PRC authorities on 28 May 2015, the Company was transformed into a joint stock company with limited liability and changed to its current name, and details of which are explained in the paragraphs headed "Reorganisation" in the Section "History, Development and Reorganisation" to the Prospectus.

The address of the registered office and principal place of business is No.235, Songshan North Road, Longhu District, Shantou, Guangdong. The Company and its subsidiary is engaged in trading of pharmaceutical products and provision of related services.

The functional currency of the Company and the subsidiary is RMB. The Financial Information is presented in RMB, which is the same as the functional currency of the Company.

2. APPLICATION OF HKFRSs

For the purpose of preparing and presenting the Financial Information for the Relevant Periods, the Group has consistently adopted the HKFRSs, Hong Kong Accounting Standards (''HKASs''), amendments and the interpretations issued by the HKICPA which are effective for the Group's financial year beginning on 1 January 2015 throughout the Relevant Periods.

Part 9 of Hong Kong Companies Ordinance (Cap. 622)

In addition, the requirements of Part 9 "Accounts and Audit" of the Hong Kong Companies Ordinance (Cap. 622) come into operation during the six months ended 30 June 2015 and are consistently applied for all financial periods presented.

The Group has not early applied the following new and revised HKFRSs, amendments and interpretations that have been issued but are not yet effective.

HKFRS 9 (2014)	Financial Instruments[3]
HKFRS 15	Revenue from Contracts with Customers[2]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2011–2013 Cycle[1]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2012–2014 Cycle[1]
Amendment to HKAS 1	Disclosure Initiative[1]
Amendments to HKFRS 10, HKFRS 12 and HKAS 28	Investment Entities: Applying the Consolidation Exception[1]
Amendments to HKAS 16 and HKAS 38	Clarification of Acceptance Methods of Depreciation and Amortisation[1]
Amendments to HKAS 16 and HKAS 41	Agriculture: Bearer Plants[1]
Amendments to HKAS 27	Equity Method in Separate Financial Statements[1]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and Its Associate or Joint Venture[1]
Amendments to HKFRS 11	Accounting for Acquisitions of Interests in Joint Operations[1]

* *English name for identification purpose only*

1 Effective for annual periods beginning on or after 1 January 2016.
2 Effective for annual periods beginning on or after 1 January 2017.
3 Effective for annual periods beginning on or after 1 January 2018.

The directors of the Company anticipate that, except as described below, the application of the new and revised standards, amendments and interpretations will have no material impact on the results and financial position of the Group.

Annual Improvements to HKFRSs 2010–2012 Cycle

The Annual Improvements to HKFRSs 2010–2012 Cycle include a number of amendments to various HKFRSs, which are summarised below.

The amendments to HKFRS 2 (i) change the definitions of 'vesting condition' and 'market condition'; and (ii) add definitions for 'performance condition' and 'service condition' which were previously included within the definition of 'vesting condition'. The amendments to HKFRS 2 are effective for share-based payment transactions for which the grant date is on or after 1 July 2014.

The amendments to HKFRS 3 clarify that contingent consideration that is classified as an asset or a liability should be measured at fair value at each reporting date, irrespective of whether the contingent consideration is a financial instrument within the scope of HKFRS 9 or HKAS 39 or a non-financial asset or liability. Changes in fair value (other than measurement period adjustments) should be recognised in profit and loss. The amendments to HKFRS 3 are effective for business combinations for which the acquisition date is on or after 1 July 2014.

The amendments to HKFRS 8 (i) require an entity to disclose the judgments made by management in applying the aggregation criteria to operating segments, including a description of the operating segments aggregated and the economic indicators assessed in determining whether the operating segments have 'similar economic characteristics'; and (ii) clarify that a reconciliation of the total of the reportable segments' assets to the entity's assets should only be provided if the segment assets are regularly provided to the chief operating decision-maker.

The amendments to the basis for conclusions of HKFRS 13 clarify that the issue of HKFRS 13 and consequential amendments to HKAS 39 and HKFRS 9 did not remove the ability to measure short-term receivables and payables with no stated interest rate at their invoice amounts without discounting, if the effect of discounting is immaterial. As the amendments do not contain any effective date, they are considered to be immaterial effect.

The amendments to HKAS 16 and HKAS 38 remove perceived inconsistencies in the accounting for accumulated depreciation/amortisation when an item of plant and equipment or an intangible asset is revalued. The amended standards clarify that the gross carrying amount is adjusted in a manner consistent with the revaluation of the carrying amount of the asset and that accumulated depreciation/amortisation is the difference between the gross carrying amount and the carrying amount after taking into account accumulated impairment losses.

The amendments to HKAS 24 clarify that a management entity providing key management personnel services to a reporting entity is a related party of the reporting entity. Consequently, the reporting entity should disclose as related party transactions the amounts incurred for the service paid or payable to the management entity for the provision of key management personnel services. However, disclosure of the components of such compensation is not required.

The directors of the Company do not anticipate that the application of the amendments included in the Annual Improvements to HKFRSs 2010–2012 Cycle will have a material effect on the Group's Financial Information.

Annual Improvements to HKFRSs 2011–2013 Cycle

The Annual Improvements to HKFRSs 2011–2013 Cycle include a number of amendments to various HKFRSs, which are summarised below.

The amendments to HKFRS 3 clarify that the standard does not apply to the accounting for the formation of all types of joint arrangement in the financial statements of the joint arrangement itself.

The amendments to HKFRS 13 clarify that the scope of the portfolio exception for measuring the fair value of a group of financial assets and financial liabilities on a net basis includes all contracts that are within the scope of, and accounted for in accordance with, HKAS 39 or HKFRS 9, even if those contracts do not meet the definitions of financial assets or financial liabilities within HKAS 32.

The amendments to HKAS 40 clarify that HKAS 40 and HKFRS 3 are not mutually exclusive and application of both standards may be required. Consequently, an entity acquiring investment property must determine whether:

(a) the property meets the definition of investment property in terms of HKAS 40; and

(b) the transaction meets the definition of a business combination under HKFRS 3.

The directors of the Company do not anticipate that the application of the amendments included in the Annual Improvements to HKFRSs 2011–2013 Cycle will have a material effect on the Group's Financial Information.

Annual Improvement to HKFRSs 2012–2014 Cycle

The Annual Improvements to HKFRSs 2012–2014 Cycle include a number of amendments to various HKFRSs, which are summarised below.

The amendments to HKFRS 5 clarify that changing from one of the disposal methods (i.e. disposal through sale or disposal through distribution to owners) to the other should not be considered to be a new plan of disposal, rather it is a continuation of the original plan. There is therefore no interruption of the application of the requirements in HKFRS 5.

The amendments to HKFRS 7 clarify that a servicing contract that includes a fee can constitute continuing involvement in a financial asset. An entity must assess the nature of the fee and arrangement against the guidance for continuing involvement in HKFRS 7 in order to assess whether the additional disclosures for any continuing involvement in a transferred asset that is derecognised in its entirety are required. Besides, the amendments to HKFRS 7 also clarify that disclosures in relation to offsetting financial assets and financial liabilities are not required in the condensed interim financial report, unless the disclosures provide a significant update to the information reported in the most recent annual report.

The amendments to HKAS 19 clarify that the market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located. When there is no deep market for high quality corporate bonds in that currency, government bond rates must be used.

HKAS 34 requires entities to disclose information in the notes to the interim financial statements 'if not disclosed elsewhere in the interim financial report'. The amendments to HKAS 34 clarify that the required interim disclosures must either be in the interim financial statements or incorporated by cross-reference between the interim financial statements and wherever they are included within the greater interim financial report. The other information within the interim financial report must be available to users on the same terms as the interim financial statements and at the same time. If users do not have access to the other information in this manner, then the interim financial report is incomplete.

The directors of the Company do not anticipate that the application of the amendments included in the Annual Improvements to HKFRSs 2012–2014 Cycle will have a material effect on the Group's Financial Information.

HKFRS 9 (2014) Financial Instruments

HKFRS 9 (2014) issued in 2009 introduces new requirements for the classification and measurement of financial assets. HKFRS 9 was amended in 2010 and includes the requirements for the classification and measurement of financial liabilities and for derecognition. In 2013, HKFRS 9 (2014) was further amended to bring into effect a substantial overhaul of hedge accounting that will allow entities to better reflect their risk management activities in the financial statements. A finalised version of HKFRS 9 was issued in 2014 to incorporate all the requirements of HKFRS 9 (2014) that were issued in previous years with limited amendments to the classification and measurement by introducing a "fair value through other comprehensive income" ("FVTOCI") measurement category for certain financial assets. The finalised version of HKFRS 9 (2014) also introduces an "expected credit loss" model for impairment assessments.

Key requirements of HKFRS 9 (2014) are described as follows:

- It requires all recognised financial assets that are within the scope of HKAS 39 Financial Instruments: Recognition and Measurement are subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting cash flows and selling financial assets, and that have contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are measured at fair value through other comprehensive income. All other debt investments and equity investments are measured at their fair values at the end of subsequent reporting periods. In addition, under HKFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

- With regard to the measurement of financial liabilities designated as of fair value through profit or loss, HKFRS 9 (2014) requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value of financial liabilities attributable to changes in the financial liabilities' credit risk are not subsequently reclassified to profit or loss. Under HKAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss was presented in profit or loss.

- In the aspect of impairment assessments, the impairment requirements relating to the accounting for an entity's expected credit losses on its financial assets and commitments to extend credit were added. Those requirements eliminate the threshold that was in HKAS 39 for the recognition of credit losses. Under the impairment approach in HKFRS 9 (2014) it is no longer necessary for a credit event to have occurred before credit losses are recognised. Instead, expected credit losses and changes in those expected credit losses should always be accounted for. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition and, consequently, more timely information is provided about expected credit losses.

- HKFRS 9 (2014) introduces a new model which is more closely aligns hedge accounting with risk management activities undertaken by companies when hedging their financial and non-financial risk exposures. As a principle-based approach, HKFRS 9 looks at whether a risk component can be identified and measured and does not distinguish between financial items and non-financial items. The new model also enables an entity to use information produced internally for risk management purposes as a basis for hedge accounting. Under HKAS 39, it is necessary to exhibit eligibility and compliance with the requirements in HKAS 39 using metrics that are designed solely for accounting purposes. The new model also includes eligibility criteria but these are based on an economic assessment of the strength of the hedging relationship. This can be determined using risk management data. This should reduce the costs of implementation compared with those for HKAS 39 hedge accounting because it reduces the amount of analysis that is required to be undertaken only for accounting purposes.

HKFRS 9 (2014) will become effective for annual periods beginning on or after 1 January 2018 with early application permitted.

The directors of the Company anticipate that the adoption of HKFRS 9 (2014) in the future may have significant impact on amounts reported in respect of the Group's financial assets and financial liabilities and it is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed.

HKFRS 15 Revenue from Contracts with Customers

In July 2014, HKFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. HKFRS 15 will supersede the current revenue recognition guidance including HKAS 18 Revenue, HKAS 11 Construction Contracts and the related Interpretations when it becomes effective.

The core principle of HKFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the Standard introduces a 5-step approach to revenue recognition.

Step 1: Identify the contract(s) with a customer.

Step 2: Identify the performance obligations in the contract.

Step 3: Determine the transaction price.

Step 4: Allocate the transaction price to the performance obligations in the contract.

Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation.

Under HKFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in HKFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by HKFRS 15.

HKFRS 15 will be effective for annual periods beginning on or after 1 January 2017. The directors of the Company do not anticipate that the application of HKFRS 15 will have a material effect on the Group's Financial Information.

Amendments to HKAS 1 Disclosure Initiative

The amendments clarify that companies should use professional judgement in determining what information as well as where and in what order information is presented in the financial statements. Specifically, an entity should decide, taking into consideration all relevant facts and circumstances, how it aggregates information in the financial statements, which include the notes. An entity does not require to provide a specific disclosure required by a HKFRS if the information resulting from that disclosure is not material. This is the case even if the HKFRS contain a list of specific requirements or describe them as minimum requirements.

Besides, the amendments provide some additional requirements for presenting additional line items, headings and subtotals when their presentation is relevant to an understanding of the entity's financial position and financial performance respectively. Entities, in which they have investments in associates or joint ventures, are required to present the share of other comprehensive income of associates and joint ventures accounted for using the equity method, separated into the share of items that (i) will not be reclassified subsequently to profit or loss; and (ii) will be reclassified subsequently to profit or loss when specific conditions are met.

Furthermore, the amendments clarify that:

(i) an entity should consider the effect on the understandability and comparability of its financial statements when determining the order of the notes; and

(ii) significant accounting policies are not required to be disclosed in one note, but instead can be included with related information in other notes.

The amendments will become effective for financial statements with annual periods beginning on or after 1 January 2016. Earlier application is permitted. The directors of the Company anticipate that the application of Amendments to HKAS 1 in the future may have a material impact on the disclosures made in the Group's Financial Information.

3. SIGNIFICANT ACCOUNTING POLICIES

The Financial Information has been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the Financial Information includes applicable disclosures required by the Listing Rules and the Hong Kong Companies Ordinance.

The Financial Information has been prepared on the historical cost basis. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions (i.e. an exit price) regardless of whether that price is directly observable or estimated using another valuation technique. Details of fair value measurement are explained in the accounting policies set out below.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;

- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and

- Level 3 inputs are unobservable inputs for the asset or liability.

The principal accounting policies are set out below.

Basis of consolidation

The Financial Information incorporates the financial statements of the Company and entity controlled by the Company and its subsidiary. Control is achieved where the Company:

- has power over the investee;

- is exposed, or has rights, to variable returns from its involvement with the investee; and

- has the ability to use its power to affect its returns.

The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year/period are included in the consolidated statement of profit of loss and other comprehensive income from the date the Company gains control until the date when the Company ceases to control the subsidiary.

Profit or loss and each item of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiary is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Where necessary, adjustments are made to the financial statements of subsidiary to bring their accounting policies into line with those used by the Group.

All intra-group assets and liabilities, equity, income and expenses are eliminated in full on consolidation.

Investment in a subsidiary

Investment in a subsidiary is stated on the statement of financial position of the Company at cost less impairment.

Revenue recognition

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

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

- the Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the 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 the Group; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Revenue from services is recognised when the services are rendered.

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. Interest income from a financial asset 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 assets to that asset's net carrying amount on initial recognition.

Property, plant and equipment

Property, plant and equipment including buildings held for use in the supply of goods or services or for administrative purposes other than construction in progress as described below are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and accumulated impairment losses, if any.

Depreciation is recognised so as to write off the cost of items of property, plant and equipment, other than construction in progress, less their residual value over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

Properties in the course of construction for supply or administrative purposes are carried at cost, less any recognised impairment loss. Costs include professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Such properties are classified to the appropriate categories of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

An item of plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of asset. Any gain or loss arising on the disposal or retirement of an item of plant and equipment is determined as the difference between the sales proceeds and carrying amount of the asset and is recognised in profit or loss.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

Leasehold land and building

When a lease includes both land and building elements, the Group assesses the classification of each element as a finance or an operating lease separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group, unless it is clear that both elements are operating leases in which case the entire lease is classified as an operating lease. Specifically, the minimum lease payments, including any lump-sum upfront payments, are allocated between the land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element of the lease at the inception of the lease.

To the extent the allocation of the lease payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as "prepaid land use right" in the consolidated statement of financial position and is amortised over the lease term on a straight-line basis. When the lease payments cannot be allocated reliably between the land and building elements, the entire lease is generally classified as a finance lease and accounted for as property, plant and equipment.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs recognised in profit or loss in the period in which they are incurred.

Government grants

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

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

Retirement benefits costs

Payments to state-managed retirement benefit schemes are recognised as an expense when employees have rendered service entitling them to the contribution.

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/period. Taxable profit differs from 'profit before taxation' as reported in the consolidated statements of profit or loss and other 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. The 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 base used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally 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 goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

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 profits 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 each 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 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 the tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

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

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average method. Net realisable value represents the estimated selling price for inventories less all estimated costs necessary to make the sale.

Financial instruments

Financial assets and financial liabilities are recognised in the consolidated statements 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 are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

Financial assets

The Group's financial assets are loans and receivables. 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.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset 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 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 financial asset, 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.

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, amount due from a subsidiary, pledged 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 of financial assets below).

Impairment of financial assets

Financial assets are assessed for indicators of impairment at the end of the reporting period. Financial assets are considered to be impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

For all financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as default or delinquency in interest and principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation; or
- disappearance of an active market for that financial asset because of financial difficulties.

For certain categories of financial asset, such as trade and other receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 30 to 120 days, observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the assets' carrying amount and the present value of the estimated future cash flows discounted at the financial assets' original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade and bills receivables and other receivables, where the carrying amounts are reduced through the use of allowance accounts. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a trade and bills receivables and other receivables are considered uncollectible, it is written off against the respective allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

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 entered into 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 Company 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 form an integral part of the effective interest rate, transaction costs and other premium 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

Financial liabilities including trade and other payables and bank borrowings are subsequently measured at amortised cost, using the effective interest method.

Derecognition

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group continues to recognise the asset to the extent of its continuing involvement and recognises an associated liability. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

Cash and cash equivalents

Bank balances and cash in the consolidated statements of financial position comprise bank deposits with original maturity of three months or less, cash at banks and on hand. For the purpose of the consolidated statements of cash flows, cash and cash equivalents consist of bank balances and cash as defined above.

Impairment losses on tangible assets

At the end of the reporting period, the Group reviews the carrying amounts of its tangible assets 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, the 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-generation 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 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 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 cash-generating unit) in prior years. A reversal of an impairment loss is recognised as income immediately.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in Note 3, the directors of the Company are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Critical judgements in applying the entity's accounting policies

The followings are the critical judgements, apart from those involving estimations that the directors of the Company have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the consolidated financial information.

Deferred tax assets

Deferred tax assets are recognised for certain deductible temporary differences. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the estimated timing and level of future taxable profits. Further details of which are disclosed in Note 23.

Ownership of the buildings

Despite the Group has paid the full purchase consideration as detailed in Note 15, certain of the Group's rights to the use of the buildings were not granted formal titles from the relevant government authorities. Despite the fact that the Group has not obtained the relevant legal titles, the directors of the Company determine to recognise the buildings that they expect the legal titles being obtained in future should have no major difficulties and the Group is in substance controlling the buildings.

Key sources of estimation uncertainty

The followings are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Depreciation of property, plant and equipment

Property, plant and equipment are depreciated on a straight-line basis over their estimated useful lives, after taking into account their estimated residual values. The determination of the useful lives and residual values involves management's estimation. The Group assesses annually the residual value and the useful life of the property, plant and equipment and if the expectation differs from the original estimate, such a difference may impact the depreciation in the year/period and the estimate will be changed in the future period.

Estimated impairment of property, plant and equipment

The Group determines whether the property, plant and equipment are impaired whenever there is indication of impairment presented. The impairment loss for property, plant and equipment are recognised for the amounts by which the carrying amounts exceed their recoverable amounts, in accordance with the Group's accounting policy. The recoverable amounts of property, plant and equipment have been determined based on value-in-use calculations. These calculations require the use of judgements and estimates such as future revenue and discount rates. As of 31 December 2012, 2013 and 2014 and 30 June 2015, the carrying values of property, plant and equipment of the Group were approximately RMB135,887,000, RMB130,798,000, RMB124,606,000 and RMB120,582,000 respectively and that of the Company were approximately RMB93,277,000, RMB88,372,000, RMB83,901,000 and RMB81,835,000 respectively. No impairment was recognised as of 31 December 2012, 2013 and 2014 and 30 June 2015.

Estimated allowance for inventories

The management of the Group reviews an ageing analysis at the end of the reporting period and makes allowance for obsolete and slow-moving items identified that are no longer suitable for sale or use. The Group makes allowance for inventories based on the assessment of the net realisable value. The management estimates the net realisable value for inventories based primarily on the latest selling prices and current market conditions. As of 31 December 2012, 2013 and 2014 and 30 June 2015 the carrying amounts of inventories of the Group were approximately, RMB210,856,000, RMB256,746,000, RMB244,935,000 and RMB242,087,000 respectively, net of accumulated allowances for inventories of approximately RMB1,232,000, RMB697,000, RMB1,524,000 and RMB449,000 respectively. As of 31 December 2012, 2013 and 2014 and 30 June 2015 the carrying amounts of inventories of the Company were approximately, RMB118,792,000, RMB129,273,000, RMB105,536,000 and RMB100,307,000 respectively, net of accumulated allowances for inventories of approximately RMB1,232,000, RMB697,000, RMB875,000 and RMB217,000 respectively.

Estimated impairment of trade and other receivables

The Group performs ongoing credit evaluations of its customers and adjusts credit limits based on payment history and the customer's current credit-worthiness, as determined by the review of their current credit information. The Group continuously monitors collections and payments from its customers and maintains a provision for estimated credit losses based upon its historical experience. Credit losses have historically been within the Group's expectations and the Group will continue to monitor the collections from customers and maintain an appropriate level of estimated credit losses. As of 31 December 2012, 2013, 2014 and 30 June 2015, the carrying amounts of trade and other receivables of the Group were approximately RMB543,298,000, RMB721,210,000, RMB864,395,000 and RMB979,627,000 respectively, net of accumulated impairment losses of trade and other receivables of approximately RMB789,000, RMB652,000, RMB2,896,000 and RMB2,350,000 respectively. As of 31 December 2012, 2013, 2014 and 30 June 2015, the carrying amounts of trade and other receivables of the Company were approximately RMB419,270,000, RMB495,398,000, RMB559,574,000 and RMB610,071,000 respectively, net of accumulated impairment losses of trade and other receivables of approximately RMB789,000, RMB652,000, RMB2,896,000 and RMB2,350,000 respectively.

5. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged during the Relevant Periods.

The capital structure of the Group consists of bank borrowings, pledged bank deposits and bank balances and cash, and equity attributable to the owners of the Company, comprising issued share capital and reserves.

The directors of the Company review the capital structure regularly. As part of this review, the directors of the Company consider the cost of capital and the risks associated with each class of capital. The Group will balance its overall capital structure through the payment of dividends, issuance of new shares as well as the issue of new debts or the redemption of borrowings.

6. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

The Group

	At 31 December			At 30 June
	2012	**2013**	**2014**	**2015**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Financial assets				
Loans and receivables (including bank balances and cash)	679,537	919,140	1,022,956	1,210,294
Financial liabilities				
Amortised Cost	918,744	1,179,429	1,236,775	1,408,430

The Company

	At 31 December			At 30 June
	2012	**2013**	**2014**	**2015**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Financial assets				
Loans and receivables (including bank balances and cash)	566,280	630,516	738,118	771,506
Financial liabilities				
Amortised Cost	674,515	742,507	793,971	832,986

(b) Financial risk management objectives and policies

The Group's and the Company's major financial instruments include trade and other receivables, pledged bank deposits, amount due from a subsidiary, bank balances and cash, trade and other payables and bank borrowings. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (currency risk and interest rate risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Market risk

Currency risk

The Group has no foreign currency sales and purchases, which expose the Group to foreign currency risk.

Interest rate risk

The Group is exposed to cash flow interest rate risk in relation to variable-rate, pledged bank deposits and bank balances (Note 20) and variable rate bank borrowings (Note 22) carried at prevailing market rates for the Relevant Periods. It is the Group's policy to keep its borrowings at floating rate of interest so as to minimise the fair value interest rate risk.

Sensitivity analysis

The sensitivity analysis below has been determined based on the exposure to interest rates for non-derivative instruments at the end of reporting period. The analysis is prepared assuming the amount of liability outstanding at the end of reporting period was outstanding for the whole year. A 50 basis point increase or decrease is used for the Relevant Periods when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 50 basis points higher/lower for the Relevant Periods and all other variables were held constant, the Group's post-tax profit for each of the three years ended 31 December 2012, 2013 and 2014 and six months ended 30 June 2015 would decrease/increase by approximately RMB357,000, RMB404,000, RMB657,000 and RMB94,000 respectively and the Company's post-tax profit for each of the three years ended 31 December 2012, 2013 and 2014 and six months ended 30 June 2015 would decrease/increase by approximately RMB302,000, RMB393,000, RMB629,000 and RMB141,000 respectively. This is mainly attributable to the Group's exposure to cash flow interest rate risk on its variable rate bank borrowings.

Credit risk

At the end of each reporting period, the Group's and the Company's maximum exposure to credit risk which will cause a financial loss to the Group and the Company due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated statements of financial position.

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

The credit quality of the counterparties in respect of amount due from a subsidiary is assessed by taking into account their financial position, credit history and other factors. The directors of the Company are of the opinion that the risk of default by the subsidiary is low.

The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies.

Other than concentration of credit risk on liquid funds which are deposited with several banks with high credit ratings, the Group does not have any other significant concentration of credit risk. Trade receivables as of 31 December 2012, 2013, 2014 and 30 June 2015 consist of a large number of customers, spreading across diverse industries and geographical areas.

Liquidity risk

In management of liquidity risk, the Group and the Company monitor and maintain a level of cash and cash equivalents deemed adequate by the management to finance the Group's and the Company's operations and mitigate the effects of fluctuations in cash flows. Management monitors the utilisation of bank borrowings and ensures compliance with loan covenants.

The following table details the Group's and the Company's remaining contractual maturity for its non-derivative financial liabilities based on the agreed repayment terms. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group and the Company can be required to pay. The table includes both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate curve at the end of each reporting period.

The Group

	As of 31 December 2012				
	On demand or within 1 year	**More than 1 year but less than 2 years**	**More than 2 years but less than 5 years**	**Total undiscounted cash flows**	**Carrying amount**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Trade and other payables	660,250	–	–	660,250	660,250
Bank borrowings	274,270	–	–	274,270	258,494
	934,520	–	–	934,520	918,744

	As of 31 December 2013				
	On demand or within 1 year	**More than 1 year but less than 2 years**	**More than 2 years but less than 5 years**	**Total undiscounted cash flows**	**Carrying amount**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Trade and other payables	879,869	–	–	879,869	879,869
Bank borrowings	315,910	–	–	315,910	299,560
	1,195,779	–	–	1,195,779	1,179,429

	As of 31 December 2014				
	On demand or within 1 year	More than 1 year but less than 2 years	More than 2 years but less than 5 years	Total undiscounted cash flows	Carrying amount
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Trade and other payables	935,425	–	–	935,425	935,425
Bank borrowings	315,349	–	–	315,349	301,350
	1,250,774	–	–	1,250,774	1,236,775

	As of 30 June 2015				
	On demand or within 1 year	More than 1 year but less than 2 years	More than 2 years but less than 5 years	Total undiscounted cash flows	Carrying amount
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Trade and other payables	1,129,680	–	–	1,129,680	1,129,680
Bank borrowings	286,865	–	–	286,865	278,750
	1,416,545	–	–	1,416,545	1,408,430

The Company

	As of 31 December 2012				
	On demand or within 1 year	More than 1 year but less than 2 years	More than 2 years but less than 5 years	Total undiscounted cash flows	Carrying amount
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Trade and other payables	471,021	–	–	471,021	471,021
Bank borrowings	217,472	–	–	217,472	203,494
	688,493	–	–	688,493	674,515

	As of 31 December 2013				
	On demand or within 1 year	More than 1 year but less than 2 years	More than 2 years but less than 5 years	Total undiscounted cash flows	Carrying amount
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Trade and other payables	502,947	–	–	502,947	502,947
Bank borrowings	253,684	–	–	253,684	239,560
	756,631	–	–	756,631	742,507

	As of 31 December 2014				
	On demand or within 1 year	More than 1 year but less than 2 years	More than 2 years but less than 5 years	Total undiscounted cash flows	Carrying amount
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Trade and other payables	566,971	–	–	566,971	566,971
Bank borrowings	237,905	–	–	237,905	227,000
	804,876	–	–	804,876	793,971

	As of 30 June 2015				
	On demand or within 1 year	More than 1 year but less than 2 years	More than 2 years but less than 5 years	Total undiscounted cash flows	Carrying amount
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Trade and other payables	628,586	–	–	628,586	628,586
Bank borrowings	210,652	–	–	210,652	204,400
	839,238	–	–	839,238	832,986

Bank borrowings with a repayment on demand clause are included in the "on demand or within 1 year" time band in the above maturity analysis. At 31 December 2012, 2013, 2014 and 30 June 2015, the aggregate undiscounted principal amounts of these bank loans for the Group amounted to RMB258,494,000, RMB299,560,000, RMB301,350,000 and RMB278,750,000 respectively and RMB203,494,000, RMB239,560,000, RMB227,000,000 and RMB204,400,000 respectively for the Company. Taking into account the Group's financial position, the directors of the Company do not believe that it is probable that the banks will exercise their discretionary rights to demand immediate repayment. The directors of the Company believe that such bank loans will be repaid more than one year but not exceeding five years after the reporting date in accordance with the scheduled repayment dates set out in the loan agreements. At that time, the Group's aggregate principal and interest cash outflows will amount to RMB274,270,000, RMB315,910,000, RMB315,349,000 and RMB286,865,000 respectively and the Company's aggregate principal and interest cash outflows amounted to RMB217,273,000, RMB253,684,000, RMB237,905,000 and RMB210,652,000 respectively.

The amounts included above for variable interest rate instruments for non-derivative financial liabilities are subject to change if changes in variable interest rates differ to those estimates of interest rates determined at the end of each reporting period.

(b) Fair value

The directors of the Company consider that the carrying amounts of current financial assets and current financial liabilities recorded at amortised cost using the effective interest rate method in the Financial Information approximate to their fair values due to their immediate or short-term maturities.

7. TURNOVER, OTHER INCOME AND OTHER GAINS

Turnover represents the amounts received and receivable for goods sold and provision of services in the normal course of business, net of discounts and sales related taxes. Analysis of the Group's turnover for the Relevant Periods and the six months ended 30 June 2014 is as follows:

	Year ended 31 December			Six months ended 30 June	
	2012	**2013**	**2014**	**2014**	**2015**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(unaudited)	
Turnover					
Sales of goods	2,010,946	2,392,157	3,004,747	1,443,741	1,626,237
Services income	5,997	9,074	9,312	5,785	9,160
	2,016,943	2,401,231	3,014,059	1,449,526	1,635,397
Other income					
Bank interest income	3,106	3,988	4,733	2,286	2,259
Government grant *(Note)*	500	500	500	500	–
Impairment loss reversed in respect of trade receivables	644	–	–	67	546
Sundry income	155	507	12	9	13
	4,405	4,995	5,245	2,862	2,818

Note: Included in the amount of government grants recognised during the each of the year ended 31 December 2012, 2013 and 2014 and the six months ended 30 June 2014 of approximately RMB500,000, RMB500,000, RMB500,000 and RMB500,000 respectively were received in respect of the unconditional grants from government for subsidising the operations of the Group.

8. SEGMENT INFORMATION

Information reported to the Chief Executive Officer of the Group, being the chief operating decision maker, for the purposes of resource allocation and assessment of segment performance. The directors of the Company consider that there is only one operating and reportable segment for the Group: trading of pharmaceutical products and provision of related services.

Geographical information

All Group's operations are located in the PRC. All the Group's turnover from external customers are generated from the PRC and all the non-current assets of the Group are located in the PRC.

Information about major customers

Revenue from customer of the Relevant Periods contributing over 10% of the Group is as follows:

	Year ended 31 December			Six months ended 30 June	
	2012	**2013**	**2014**	**2014**	**2015**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(unaudited)	
Customer A[1]	218,705	N/A[2]	N/A[2]	N/A[2]	N/A[2]

[1] Revenue from trading pharmaceutical products.

[2] The corresponding revenue did not contribute over 10% of the total revenue of the Group.

9. FINANCE COSTS

	Year ended 31 December			Six months ended 30 June	
	2012	**2013**	**2014**	**2014**	**2015**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(unaudited)	
Interest expenses on bank borrowings	16,555	17,095	18,851	9,631	9,204
Interest expenses on discounted bills	3,105	3,455	3,981	818	2,334
	19,660	20,550	22,832	10,449	11,538

10. INCOME TAX EXPENSE

	Year ended 31 December			Six months ended 30 June	
	2012	**2013**	**2014**	**2014**	**2015**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(unaudited)	
Current income tax					
— PRC Enterprise Income Tax	6,604	6,916	10,258	6,071	8,076
Deferred taxation *(Note 23)*	(150)	179	(768)	33	405
Total income tax expenses for the year/period	6,454	7,095	9,490	6,104	8,481

Under the Law of the PRC on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the Company and its subsidiary is 25% for the Relevant Periods and the six months ended 30 June 2014.

The income tax expense for the year/period can be reconciled to the profit before taxation per the consolidated statement of profit or loss and other comprehensive income as follows:

	Year ended 31 December			Six months ended 30 June	
	2012	**2013**	**2014**	**2014**	**2015**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(unaudited)	
Profit before taxation	20,565	29,314	45,935	32,553	33,715
Tax at domestic income tax rate of 25%	5,141	7,329	11,484	8,139	8,429
Tax effect of expense not deductible for tax purposes	40	67	67	26	52
Tax effect of tax losses not recognised	1,273	–	–	–	–
Utilisation of tax losses previously not recognised	–	(301)	(2,061)	(2,061)	–
Income tax expense for the year/period	6,454	7,095	9,490	6,104	8,481

Details of the deferred taxation are set out in Note 23.

11. PROFIT FOR THE YEAR/PERIOD

	Year ended 31 December			Six months ended 30 June	
	2012	2013	2014	2014	2015
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(unaudited)	
Profit for the year/period has been arrived at after charging (crediting):					
Directors' emoluments *(note 13)*					
– Salaries and allowances	96	96	184	50	376
– Retirement benefit scheme contributions	20	22	26	12	46
	116	118	210	62	422
Other staff costs					
– Salaries and allowances	13,146	15,123	21,086	8,772	12,007
– Retirement benefit scheme contributions	2,627	3,553	3,974	1,834	2,434
	15,773	18,676	25,060	10,606	14,441
Total staff costs	15,889	18,794	25,270	10,668	14,863
Cost of inventories sold	1,928,430	2,297,788	2,876,674	1,378,187	1,552,579
Allowance (reversal of provision) on inventories (included in cost of sales)	1,232	(535)	944	(66)	(795)
Loss on disposal of property, plant and equipment	3	6	233	193	80
Impairment loss recongised in respect of trade receivables	–	111	2,357	–	–
Depreciation of property, plant and equipment	7,063	9,967	9,725	4,990	4,411
Amortisation of prepaid lease payments	2,215	2,215	2,215	1,107	1,108
Operating lease payment on premises	416	262	251	125	–
Auditor's remuneration	57	241	239	98	94

12. EARNINGS PER SHARE

No earnings per share information is presented as its inclusion, for the purpose of this report, is not considered meaningful.

13. DIRECTORS', CHIEF EXECUTIVE'S AND EMPLOYEES' EMOLUMENTS

(a) Directors' and chief executive's emoluments

Details of emoluments paid and payable to the directors and the chief executive of the Group for the Relevant Periods and the six months ended 30 June 2014 are as follows:

Emoluments paid or receivable in respect of a director or chief executive's services as a director, whether of the Company or its subsidiary undertaking	Year ended 31 December 2012			
	Fees	Salaries and other allowances	Retirement benefit scheme contributions	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Executive director:				
Yao Chuang Long	–	96	20	116

Emoluments paid or receivable in respect of a director or chief executive's services as a director, whether of the Company or its subsidiary undertaking	Year ended 31 December 2013			
	Fees	Salaries and other allowances	Retirement benefit scheme contributions	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Executive director:				
Yao Chuang Long	–	96	22	118

Emoluments paid or receivable in respect of a director or chief executive's services as a director, whether of the Company or its subsidiary undertaking	Year ended 31 December 2014			
	Fees	Salaries and other allowances	Retirement benefit scheme contributions	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Executive director:				
Yao Chuang Long	–	184	26	210

Emoluments paid or receivable in respect of a director or chief executive's services as a director, whether of the Company or its subsidiary undertaking	Six months ended 30 June 2014 (unaudited)			
	Fees	**Salaries and other allowances**	**Retirement benefit scheme contributions**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Executive director:				
Yao Chuang Long	–	50	12	62

Emoluments paid or receivable in respect of a director or chief executive's services as a director, whether of the Company or its subsidiary undertaking	Six months ended 30 June 2015			
	Fees	**Salaries and other allowances**	**Retirement benefit scheme contributions**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Executive directors:				
Yao Chuang Long	–	170	17	187
Lin Zhi Xiong *(note)*	–	68	10	78
Zheng Yu Yan *(note)*	–	70	8	78
Fan Jian Bo *(note)*	–	68	11	79
	–	376	46	422

None of the directors waived or agreed to waive any emoluments during the Relevant Periods and the six months ended 30 June 2014.

Mr. Yao Chuang Long is also the chief executive officer of the Company and the emoluments disclosed above include those for services rendered by him as the chief executive officer.

There were no performance related incentive payments to the directors and chief executive during the Relevant Periods and the six months period ended 30 June 2014.

Note: Appointed on 25 May 2015.

(b) Employees' emoluments

Of the five individuals with the highest emoluments in the Group, one was director or chief executive of the Company for the years ended 31 December 2012, 2013, 2014 and six months ended 30 June 2014, and four were directors or chief executives of the Company for the six months ended 30 June 2015. The emoluments of the director are included in the disclosures in Note 13(a) above. The emoluments of the remaining four individual for the years ended 31 December 2012, 2013 and 2014 and six months ended 30 June 2014 and the remaining one individual for the six months ended 30 June 2015 were as follows:

	Year ended 31 December			Six months ended 30 June	
	2012	**2013**	**2014**	**2014**	**2015**
	RMB'000	*RMB'000*	*RMB'000*	*HK'000*	*HK'000*
				(unaudited)	
Salaries and other allowances	244	288	461	141	50
Retirement benefit scheme contributions	50	61	65	42	6
	294	349	526	183	56

There were no performance related incentive payments during the Relevant Periods and the six months ended 30 June 2014.

Their emoluments were within the following bands:

	Number of individuals				
	Year ended 31 December			Six months ended 30 June	
	2012	**2013**	**2014**	**2014**	**2015**
				(unaudited)	
Not more than RMB1,000,000	4	4	4	4	1

During the Relevant Periods and the six months ended 30 June 2014, no emoluments were paid or payable by the Group to the directors, chief executive or the five highest paid individuals as inducements to join or upon joining the Group or as a compensation for loss of office.

(c) Retirement benefit scheme

Pursuant to the regulations of the relevant authorities in the PRC, the Company and its subsidiary participate in respective government retirement benefit schemes (the "Schemes") whereby the Company and its subsidiary are required to contribute to the Schemes to fund the retirement benefits of the eligible employees. Contributions made to the Schemes are calculated based on certain percentages of the applicable payroll costs as stipulated under the requirements in the PRC.

14. DIVIDEND

No dividends have been paid or declared by the Group during the years ended 31 December 2012, 2013 and 2014. A special dividend of RMB30,000,000 was declared and paid by the Company during the six months ended 30 June 2015.

Pursuant to the resolution passed by the Company on 10 October 2015, a special dividend of RMB16,000,000 was declared and paid by the Company in October 2015.

15. PROPERTY, PLANT AND EQUIPMENT

The Group

	Plant and machineries	Motor vehicles	Office equipment	Leasehold improvements	Buildings	Construction in progress	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
COST							
At 1 January 2012	9,158	5,533	8,708	–	83,549	4,002	110,950
Additions	622	1,936	1,417	–	743	37,115	41,833
Disposals	–	(136)	–	–	–	–	(136)
Transfer	18,104	–	1,651	19,258	–	(39,013)	–
At 31 December 2012 and 1 January 2013	27,884	7,333	11,776	19,258	84,292	2,104	152,647
Additions	259	1,119	957	–	78	2,691	5,104
Disposals	–	(1,576)	–	–	–	–	(1,576)
At 31 December 2013 and 1 January 2014	28,143	6,876	12,733	19,258	84,370	4,795	156,175
Additions	753	2,272	741	–	–	681	4,447
Disposals	(365)	(1,833)	–	–	–	–	(2,198)
Transfer	5,252	–	–	–	–	(5,252)	–
At 31 December 2014 and 1 January 2015	33,783	7,315	13,474	19,258	84,370	224	158,424
Additions	–	207	117	–	–	173	497
Disposals	(41)	(514)	–	–	–	–	(555)
At 30 June 2015	33,742	7,008	13,591	19,258	84,370	397	158,366

	Plant and machineries *RMB'000*	Motor vehicles *RMB'000*	Office equipment *RMB'000*	Leasehold improvements *RMB'000*	Buildings *RMB'000*	Construction in progress *RMB'000*	Total *RMB'000*
ACCUMULATED DEPRECIATION							
At 1 January 2012	429	2,893	2,207	–	4,296	–	9,825
Provided for the year	864	693	2,319	192	2,995	–	7,063
Eliminated on disposals	–	(128)	–	–	–	–	(128)
At 31 December 2012 and 1 January 2013	1,293	3,458	4,526	192	7,291	–	16,760
Provided for the year	2,653	734	2,946	963	2,671	–	9,967
Eliminated on disposals	–	(1,350)	–	–	–	–	(1,350)
At 31 December 2013 and 1 January 2014	3,946	2,842	7,472	1,155	9,962	–	25,377
Provided for the year	2,908	810	2,372	963	2,672	–	9,725
Eliminated on disposals	–	(1,284)	–	–	–	–	(1,284)
At 31 December 2014 and 1 January 2015	6,854	2,368	9,844	2,118	12,634	–	33,818
Provided for the year	1,518	406	670	481	1,336	–	4,411
Eliminated on disposals	(5)	(440)	–	–	–	–	(445)
At 30 June 2015	8,367	2,334	10,514	2,599	13,970	–	37,784
CARRYING VALUES							
At 31 December 2012	26,591	3,875	7,250	19,066	77,001	2,104	135,887
At 31 December 2013	24,197	4,034	5,261	18,103	74,408	4,795	130,798
At 31 December 2014	26,929	4,947	3,630	17,140	71,736	224	124,606
At 30 June 2015	25,375	4,674	3,077	16,659	70,400	397	120,582

The Company

	Plant and machineries *RMB'000*	Motor vehicles *RMB'000*	Office equipment *RMB'000*	Leasehold improvements *RMB'000*	Buildings *RMB'000*	Construction in progress *RMB'000*	Total *RMB'000*
COST							
At 1 January 2012	9,158	5,418	8,664	–	83,549	–	106,789
Additions	68	749	1,026	–	743	–	2,586
Disposals	–	(136)	–	–	–	–	(136)
At 31 December 2012 and 1 January 2013	9,226	6,031	9,690	–	84,292	–	109,239
Additions	41	603	728	–	78	–	1,450
Disposals	–	(1,576)	–	–	–	–	(1,576)
At 31 December 2013 and 1 January 2014	9,267	5,058	10,418	–	84,370	–	109,113
Additions	–	847	690	–	–	–	1,537
Disposals	–	(1,833)	–	–	–	–	(1,833)
At 31 December 2014 and 1 January 2015	9,267	4,072	11,108	–	84,370	–	108,817
Additions	–	207	77	–	–	–	284
Disposals	(41)	(514)	–	–	–	–	(555)
At 30 June 2015	9,226	3,765	11,185	–	84,370	–	108,546

	Plant and machineries	Motor vehicles	Office equipment	Leasehold improvements	Buildings	Construction in progress	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
ACCUMULATED DEPRECIATION							
At 1 January 2012	429	2,892	2,206	–	4,296	–	9,823
Provided for the year	672	585	2,015	–	2,995	–	6,267
Eliminated on disposals	–	(128)	–	–	–	–	(128)
At 31 December 2012 and 1 January 2013	1,101	3,349	4,221	–	7,291	–	15,962
Provided for the year	674	539	2,245	–	2,671	–	6,129
Eliminated on disposals	–	(1,350)	–	–	–	–	(1,350)
At 31 December 2013 and 1 January 2014	1,775	2,538	6,466	–	9,962	–	20,741
Provided for the year	678	477	1,632	–	2,672	–	5,459
Eliminated on disposals	–	(1,284)	–	–	–	–	(1,284)
At 31 December 2014 and 1 January 2015	2,453	1,731	8,098	–	12,634	–	24,916
Provided for the year	338	213	353	–	1,336	–	2,240
Eliminated on disposals	(5)	(440)	–	–	–	–	(445)
At 30 June 2015	2,786	1,504	8,451	–	13,970	–	26,711
CARRYING VALUES							
At 31 December 2012	8,125	2,682	5,469	–	77,001	–	93,277
At 31 December 2013	7,492	2,520	3,952	–	74,408	–	88,372
At 31 December 2014	6,814	2,341	3,010	–	71,736	–	83,901
At 30 June 2015	6,440	2,261	2,734	–	70,400	–	81,835

i) The above items of plant and equipment are depreciated on a straight-line basis at the following rates per annum:

Plant and machineries	10% – 25%
Motor vehicles	10% – 33%
Office equipment	10% – 20%
Leasehold improvements	5% – 25%
Buildings	Over the shorter of term of the lease or 2.5%

ii) As of 31 December 2012, 2013, 2014 and 30 June 2015, the Group's property, plant and equipment with carrying amounts of approximately RMB39,358,000, RMB58,090,000, RMB56,783,000 and RMB56,130,000 respectively and the Company's property plant and equipment with carrying amounts of approximately RMB39,358,000, RMB38,090,000, RMB36,783,000 and RMB36,130,000 respectively have been pledged to secure banking facilities granted to the Group.

iii) As of 31 December 2012, 2013, 2014 and 30 June 2015, the official property title certificates of the Group's and the Company's buildings with carrying value of approximately RMB37,643,000, RMB36,318,000, RMB34,953,000 and RMB34,270,000 have not yet been issued by the relevant local government authorities. The directors of the Company are of the opinion that the Group's and the Company's right and interest in such buildings will not be therefore severely prejudiced and the application of the title certificates are in progress.

16. PREPAID LAND USE RIGHT

The Group and the Company

	At 31 December			At 30 June
	2012	**2013**	**2014**	**2015**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Prepaid land use right held in the PRC under medium-term lease and are analysed for reporting purposes as follows:				
Current asset	2,215	2,215	2,215	2,215
Non-current asset	75,681	73,466	71,251	70,143
	77,896	75,681	73,466	72,358

During the Relevant Periods, the amortisation charged to profit or loss are approximately RMB2,215,000, RMB2,215,000, RMB2,215,000 and RMB1,108,000.

As of 31 December 2012, 2013, 2014 and 30 June 2015, prepaid land use right with carrying amounts of approximately RMB77,896,000, RMB75,681,000, RMB73,466,000 and RMB72,358,000 have been pledged to secure banking facilities granted to the Group respectively.

17. INTEREST IN A SUBSIDIARY

The Company

	At 31 December			At 30 June
	2012	**2013**	**2014**	**2015**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Unlisted investments, at cost	30,000	50,000	50,000	50,000

18. INVENTORIES

The Group

	At 31 December			At 30 June
	2012	**2013**	**2014**	**2015**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Finished goods	210,856	256,746	244,935	242,087

The Company

	At 31 December			At 30 June
	2012	**2013**	**2014**	**2015**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Finished goods	118,792	129,273	105,536	100,307

As of 31 December 2012, 2013, 2014 and 30 June 2015, certain impaired inventories were sold, as a result, a reversal of impaired inventories of approximately Nil, RMB535,000, Nil and RMB795,000 have been recognised and included in cost of sales respectively.

As of 31 December 2012, 2013 and 2014 and 30 June 2015, included in the above figures are the Group's inventories of approximately RMB210,000,000, RMB256,746,000, RMB244,935,000 and RMB242,087,000 respectively, which have been pledged to banks to secure the banking facilities granted to the Group.

As of 31 December 2012, 2013 and 2014 and 30 June 2015, included in the above figures are the Company's inventories of approximately RMB118,792,000, RMB129,273,000, RMB105,536,000 and RMB100,307,000 respectively, which have been pledged to banks to secure the banking facilities granted to the Group.

19. TRADE AND OTHER RECEIVABLES

The Group

	At 31 December			At 30 June
	2012	**2013**	**2014**	**2015**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Trade receivables	391,890	623,029	728,765	860,300
Less: Impairment	(789)	(652)	(2,896)	(2,350)
	391,101	622,377	725,869	857,950
Bills receivables *(Note (i))*	93,557	35,431	69,732	52,793
	484,658	657,808	795,601	910,743
Prepayment	52,529	58,486	66,866	66,793
Other tax receivables	5,836	3,412	–	–
Other receivables	275	1,504	1,928	2,091
	543,298	721,210	864,395	979,627

The Company

	At 31 December			At 30 June
	2012	**2013**	**2014**	**2015**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Trade receivables	290,763	437,123	500,960	563,975
Less: Impairment	(789)	(652)	(2,896)	(2,350)
	289,974	436,471	498,064	561,625
Bills receivables	91,816	25,430	36,941	28,896
	381,790	461,901	535,005	590,521
Prepayment	37,372	32,210	23,233	17,999
Other receivables	108	1,287	1,336	1,551
	419,270	495,398	559,574	610,071

As of 31 December 2012, 2013, 2014 and 30 June 2015, the Group's and the Company's trade receivables with carrying amounts of approximately RMB11,142,000, RMB4,523,000, Nil and Nil have been pledged to secure bank borrowings granted to the Group respectively.

The Group and Company generally allows an average credit period of 0 – 180 days to its trade customers. The Group and the Company does not hold any collateral over these balances.

The following is an aged analysis of trade receivables net of accumulated impairment losses presented based on the date of delivery of goods at the end of the reporting period, which approximated the respective revenue recognition dates.

The Group

	At 31 December			At 30 June
	2012	**2013**	**2014**	**2015**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
0 to 60 days	282,211	455,053	587,856	690,414
61 to 180 days	82,668	135,758	114,664	106,135
181 to 365 days	17,109	25,719	16,523	57,263
Over 365 days	9,113	5,847	6,826	4,138
	391,101	622,377	725,869	857,950

The Company

	At 31 December			At 30 June
	2012	**2013**	**2014**	**2015**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
0 to 60 days	181,916	271,356	364,769	408,772
61 to 180 days	82,003	134,261	110,231	91,522
181 to 365 days	16,942	25,006	16,268	57,222
Over 365 days	9,113	5,848	6,796	4,109
	289,974	436,471	498,064	561,625

The movements of impairment of trade receivables are as follows:

The Group and the Company

	At 31 December			At 30 June
	2012	**2013**	**2014**	**2015**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Balance at the beginning of the year/period	1,433	789	652	2,896
Impairment losses recognised	–	111	2,357	–
Impairment losses reversed	(644)	–	(67)	(546)
Written off	–	(248)	(46)	–
Balance at the end of the year/period	789	652	2,896	2,350

The Group has individually assessed all receivables and provided in full for all receivables that are considered not recoverable. Impairment losses of approximately RMB789,000, RMB652,000, RMB2,896,000 and RMB2,350,000 were recognised during each of the three years ended 31 December 2012, 2013 and 2014 and six months ended 30 June 2015 respectively.

At 31 December 2012, 2013 and 2014 and 30 June 2015, the analysis of trade receivables that was neither past due nor impaired and past due but not impaired are as follows:

The Group

			Past due but not impaired			
	Total	**Neither past due nor impaired**	**Less than 30 days**	**31 to 60 days**	**61 to 180 days**	**Over 180 days**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 31 December 2012	391,101	314,702	25,344	15,269	23,376	12,410
At 31 December 2013	622,377	530,703	45,361	31,701	6,190	8,422
At 31 December 2014	725,869	698,035	7,518	7,497	4,894	7,925
At 30 June 2015	857,950	783,970	18,596	16,193	33,919	5,272

The Company

			Past due but not impaired			
	Total	**Neither past due nor impaired**	**Less than 30 days**	**31 to 60 days**	**61 to 180 days**	**Over 180 days**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 31 December 2012	289,974	218,822	20,383	15,100	23,259	12,410
At 31 December 2013	436,471	357,361	33,866	31,324	5,523	8,397
At 31 December 2014	498,064	472,769	5,511	7,111	4,778	7,895
At 30 June 2015	561,625	494,833	13,756	13,924	33,870	5,242

In determining the recoverability of a trade receivable, the Group considers any change in credit quality of the trade receivable from the date credit was initially granted up to the reporting date. In view of the good settlement history from those receivables of the Group which are past due but not impaired for the Relevant Periods, the directors of the Company consider that no allowance is necessary in respect of these balances.

Note:

i) All bills receivables are with ageing within 180 days.

20. PLEDGED BANK DEPOSITS AND BANK BALANCES AND CASH

The bank balances and cash comprised of cash held by the Group and short-term bank deposits with an original maturity of three months or less. The bank balances at 31 December 2012, 2013, 2014 and 30 June 2015 carried interest at the prevailing market rate ranging from 0.35% to 0.385%, 0.35% to 0.385%, 0.35% to 0.385% and 0.35% to 0.385%, respectively. The pledged deposits carried fixed interest rate of 2.6% to 3.05%, 2.6% to 2.8%, 2.35% to 2.8% and 1.6% to 2.55% per annum at 31 December 2012, 2013, 2014 and 30 June 2015 respectively.

Pledged bank deposits represented deposits pledged to banks to secure banking facilities granted to the Group and the Company. As of 31 December 2012, 2013, 2014 and 30 June 2015, the Group's deposits amounting to approximately RMB182,258,000, RMB243,067,000, RMB203,131,000 and RMB272,758,000 respectively and the Company's deposits amounting to approximately RMB134,221,000, RMB131,760,000, RMB136,197,000 and RMB149,635,000 respectively had been pledged to secure bills falling due within one year and are therefore classified as current assets.

As of 31 December 2012, 2013, 2014 and 30 June 2015, the Group's bank balances and cash denominated in RMB. Conversion of RMB into foreign currencies is subject to the PRC's Foreign Exchange Control Regulations and Administration of Settlement, Sales and Payment of Foreign Exchange Regulations.

21. TRADE AND OTHER PAYABLES

The Group

	At 31 December			At 30 June
	2012	**2013**	**2014**	**2015**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Trade payables *(Note (i))*	276,058	339,537	377,184	450,576
Bills payables *(Note (ii))*	376,500	533,883	553,277	668,288
	652,558	873,420	930,461	1,118,864
Receipt in advance *(Note (iii))*	45,898	47,856	23,023	11,071
Other tax payables	551	622	1,788	6,173
Value-added tax payable	8,044	4,060	21,327	42,915
Accrued expenses and other payables	7,692	6,449	4,964	10,816
	714,743	932,407	981,563	1,189,839

The Company

	At 31 December			At 30 June
	2012	**2013**	**2014**	**2015**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Trade payables *(Note (i))*	179,804	186,000	206,973	246,062
Bills payables *(Note (ii))*	289,613	314,690	357,708	374,606
	469,417	500,690	564,681	620,668
Receipt in advance *(Note (iii))*	41,794	38,355	19,267	7,864
Other tax payables	435	420	206	6,173
Value-added tax payable	8,044	4,060	13,108	21,113
Accrued expenses and other payables	1,604	2,257	2,290	7,918
	521,294	545,782	599,552	663,736

Notes:

i) An aged analysis of trade payables presented based on the invoice date at the end of the reporting period is as follows:

The Group

	At 31 December			At 30 June
	2012	**2013**	**2014**	**2015**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
0 to 30 days	204,641	222,526	259,906	321,712
31 to 60 days	45,047	61,647	60,689	69,135
61 to 180 days	14,970	41,996	47,360	43,824
181 to 365 days	4,255	8,282	4,938	10,963
Over 365 days	7,145	5,086	4,291	4,942
	276,058	339,537	377,184	450,576

The Company

	At 31 December			At 30 June
	2012	**2013**	**2014**	**2015**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
0 to 30 days	122,860	95,834	118,557	144,301
31 to 60 days	36,443	50,009	39,218	55,614
61 to 180 days	9,576	28,842	40,436	31,471
181 to 365 days	3,780	6,342	4,508	9,833
Over 365 days	7,145	4,973	4,254	4,843
	179,804	186,000	206,973	246,062

The average credit period on purchase of goods is from 0 days to 120 days. The Group and the Company have financial risk management policies or plans for its payables with respect to the credit timeframe.

ii) All bills payables are with ageing within 365 days and all bills payables of the Group and the Company were secured by certain pledged bank deposits, property, plant and equipment and inventories held by the Group and the Company and guaranteed by Mr. Yao Chuang Long, the Controlling Shareholder, Mr. Yao Chu Xiong, Shareholder, Ms. You Ze Yan, the spouse of Mr. Yao Chuang Long.

iii) Receipt in advance represented advance payments from customers pursuant to the respective sales and purchase contracts.

22. BANK BORROWINGS

The Group

	At 31 December			At 30 June
	2012	**2013**	**2014**	**2015**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Secured	203,540	228,440	225,000	208,000
Unsecured	35,000	53,000	54,350	54,350
Bills discounted with recourse	19,954	18,120	22,000	16,400
	258,494	299,560	301,350	278,750
Carrying amount of bank borrowings that are repayable on demand or within one year	195,554	233,560	280,350	278,750
Carrying amount of bank borrowings that are not repayable within one year from the end of the reporting period but contain a repayment on demand clause (shown under current liabilities)	62,940	66,000	21,000	–
	258,494	299,560	301,350	278,750

The Company

	At 31 December			At 30 June
	2012	**2013**	**2014**	**2015**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Secured	153,540	178,440	175,000	158,000
Unsecured	30,000	43,000	30,000	30,000
Bills discounted with recourse	19,954	18,120	22,000	16,400
	203,494	239,560	227,000	204,400
Carrying amount of bank borrowings that are repayable on demand or within one year	140,554	173,560	206,000	204,400
Carrying amount of bank borrowings that are not repayable within one year from the end of the reporting period but contain a repayment on demand clause (shown under current liabilities)	62,940	66,000	21,000	–
	203,494	239,560	227,000	204,400

Notes:

(a) All the bank borrowings carried interest at floating rates. The ranges of effective interest rates per annum on the Group's bank borrowings are as follows:

	At 31 December			At 30 June
	2012	2013	2014	2015
Variable rate bank borrowings				
The Group	6.00% – 8.20%	6.00% – 7.20%	6.00% – 7.20%	6% – 7.20%
The Company	6.16% – 8.20%	6.00% – 7.20%	6.16% – 7.20%	6% – 7.20%

(b) The bank borrowings are all denominated in RMB as of 31 December 2012, 2013 and 2014 and 30 June 2015.

(c) As of 31 December 2012, 2013, 2014 and 30 June 2015, all bank borrowings were guaranteed by Mr. Yao Chuang Long, the Controlling Shareholder, Mr. Yao Chu Xiong, shareholder, Ms. You Ze Yan, the spouse of Mr. Yao Chuang Long.

(d) As of 31 December 2012, 2013, 2014 and 30 June 2015, secured bank borrowings of the Group and the Company were secured by certain trade receivables, property, plant and equipment and inventories held by the Group and the Company.

23. DEFERRED TAXATION

The following is the analysis of the deferred tax balances of the Group and the Company for financial reporting purposes:

The Group

	At 31 December			At 30 June
	2012	2013	2014	2015
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Deferred tax assets	518	339	1,107	702

The movements in deferred tax assets of the Group during the Relevant Periods are as follows:

	Impairment and allowances
	RMB'000
At 1 January 2012	368
Credited to consolidated statement of profit or loss and other comprehensive income during the year *(Note 10)*	150
At 31 December 2012 and 1 January 2013	518
Charged to consolidated statement of profit or loss and other comprehensive income during the year *(Note 10)*	(179)
At 31 December 2013 and 1 January 2014	339
Credited to consolidated statement of profit or loss and other comprehensive income during the year *(Note 10)*	768
At 31 December 2014 and 1 January 2015	1,107
Charged to consolidated statement of profit or loss and other comprehensive income during the period *(Note 10)*	(405)
At 30 June 2015	702

The Company

	At 31 December			**At 30 June**
	2012	**2013**	**2014**	**2015**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Deferred tax assets	518	339	945	644

The movements in deferred tax assets of the Company during the Relevant Periods are as follows:

	Impairment and allowances
	RMB'000
At 1 January 2012	368
Credited to consolidated statement of profit or loss and other comprehensive income during the year *(Note 10)*	150
At 31 December 2012 and 1 January 2013	518
Charged to consolidated statement of profit or loss and other comprehensive income during the year *(Note 10)*	(179)
At 31 December 2013 and 1 January 2014	339
Credited to consolidated statement of profit or loss and other comprehensive income during the year *(Note 10)*	606
At 31 December 2014 and 1 January 2015	945
Charged to consolidated statement of profit or loss and other comprehensive income during the period *(Note 10)*	(301)
At 30 June 2015	644

At 31 December 2012, 2013, 2014 and 30 June 2015, the Group had aggregate unused tax losses of approximately RMB9,448,000, RMB8,244,000, nil and nil available for offset against future profits. No deferred tax asset has been recognised in respect of the unused tax losses of approximately RMB9,448,000, RMB8,244,000, nil and nil respectively due to the unpredictability of future income stream. At 31 December 2012, 2013, 2014 and 30 June 2015, unused tax losses of approximately of RMB9,448,000, RMB8,244,000, nil and nil will be expired within 5 years.

24. PAID-UP CAPITAL

The paid-up capital of the Group as of 31 December 2012, 2013 and 2014 and 30 June 2015 represented the paid-up capital of the Company.

	Paid-up capital	Number of shares in issue	Par value per share	Issued capital
	RMB'000	*'000*	*RMB*	*RMB'000*
As of 1 January 2012, 31 December 2012, 2013 and 2014	80,000	–	N/A	80,000
Shares reform *(Note)*	(80,000)	80,000	1	N/A
As of 30 June 2015	–	80,000	1	80,000

Note: It represents the effect of the shares reform of the Company and transformed into joint stock company with limited liability.

25. RESERVES

(a) Capital reserve

The amount represented the surplus amount of shareholder contributions to Company over the registered capital of Company and amounts transferred from retained profits and statutory reserve as a result of share reform of the Company.

(b) Statutory reserve

As stipulated by regulations in the PRC, the Company's subsidiary established and operated in the PRC are required to appropriate 10% of their after-tax profit (after offsetting prior year losses) as determined in accordance with the PRC accounting rules and regulations, to statutory reserve until the reserve balance reaches 50% of the registered capital. The transfer to this reserve must be made before distribution of a dividend to equity owners.

The Company

	Capital reserve *RMB'000*	Statutory reserve *RMB'000*	Retained profits *RMB'000*	Total *RMB'000*
At 1 January 2012	57,120	4,201	35,857	97,178
Profit and total comprehensive income for the year	–	–	19,248	19,248
Appropriation	–	1,906	(1,906)	–
At 31 December 2012 and 1 January 2013	57,120	6,107	53,199	116,426
Profit and total comprehensive income for the year	–	–	21,108	21,108
Appropriation	–	2,121	(2,121)	–
At 31 December 2013 and 1 January 2014	57,120	8,228	72,186	137,534
Profit and total comprehensive income for the year	–	–	25,820	25,820
Appropriation	–	3,029	(3,029)	–
At 31 December 2014 and 1 January 2015	57,120	11,257	94,977	163,354
Profit and total comprehensive income for the period	–	–	12,284	12,284
Dividend paid	–	–	(30,000)	(30,000)
Shares reform *(note)*	82,530	(11,257)	(71,273)	–
At 30 June 2015	139,650	–	5,988	145,638
For the six months ended 30 June 2014 (unaudited)				
At 1 January 2014 (audited)	57,120	8,228	72,186	137,534
Profit and total comprehensive income for the period	–	–	16,175	16,175
At 30 June 2014 (unaudited)	57,120	8,228	88,361	153,709

Note: It represents the effect of the shares reform of the Company. The retained profits and statutory reserve as of 31 March 2015 are transferred to capital reserve.

26. OPERATING LEASE COMMITMENT

The Group leases certain of its factory premises and offices under operating lease arrangements. Lease for properties are negotiated for terms ranging from one to three years and rentals are fixed.

At the end of each reporting period, the Group had future minimum lease payments under non-cancellable operating lease which fall due as follows:

The Group and the Company

	At 31 December			At 30 June
	2012	**2013**	**2014**	**2015**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Within one year	251	251	251	–
In the second to fifth year inclusive	1,004	1,004	1,004	–
Over fifth year	1,694	1,443	1,192	–
	2,949	2,698	2,447	–

27. RELATED PARTY TRANSACTIONS

In addition to the transactions detailed elsewhere in the Financial Information, the Group has entered into the following significant transactions with related parties during the Relevant Periods and the six months ended 30 June 2014.

(a) Compensation of key management personnel

Other than the remuneration paid to the directors and employees of the Group as set out in Note 13, who are considered as the key management personnel of the Group, the Group did not have any other significant compensations to key management personnel.

The remuneration of the directors and key management personnel is determined by the board of directors of the Company having regard to the performance of individuals and market trends.

(b) Banking facilities

At 31 December 2012, 2013, 2014 and 30 June 2015, certain bank borrowings and bills payables of the Group with carrying amounts of approximately RMB634,994,000, RMB833,443,000, RMB854,627,000 and RMB947,038,000 respectively were guaranteed by Mr. Yao Chuang Long, the Controlling Shareholder in which approximately RMB585,185,000, RMB783,500,000, RMB800,033,000 and RMB900,283,000 were also guaranteed by his spouse, Ms. You Ze Yan.

At 31 December 2012, 2013, 2014 and 30 June 2015, certain bank borrowings and bills payables of the Company with carrying amounts of approximately RMB493,107,000, RMB554,250,000, RMB584,708,000 and RMB579,006,000 respectively were guaranteed by Mr. Yao Chuang Long, the Controlling Shareholder in which approximately RMB443,298,000, RMB504,307,000, RMB530,114,000 and RMB532,251,000 were also guaranteed by his spouse, Ms. You Ze Yan.

At 31 December 2012 and 2013, certain bank borrowings and bills payables with carrying amounts of approximately RMB423,188,000 and RMB513,250,000, respectively of the Group and approximately RMB307,886,000 and RMB303,787,000 of the Company were guaranteed by Mr. Yao Chu Xiong, shareholder. At 31 December 2014, Mr. Yao Chu Xiong ceased to be the Shareholder of the Company.

The guarantee provided by Mr. Yao Chuang Long, Ms. You Ze Yan and Mr. Yao Chu Xiong will be released upon to the listing of the Company's shares on the Stock Exchange.

28. AMOUNT DUE FROM A SUBSIDIARY

The amount is unsecured, interest-free and repayable on demand.

29. TRANSFERS OF FINANCIAL ASSETS

The following were the Group's and the Company's financial assets were transferred to banks by discounting those receivables on a full recourse basis. As the Group and the Company have not transferred the significant risks and rewards relating to these receivables, they continue to recognise the full carrying amount of the receivables and has recognised the cash received on the transfer as an unsecured borrowing (see note 22). These financial assets are carried at amortised cost in the Group's consolidated statement of financial position and the Company's statement of financial position.

The Group and the Company

	At 31 December			At 30 June
	2012	**2013**	**2014**	**2015**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Bills receivable discounted to banks with full recourse:				
Carrying amount of transferred assets	20,959	18,778	22,742	16,860
Carrying amount of associated liabilities	19,954	18,120	22,000	16,400

The maturity dates of bills receivables have not yet due at the end of each reporting period. As the Group and the Company still exposed to credit risk on these receivables at the end of each reporting period, the cash received from discounted bills discounted to banks for which the maturity dates have not yet been due are recognised as current liabilities in the consolidated statement of financial position.

B. EVENTS AFTER THE REPORTING PERIOD

On 28 July 2015, the Group has entered into a sales and purchase agreement with 汕頭市國土資源局 (Shantou Municipal Bureau of Land and Resources), to acquire a land use right at consideration of approximately RMB27,300,000. The transaction was completed on 28 July 2015.

Pursuant to the resolution passed by the Company on 10 October 2015, a special dividend of RMB16,000,000 was declared and paid by the Company in October 2015.

C. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements of the Group, the Company or its subsidiary have been prepared in respect of any period subsequent to 30 June 2015.

Yours faithfully,

SHINEWING (HK) CPA Limited
Certified Public Accountants
Wong Chuen Fai
Practising Certificate Number: P05589

Hong Kong

UNAUDITED PRO FORMA FINANCIAL INFORMATION

The information set out in this Appendix does not form part of the Accountant's Report prepared by the reporting accountants of the Company, SHINEWING (HK) CPA Limited as set out in Appendix I to this prospectus (the "**Prospectus**"), and is included herein for information only.

The unaudited pro forma financial information should be read in conjunction with the section headed "Financial Information" in this prospectus and the Accountant's Report as set out in Appendix I to this Prospectus.

A. UNAUDITED PRO FORMA ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS

The following statement of unaudited pro forma adjusted consolidated net tangible assets of the Group (the "**Unaudited Pro Forma NTA**") prepared in accordance with Rule 4.29 of the Listing Rules is for illustrative purposes only, and is set out below to illustrate the effect of the Global Offering on the consolidated net tangible assets of the Group attributable to the owners of the Company as of 30 June 2015 as if the Global Offering had taken place on 30 June 2015 assuming the Over-allotment is not exercised.

This Unaudited Pro Forma NTA has been prepared for illustrative purposes only and because of its hypothetical nature, it may not give a true picture of the consolidated net tangible assets of the Group as of 30 June 2015 or at any future dates following the Global Offering. It is prepared based on the consolidated net tangible assets attributable to owners of the Company as of 30 June 2015 as set out in the Accountant's Report of the Group, the text of which is set out in Appendix I to this Prospectus, and adjusted as described below. The Unaudited Pro Forma NTA does not form part of the Accountant's Report as set out in Appendix I to this Prospectus.

	Audited consolidated net tangible assets attributable to owners of the Company as of 30 June 2015	**Estimated net proceeds from the Global Offering**	**Unaudited pro forma adjusted consolidated net tangible assets attributable to owners of the Company immediately after the completion of the Global Offering**	**Unaudited pro forma adjusted consolidated net tangible assets per Share as of 30 June 2015**	
	RMB'000	*RMB'000*	*RMB'000*	*RMB*	*HK$*
	(Note 1)	*(Note 2)*		*(Note 3)*	*(Note 3)*
Based on the Offer Price of HK$7.60 per H Share	240,799	142,998	383,797	3.55	4.44
Based on the Offer Price of HK$8.60 per H Share	240,799	164,545	405,344	3.75	4.69

Notes:

1. The audited consolidated net tangible assets of the Group attributable to owners of the Company as of 30 June 2015 has been derived from the audited consolidated net assets of the Group attributable to the owners of the Company of approximately RMB240.8 million as of 30 June 2015 extracted from the Accountant's Report set out in Appendix I to this Prospectus.

2. The estimated net proceeds from the Global Offering are based on the respective low and high-ends of the indicative Offer Price range of HK$7.60 and HK$8.60 per H Share, respectively, after deducting the underwriting fees and commissions, estimated expenses payable by the Company and listing expenses of approximately RMB5.6 million incurred during the year ended 31 December 2014 and six months ended 30 June 2015 in relation to the Global Offering. The estimated net proceeds do not take into account any H Shares which may be issued upon the exercise of the Over-allotment Option.

3. The unaudited pro forma adjusted consolidated net tangible assets per Share is arrived at after adjustment for the estimated net proceeds from the Global Offering payable to the Company as described in note 2 and on the basis that a total of 108,000,000 H Shares were in issue as of 30 June 2015 (including Shares in issue as of the date of this Prospectus and those Shares are expected to be issued pursuant to the Global Offering but not taking into account any H Shares which may be issued upon the exercise of the Over-allotment Option).

4. The prepaid land use right and buildings of the Group is valued by Roma Appraisals Limited. According to the valuation report, the prepaid land use right and buildings of the Group as of 30 September 2015 amounted to approximately RMB186.4 million. Comparing this amount with the unaudited carrying value of the prepaid land use right and buildings of the Group as of 30 September 2015 of approximately RMB169.5 million, there is a surplus of approximately RMB16.9 million. Had the prepaid land use right and buildings been stated at the revaluation amount, additional annual amortisation and depreciation of approximately RMB0.6 million would be incurred. The surplus on revaluation is not considered in the unaudited Pro Forma NTA and will not be incorporated in the Group's consolidated financial information in subsequent years as the Group has elected to state the properties at cost basis.

5. The unaudited pro forma adjusted consolidated net tangible assets and the unaudited pro forma adjusted consolidated net tangible assets per Share have not taken into account the dividend declared and paid to the shareholders of the Company amounting to RMB16.0 million in October 2015. The unaudited pro forma adjusted consolidated net tangible assets as at 30 June 2015 would have been reduced by RMB16.0 million. Based on the Offer Price range of HK$7.60 and HK$8.60 per H Share, the unaudited pro forma adjusted consolidated net tangible assets per Share would have been reduced to RMB3.41 (with equivalent to HK$4.26) and RMB3.61 (with equivalent to HK$4.51) per Share respectively, after taking into account the payment of the dividend in the sum of RMB16.0 million.

6. No adjustments have been made to reflect any trading result or other transactions of the Group enters into subsequent to 30 June 2015.

7. For the purpose of this unaudited pro forma adjusted net tangible assets, the amounts stated in Renminbi are converted into Hong Kong dollars at a rate of HK$1.00 to RMB0.80. No representation is made that Renminbi amounts have been, could have been or may be converted to Hong Kong dollar, or vice versa, at that rate.

B. REPORT FROM THE REPORTING ACCOUNTANT ON THE UNAUDITED PRO FORMA FINANCIAL INFORMATION

The following is the text of a report received from our reporting accountants, SHINEWING (HK) CPA Limited, for the purpose of incorporation in this prospectus.

信永中和 ShineWing

SHINEWING (HK) CPA Limited
43/F., Lee Garden One
33 Hysan Avenue
Causeway Bay, Hong Kong

2 December 2015

The Directors
Chuangmei Pharmaceutical Co., Ltd.*

Dear Sirs,

We have completed our assurance engagement to report on the compilation of pro forma financial information of Chuangmei Pharmaceutical Co., Ltd.* (the "Company") and its subsidiary (collectively referred to as the "Group") by the directors of the Company for illustrative purposes only. The pro forma financial information consists of the pro forma net tangible asset statement as of 30 June 2015 and related notes as set out in Appendix II to the prospectus ("Prospectus") dated 2 December 2015 in connection with the proposed listing (the "Proposed Listing") of 28,000,000 H Shares of the Company on The Stock Exchange of Hong Kong Limited. The applicable criteria on the basis of which the directors of the Company have compiled the pro forma financial information are described in Appendix II to the Prospectus.

The pro forma financial information has been compiled by the directors of the Company to illustrate the impact of the Proposed Listing on the Group's net tangible assets as of 30 June 2015 as if the Proposed Listing had taken place at 30 June 2015. As part of this process, information about the Group's financial position has been extracted by the directors of the Company from the Group's financial information for the years ended 31 December 2012, 2013 and 2014 and six months ended 30 June 2015, on which an accountant's report has been included in the Appendix I to the Prospectus.

Directors' Responsibility for the Pro Forma Financial Information

The directors of the Company are responsible for compiling the pro forma financial information in accordance with paragraph 29 of Chapter 4 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" ("AG7") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

* *English name for identification purpose only.*

Reporting Accountant's Responsibilities

Our responsibility is to express an opinion, as required by paragraph 29(7) of Chapter 4 of the Listing Rules, on the pro forma financial information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the pro forma financial information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3420 "Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus" issued by the HKICPA. This standard requires that the reporting accountant comply with ethical requirements and plan and perform procedures to obtain reasonable assurance about whether the directors of the Company have compiled the pro forma financial information in accordance with paragraph 29 of Chapter 4 of the Listing Rules and with reference to AG7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" issued by the HKICPA.

For purposes of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the pro forma financial information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the pro forma financial information.

The purpose of pro forma financial information included in the Prospectus is solely to illustrate the impact of the Proposed Listing on unadjusted financial information of the Group as if the Proposed Listing had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the Proposed Listing at 30 June 2015 would have been as presented.

A reasonable assurance engagement to report on whether the pro forma financial information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the directors in the compilation of the pro forma financial information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

- the related pro forma adjustments give appropriate effect to those criteria; and
- the pro forma financial information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountant's judgment, having regard to the reporting accountant's understanding of the nature of the Group, the event or transaction in respect of which the pro forma financial information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the pro forma financial information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion:

(a) the pro forma financial information has been properly compiled on the basis stated;

(b) such basis is consistent with the accounting policies of the Group; and

(c) the adjustments are appropriate for the purposes of the pro forma financial information as disclosed pursuant to paragraph 29(1) of Chapter 4 of the Listing Rules.

SHINEWING (HK) CPA Limited
Certified Public Accountants
Wong Chuen Fai
Practising Certificate Number: P05589
Hong Kong

The following is the text of a report prepared for the purpose of incorporation in this prospectus received from Roma Appraisals Limited, an independent valuer, in connection with its valuations as at 30 September 2015 of the property.

Unit 3806, 38/F, China Resources Building,
26 Harbour Road, Wan Chai, Hong Kong
Tel (852) 2529 6878 Fax (852) 2529 6806
E-mail info@romagroup.com
http://www.romagroup.com

2 December 2015

Chuangmei Pharmaceutical Co., Ltd.
No. 235 Song Shan North Road,
Long Hu District,
Shan Tou City,
Guangdong Province,
The PRC

Dear Sir/Madam,

Re: Various Properties in the People's Republic of China

In accordance with your instructions for us to value the properties held by Chuangmei Pharmaceutical Co., Ltd. (創美藥業股份有限公司) (the "Company") and/or its subsidiaries (together with the Company referred to as the "Group") in the People's Republic of China (the "PRC"), we confirm that we have carried out inspections, made relevant enquiries and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the market values of the properties as at 30 September 2015 (the "Date of Valuation") for the purpose of incorporation in the prospectus of the Company dated 2 December 2015.

1. BASIS OF VALUATION

Our valuations of the properties are our opinion of the market values of the concerned properties which we would define as intended to mean "the estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm's-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion".

Market value is understood as the value of an asset or liability estimated without regard to costs of sale or purchase (or transaction) and without offset for any associated taxes or potential taxes.

2. VALUATION METHODOLOGY

Due to the specific purpose for which most of the buildings and structures of the properties have been constructed, there are no readily identifiable market comparables. Thus the buildings and structures have been valued on the basis of their depreciated replacement costs instead of direct comparison method.

The depreciated replacement cost approach ("DRC") is based on an estimate of the market value for the existing use of the land, plus the current cost of replacement of the existing structures less deductions for physical deterioration and all relevant forms of obsolescence and optimization. In practice, DRC approach may be used as a substitute for the market value of specialized property, due to the lack of market comparables available. Our valuation does not necessarily represent the amount that might be realized from the disposition of the property and the DRC is subject to adequate profitability of the concerned business.

3. TITLE INVESTIGATION

For the properties in the PRC, We have been provided with copies of extracts of title documents relating to the properties in the PRC. However, we have not searched the original documents to ascertain the existence of any amendments which do not appear on the copies handed to us. We have relied to a very considerable extent on information given by the Group and the Group's PRC legal advisor, Jiantian & Gongcheng (北京市競天公誠律師事務所) regarding the titles of the properties in the PRC. All documents have been used for reference only.

We have relied on the advice given by the Group and its PRC legal advisor that the Group has valid and enforceable titles to the properties which are freely transferable, and has free and uninterrupted right to use the same, for the whole of the unexpired term granted subject to the payment of annual government rent/land use fees and all requisite land premium/purchase consideration payable have been fully settled.

4. VALUATION ASSUMPTIONS

Our valuations have been made on the assumption that the owner sell the properties in the market in their existing states without the benefit of deferred term contracts, leasebacks, joint ventures, management agreements or any similar arrangements which would serve to affect the value of such properties.

In addition, no account has been taken of any option or right of pre-emption concerning or affecting the sale of the properties and no allowance has been made for the properties to be sold in one lot or to a single purchaser.

5. SOURCE OF INFORMATION

In the course of our valuations, we have relied to a very considerable extent on the information provided by the Group and have accepted advice given to us on such matters as planning approvals or statutory notices, easements, tenure, identification of properties, particulars of occupation, site / floor areas, ages of buildings and all other relevant matters which can affect the values of the properties. All documents have been used for reference only.

We have no reason to doubt the truth and accuracy of the information provided to us. We have also been advised that no material facts have been omitted from the information supplied. We consider that we have been provided with sufficient information to reach an informed view, and have no reason to suspect that any material information has been withheld.

6. VALUATION CONSIDERATION

We have inspected the exterior and, where possible, the interior of certain properties. No structural survey has been made in respect of the properties. However, in the course of our inspections, we did not note any serious defects. We are not, however, able to report that the properties are free from rot, infestation or any other structural defects. No tests were carried out on any of the building services.

We have not carried out on-site measurement to verify the site/floor areas of the properties under consideration but we have assumed that the site/floor areas shown on the documents handed to us are correct. Except as otherwise stated, all dimensions, measurements and areas included in the valuation certificates are based on information contained in the documents provided to us by the Group and are therefore approximations.

No allowance has been made in our valuations for any charges, mortgages or amounts owing on the properties nor for any expenses or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the properties are free from encumbrances, restrictions and outgoings of an onerous nature which could affect their values.

Our valuations are prepared in compliance with the requirements set out in Chapter 5 and Practice Note 12 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, and in accordance with the HKIS Valuation Standards (2012 Edition) published by The Hong Kong Institute of Surveyors; and the International Valuation Standards published by the International Valuation Standards Council.

7. REMARKS

Unless otherwise stated, all monetary amounts stated in our valuations are in Renminbi (“RMB”).

Our Summary of Values and Valuation Certificates are attached.

Yours faithfully,
For and on behalf of
Roma Appraisals Limited

Dr. Alan W K Lee
BCom (Property) MFin PhD (BA)
MHKIS RPS (GP) AAPI CPV CPV (Business)
Associate Director

Frank F Wong
BA (Business Admin) MSc (Real Estate)
MRICS Registered Valuer
Associate Director

Note: Dr. Alan W K Lee is a Registered Professional Surveyor (General Practice), a member of Hong Kong Institute of Surveyors and an Associate of Australian Property Institute. He has over 11 years’ valuation experience in Hong Kong, Macau, the PRC, the Asia Pacific Region, European countries and American countries.

Note: Mr. Frank F Wong is a Chartered Surveyor and Registered Valuer who has 16 years’ valuation, transaction advisory and project consultancy of properties experience in Hong Kong and 8 years’ experience in valuation of properties in the PRC as well as relevant experience in the Asia-Pacific region, Australia and Oceania-Papua New Guinea, France, Germany, Poland, United Kingdom, United States, Abu Dhabi (UAE) and Jordan.

SUMMARY OF VALUES

Properties held and occupied by the Group in the PRC

No.	Property	Market Value in Existing State as at 30 September 2015
1.	A commercial development situated in No.65 Fo Shan Avenue North, Chancheng District, Foshan City, Guangdong Province, The PRC 中國廣東省佛山市禪城區佛山大道北65號之一個商業發展項目	RMB123,600,000
2.	A composite development situated in No.235 Song Shan North Road, Longhu District, Shantou City, Guangdong Province, The PRC 中國廣東省汕頭市龍湖區嵩山北路235號之一個綜合發展項目	RMB27,300,000 (Please see Note 4 in page III-7)
	Total:	RMB150,900,000

VALUATION CERTIFICATE

Properties held and occupied by the Group in the PRC

No.	Property	Description and Tenure	Particulars of Occupancy	Market Value in Existing State as at 30 September 2015
1.	A commercial development situated in No.65 Fo Shan Avenue North, Chancheng District, Foshan City, Guangdong Province, The PRC 中國廣東省佛山市禪城區佛山大道北65號之一個商業發展項目	The property comprises a parcel of land with a site area of about 16,828 sq.m., where a building and ancillary structures erected thereon, completed in about 2008. The gross floor area ("GFA") of the property is about 26,376.25 sq.m.. The property is held under a land use rights for a term expiring on 21 March 2048 for commercial services (commercial) use.	As advised, the property is subject to an inter-group lease for commercial services (commercial) use. (Please see Note 4)	RMB123,600,000

Notes:

1. Pursuant to a State-owned Land Use Rights Certificate, Fo Chan Guo Yong (2010) Di No.1201161 (佛禪國用(2010)第1201161號) issued by Foshan City Land Resources Bureau (佛山市國土資源局) dated 14 October 2010, the land use rights of the property with a site area of 16,828 sq.m. have been granted to Shantou City Chuangmei Pharmaceutical Company Limited (汕頭市創美藥業有限公司) for a term expiring on 21 March 2048 for commercial services (commercial) use.

2. Pursuant to a Building Ownership Certificate, Yue Fang Di Quan Zheng Fo Zi Di No.0100049529(粵房地權證佛字第0100049529號) issued by Foshan City Housing and Urban-Rural Development Bureau (佛山市住房和城鄉建設局) dated 19 October 2010, the property with a total gross floor area of approximately 26,376.25 sq.m. is legally held by Shantou City Chuangmei Pharmaceutical Company Limited (汕頭市創美藥業有限公司) for commercial services (commercial) use.

3. Pursuant to a Mortgage Contract of Maximum Amount — No.10500015020 dated 25 May 2015, the property with a gross floor area of 26,376.25 sq.m. stated in the Building Ownership Certificate Yue Fang Di Quan Zheng Fo Zi Di No.0100049529 (粵房地權證佛字第0100049529號), is subject to a mortgage in favour of Shantou Branch — China Guangfa Bank Company Limited (廣發銀行股份有限公司汕頭分行), as security to guarantee the principal obligation under a contracts for a maximum amount of RMB390,000,000 with the security term from 25 May 2015 to 25 May 2020.

4. Pursuant to a tenancy agreement, the property with a site area of 16,828 sq.m and a GFA of 26,376.25 sq.m. is rented by Foshan Chuangmei Medicine Trading Company Limited (佛山創美藥業有限公司), a wholly-owned subsidiary of the Company, for a term commencing on 1 October 2014 and expiring on 30 September 2019 at RMB2,719,560 per annum for commercial services purpose.

5. Our inspection was performed by Mr. Frank F Wong, in August 2015.

6. The status of the title and grant of major approvals and licences in accordance with the information provided to us are as follows:

State-owned Land Use Rights Certificate	Yes
Building Ownership Certificate	Yes

7. We have been provided with a legal opinion on the title to the property issued by the Group's legal advisers, which contains, inter alia, the following information:

   a. The Company is in possession of a proper legal title to the property and is entitled to transfer the property;

   b. The Tenancy Agreement is valid, legally binding and has been registered in according with Laws; and

   c. For the land use rights of the property and ownership rights of the buildings which are subject to mortgage mentioned above, the Company should obtain prior consent from the Mortgagee when transferring, sell, lease, re-mortgaging or otherwise disposing of such land use rights and ownership rights of the buildings.

VALUATION CERTIFICATE

No.	Property	Description and Tenure	Particulars of Occupancy	Market Value in Existing State as at 30 September 2015
2.	A composite development situated in No.235 Song Shan North Road, Longhu District, Shantou City, Guangdong Province, The PRC 中國廣東省汕頭市龍湖區嵩山北路235號之一個綜合發展項目	The property comprises a parcel of land with a site area of about 16,406.8 sq.m., where buildings and ancillary structures erected thereon, completed in about 2008. The total gross floor area ("GFA") of the property is about 13,890.31 sq.m.. The property is held under a land use rights for a term of 50 years commencing on 28 July 2015 for warehouse use.	As advised, the property is occupied by the Group for warehouse, ancillary office and staff quarters uses.	RMB27,300,000 (Please see Note 4)

Notes:

1. Pursuant to a Confirmation Letter, Shan Gui Han(2015) No.462 (汕規函(2015) 462號) issued by Shantou City Urban and Rural Planning Bureau (汕頭市城鄉規劃局) dated 13 August 2015, a parcel of land with a site area of 16,406.8 sq.m. and a GFA of 11,348.51 sq.m. for warehouse and office uses and 2,541.8 sq.m. as staff quarters, had been previously leased from Shantou City Longhu District Longxing Street Rulong Economy Community (汕頭市龍湖區龍祥街道如龍經濟聯合社). There is no legal impediment for Chuangmei Pharmaceutical Co., Ltd. (創美藥業股份有限公司) ("Chuangmei") to obtain the Construction Works Planning Permit and Reply on Planning Inspection Acceptance (規劃驗收批覆).

2. Pursuant to a State-owned Land Use Rights Certificate No. 440501-2015-000013 dated 28 July 2015, the land use rights of the property with a site area of 16,406.8 sq.m. is contracted to grant to Chuangmei for warehouse use for a term of 50 years of a consideration RMB27,300,000.

3. Pursuant to a State-owned Land Use Rights Certificate, Shan Guo Youg (2015) Di No. 75000680 (汕國用(2015)第75000680號) dated 7 September 2015, the land use rights of the property with a site area of 16,406.8 sq.m. is held by Chuangmei for warehouse use for a term of 50 years commencing on 28 July 2015.

4. In the valuation of this property, we have attributed no commercial value to the buildings with a total GFA of approximately 13,890.31 sq.m. which have not obtained any proper title certificate. However, for reference purpose, we are of the opinion that the depreciated replacement cost of the buildings and structures (excluding the land) as at the date of valuation would be RMB35,500,000 assuming all relevant title certificates have been obtained and the buildings could be freely transferred.

5. The status of the title and grant of major approvals and licences in accordance with the information provided to us are as follows:

State-owned Land Use Rights Certificate	Yes
Building Ownership Certificate	Under application preparation (As advised by the Group)
Construction Works Planning Permit	Under application preparation (As advised by the Group)

6. Our inspection was performed by Mr. Frank F Wong, in August 2015.

7. We have been provided with a legal opinion on the title to the property issued by the Group's legal advisers, which contains, inter alia, the following information:

   a. All land premium has been settled in full, the State-owned Land Use Rights certificate is obtained, the Group has the rights to use the land in according to the term and usage of the certificate;

   b. Staff quarters, warehouse and ancillary office will not be ordered to demolish by the relevant authorities, the risk of being fined is remote due to the absence of title certificates of staff quarters, warehouse and ancillary office; and

   c. There will be no legal impediment to apply the Construction Works Planning Permit, Construction Work Commencement Permit and Building Ownership Certificate.

This appendix contains a summary of the laws and regulations in respect of taxation and foreign exchange in the PRC and Hong Kong.

1. TAXATION IN THE PRC

Taxes Applicable to the Company

(i) EIT

According to the PRC Enterprise Income Tax Law (中華人民共和國企業所得稅法), which was promulgated on 16 March 2007 and became effective on 1 January 2008 and the Implementation Regulations of the PRC Enterprise Income Tax Law (中華人民共和國企業所得稅法實施條例) (Order No.512 of the State Council), which was promulgated on 6 December 2007 and became effective on 1 January 2008, the applicable EIT rate of both domestic and foreign-funded enterprises shall be 25%. Enterprises are classified into resident and non-resident enterprises. A resident enterprise shall pay EIT on its incomes derived from both inside and outside China. The EIT rate shall be 25%. For a non-resident enterprise having offices or establishments inside China, it shall pay EIT on its incomes derived from China as well as on incomes that it earns outside China but which has real connection with the said offices or establishments. The EIT rate shall be 25%. For a non-resident enterprise having no office or establishment inside China, or for a non-resident enterprise whose incomes have no actual connection to its office or establishment inside China, it shall pay EIT on the incomes derived from China. The EIT rate shall be 10%.

(ii) VAT

Pursuant to the Interim Regulation on the Value-added Tax of the PRC (Order No.538 of the State Council) (中華人民共和國增值稅暫行條例(國務院令第538號)), which was promulgated on 13 December 1993, revised on 10 November 2008, and became effective on January 1, 2009, and the Implementation Rules for the Interim Regulation on the Value-added Tax of the PRC (中華人民共和國增值稅暫行條例實施細則), which was promulgated on 18 December 2008, revised and became effective on 28 October 2011, entities and individuals engaged in the sale of goods, provision of processing, repair and replacement services, and the importation of goods within the territory of the People's Republic of China must pay VAT and the tax rate is generally 17% or 13%, unless otherwise specified. Since 2012, China has implemented the pilot plan of levying VAT in lieu of BT (referred to as "levying VAT in lieu of BT"). As of 2013, the policy of "levying VAT in lieu of BT" has been implemented across China. Currently, the tax payable services rendered under the pilot plan of "levying VAT in lieu of BT" implemented across China include land transportation services, marine transportation services, air transport services, pipeline transportation services, universal post services, special post services, other post services, R&D and technical services, information technology services, cultural creation services, logistic assistance services, rental services of movable tangible assets, forensics consulting services, radio and television services as well as telecommunication services. The value added tax rate ranges from 6% to 17% of the assessable items.

(iii) BT

According to the Interim Regulation on Business Tax of the People's Republic of China (Order No.540 of the State Council) (中華人民共和國營業稅暫行條例(國務院令第540號)),

which was promulgated on 13 December 1993, revised on 10 November 2008 and became effective on 1 January 2009, and the Implementation Rules for the Interim Regulation on Business Tax of the People's Republic of China(中華人民共和國營業稅暫行條例實施細則), which was promulgated on 25 December 1993, revised and became effective on 28 October 2011, entities and individuals engaged in the provision of taxable labour services (excluding the tax payable services within the scope of "levying VAT in lieu of BT" above), the transfer of intangible assets or the sale of immovable properties within the territory of the People's Republic of China shall pay business tax. The applicable tax rate shall range from 3% to 20%.

(iv) Urban Maintenance and Construction Tax

According to the Interim Regulations on Urban Maintenance and Construction Tax of the People's Republic of China (中華人民共和國城市維護建設稅暫行條例), which was promulgated on 8 February 1985 and became effective on 1 January 1985 (on 8 January 2011, the Decision of the State Council on Abolishing and Amending Some Administrative Regulations (Order No.588 of the State Council amended Article 2, Article 3 and Article 5 of the said Interim Regulations) (國務院關於廢止和修改部分行政法規的決定(國務院令第588號)), all units and individuals paying consumption tax, value-added tax and business tax shall pay urban maintenance and construction tax. The urban maintenance and construction tax shall be collected according to the location of the taxpayers, namely by the rate of 1%, 5% or 7% respectively. According to the Notice of the State Council on Extending the Urban Maintenance and Construction Tax and Educational Surcharges from Chinese to Foreign-funded Enterprises and Citizens (Guo Fa [2010] No.35) (國務院關於統一內外資企業和個人城市維護建設稅和教育費附加制度的通知》(國發[2010]35號)), from 1 December 2010, foreign-funded enterprises, foreign enterprises and individuals shall be subject to the Interim Regulations on Urban Maintenance and Construction Tax of the People's Republic of China (中華人民共和國城市維護建設稅暫行條例) promulgated by the State Council in 1985 respectively, and the urban maintenance and construction tax-related regulations, rules and policies issued by the State Council and finance and tax departments under the State Council in 1985.

(v) Stamp Duty

According to the Provisional Rules of the People's Republic of China on Stamp Duty (中華人民共和國印花稅暫行條例), which was promulgated on 6 August 1988 and became effective on 1 October 1988 (on 8 January 2011, the Decision of the State Council on Abolishing and Amending Some Administrative Regulations (Order No.588 of the State Council) (國務院關於廢止和修改部分行政法規的決定(國務院令第588號)) amended Article 14 of the said Provisional Rules), and the Implementation Rules for the Provisional Rules of the People's Republic of China on Stamp Duty (中華人民共和國印花稅暫行條例施行細則), which was promulgated on 29 September 1988 and became effective on 1 October 1988, all units and individuals executing and obtaining taxable documents within the People's Republic of China shall pay stamp duty. The taxable documents include purchase and sale contracts, processing contracts, construction project contracts, property lease contracts, cargo freight contracts, warehousing and storage contracts, loan contracts, property insurance contracts, technical contracts, other documents that resemble a contract in nature, title transfer deeds, business account books, certificates of rights, licences and other taxable documents specified by the MOF. The taxable items and rates of stamp duty shall be subject to the Table of Taxable Items and Rates of Stamp Duty (印花稅稅目稅率表) attached to the Provisional Rules of the People's Republic of China on Stamp Duty (中華人民共和國印花稅暫行條例).

Taxation Applicable to Shareholders of the Company

(vi) Dividend-related Tax

(A) Individual

Pursuant to the PRC Individual Income Tax Law (中華人民共和國個人所得稅法), which was promulgated on 10 September 1980, amended respectively on 31 October 1993, 30 August 1999, 27 October 2005, 29 June 2007, 29 December 2007 and 30 June 2011, and became effective on 1 September 2011, a 20% IIT shall generally be levied on dividends paid by PRC companies. For a foreign individual who is not a resident of the PRC, his receipt of dividends from a PRC company shall be subject to an IIT of 20% unless reduced or exempted under an applicable tax treaty or specially exempted by the competent tax authority under the State Council.

On 28 June 2011, the State Administration of Taxation issued Notice of State Administration of Taxation on Matters Concerning the Levy and Administration of Individual Income Tax After the Repeal of Document Guo Shui Fa [1993] No.045 (Guo Shui Han [2011] No.348) (國家稅務總局關於國稅發[1993]045號檔廢止後有關個人所得稅徵管問題的通知》(國稅函[2011]348號)). Pursuant to the said Notice, dividends received by overseas resident individual shareholders from domestic non-foreign invested enterprises which have issued shares in Hong Kong are subject to IIT, which shall be withheld and paid by such domestic non-foreign invested enterprises acting as a withholding agent according to the items of "interest, dividend and bonus income". Overseas resident individual shareholders of domestic non-foreign invested enterprises which have issued shares in Hong Kong are entitled to relevant preferential tax treatment pursuant to the provisions in the tax treaties between the countries in which they are residents and China, and the tax arrangements between Mainland China and Hong Kong (Macau). According to the Notice of SAT in relation to the Administrative Measures on Preferential Treatment entitled by Non-residents under Tax Treaties (Tentative) (Guo Shui Fa [2009] No.124) (國家稅務總局關於印發〈非居民享受稅收協定待遇管理辦法(試行)〉的通知(國稅發[2009]124號)), overseas resident individuals shall apply for relevant preferential tax treatment and complete relevant formalities in person or through a proxy appointed in writing. Since dividends are generally subject to income tax at a rate of 10% as required by the above tax treaties and tax arrangements, and there is a large number of shareholders and in order to simplify the collection of tax, individual shareholders are generally subject to a withholding tax rate of 10% without any application when domestic non-foreign invested enterprises which have issued shares in Hong Kong distribute dividends. Where the tax rates on dividends are not 10%, the following requirements shall apply: (1) For individuals receiving dividends who are residents from countries that have entered into tax treaties with China with tax rates lower than 10%, the withholding agent will apply on behalf of them to seek entitlement of preferential tax treatments pursuant to Guo Shui Fa [2009] No.124, and upon approval by the competent tax authorities, the excess amounts withheld will be refunded; (2) For individuals receiving dividends who are residents from countries that have entered into tax treaties with China with tax rates higher than 10% but lower than 20%, the withholding agent will, upon distribution of dividends, withhold and pay the IIT at the agreed effective tax rates under the treaties, without seeking such approval; (3) For individuals receiving dividends who are residents from countries without tax treaties with China or under other circumstances, the withholding agent will, upon distribution of dividends, withhold and pay the IIT at the rate of 20%.

(B) Enterprise

In accordance with the Arrangement Between the Mainland China and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with Respect to Taxes on Income (內地和香港特別行政區關於對所得避免雙重徵稅和防止偷漏稅的安排) signed on 21 August 2006, the PRC government may impose tax on dividends paid to a Hong Kong resident including natural person and legal person from a PRC company, but such tax shall not exceed 10% of the total sum of dividends payable. If a Hong Kong resident company holds more than 25% of the entire shareholders' equity and voting shares in a PRC company at any time for 12 consecutive months before the distribution of dividends, such tax shall not exceed 5% of the dividends payable by that PRC company.

According to the PRC Enterprise Income Tax Law (中華人民共和國企業所得稅法), which was promulgated on 16 March 2007 and became effective on 1 January 2008, and the Implementation Regulations of the PRC Enterprise Income Tax Law (Order No.512 of the State Council) (中華人民共和國企業所得稅法實施條例(國務院令第512號)), which was promulgated by the State Council on 6 December 2007 and became effective on 1 January 2008, for a non-resident enterprise having no office or establishment inside China, or for a non-resident enterprise whose incomes have no actual connection to its office or establishment inside China, it shall pay EIT on the incomes derived from China. The EIT rate shall be 10%. Such EIT may be reduced or exempted according to the applicable double taxation treaty.

Pursuant to the Notice Regarding Questions on Withholding Enterprise Income Tax When China Resident Enterprises Distribute Dividends to Foreign Non-resident Enterprise Shareholders of H Shares (Guo Shui Han [2008] No.897) (關於中國居民企業向境外H股非居民企業股東派發股息代扣代繳企業所得稅有關問題的通知(國稅函[2008]897號)), which was promulgated by the SAT and became effective on 6 November 2008, a PRC resident enterprise, when distributing dividends to foreign non-resident enterprise shareholders of H shares for 2008 and for the years onwards, shall be subject to the enterprise income tax withheld at a uniform rate of 10%. Upon receipt of such dividends, a non-resident enterprise shareholder may apply to the competent tax authorities for relevant treatment under the tax treaties (arrangements) in person or through a proxy or a withholding agent and provide evidence in support of its status as an actual beneficial owner as defined in the tax treaties (arrangements). Upon verification by the competent tax authority, the difference between the tax levied and the amount of tax payable as calculated at the tax rate under the tax treaties (arrangements) will be refunded.

In addition, according to the Notice on the Issues Concerning the Application of the Dividends Clauses of Tax Agreements (Guo Shui Han [2009] No.81) (關於執行稅收協定股息條款有關問題的通知》(國稅函[2009]81號)), which was promulgated by the SAT and became effective on 20 February 2009, under the provisions on dividends of the tax treaties, where a PRC resident company pays dividends to a fiscal resident of the other contracting party to a tax treaty and such fiscal resident of the other party (or dividend recipient) is the beneficiary of such dividends, such dividends received by the fiscal resident of the other party are entitled to the preferential tax treatment, i.e. payment of its income tax payable in China at the rate stated in the tax treaties. If the tax rate stated in the tax treaties is higher than that as stipulated in the PRC tax laws, the taxpayer may enjoy the lower one. The taxpayer shall meet the following requirements to enjoy the preferential tax treatment under the tax treaties provided in the clause above: (1) the taxpayer entitled to the preferential tax treatment under the tax treaties shall be the fiscal resident of the other contracting party; (2) the taxpayer entitled to the preferential tax treatment under the tax treaties shall be the beneficiary of relevant dividends; (3) dividends entitled under the preferential tax treatment in the tax treaties shall be the equity investment income such as dividends and bonuses determined under the PRC tax laws; (4) other requirements provided by the SAT. Guo Shui Han [2009] No.81 also provides that, under the provisions of dividends under the preferential tax treatment in the tax treaties, where the fiscal resident of the other contracting party directly owns more than a certain proportion of the capital in the PRC resident company which pays dividends (usually 25% or 10%), the fiscal resident of the other party shall pay tax for the dividends received at the tax rate stated under the tax treaties. Such fiscal resident of the other party shall meet the following requirements to enjoy such preferential tax treatment under the tax treaties: (1) the fiscal resident of the other contracting party shall be a company; (2) the fiscal resident of the other contracting party shall directly hold a specified percentage of all the owners' equity and voting shares of the said PRC resident company as per relevant regulations; (3) the percentage of the capital of the said PRC resident company held by the fiscal resident of the other contracting party shall consistently comply with the tax agreements in the 12 months before obtaining dividends.

In accordance with the Administrative Measures for Non-residents to Enjoy the Treatments of Tax Treaties (for Trial Implementation) (非居民享受稅收協定待遇管理辦法(試行)) promulgated by SAT on 24 August 2009 and effective as from 1 October 2009, any non-resident needing to enjoy the treatments of tax treaties shall submit relevant applications to the competent tax authority or approving tax authority. Non-resident enterprises not granted approval shall not enjoy the treatment of tax treaties.

(vii) Tax on Equity Transfer

(A) Individual

In accordance with the PRC Individual Income Tax Law (中華人民共和國個人所得稅法) and the Implementation Regulations of the PRC Individual Income Tax Law (中華人民共和國個人所得稅法實施條例), which was promulgated on 28 January 1994, revised respectively on 19 December 2005, 18 February 2008 and 19 July 2011, and became effective on September 1, 2011, the individual income tax shall be levied at a rate of 20% of the gains from selling company shares by any individual who has domicile inside the PRC or who does not have any domicile inside the PRC but has lived for one year inside the PRC.

The Implementation Regulations of the PRC Individual Income Tax Law (中華人民共和國個人所得稅法實施條例) stipulates that, the measure to impose IIT for shares transfer shall be determined separately by finance department under the State Council and to be implemented after an approval is obtained by the State Council. Pursuant to the Notice On Continuing The Income Tax-Free Policy On the Share Transfer of Individual Holders (Cai Shui Zi [1998]No.61) (關於個人轉讓股票所得繼續暫免徵收個人所得稅的通知(財稅字[1998]61號)) jointly promulgated by MOF and SAT, from 1 January 1997 onwards, the income from transfer of shares of listed companies by individuals continues to provisionally exempt from IIT. Pursuant to the Notice of Issues concerning the Individual Income Tax on Individuals' Income from the Transfer of Restricted Shares of Listed Companies (Cai Shui [2009]No.167) (關於個人轉讓上市公司限售股所得徵收個人所得稅有關問題的通知(財稅[2009]167號)) jointly promulgated on 31 December 2009 by MOF, SAT and CSRC, individual income tax shall be continued exempted for transfer of shares held from open offer by listed company on the Shanghai Stock Exchange and Shenzhen Stock Exchange or transfer of listed shares purchased from the market, except for the income from the transfer of restricted shares of certain specific companies (as defined by the Notice and Supplemental Circular on Relevant Issues Concerning the Collection of Individual Income Tax over the Income Received by Individuals from Transfer of Listed Shares Subject to Sales Limitation (關於個人轉讓上市公司限售股所得徵收個人所得稅有關問題的補充通知) promulgated on 10 November 2010).

As of the Latest Practicable Date, no legislation has expressly provided IIT shall be collected from non-Chinese resident individuals on the sale of shares in PRC resident enterprises listed on overseas stock exchanges. To our knowledge, in practice, IIT from non-Chinese resident individuals on the sale of shares in PRC resident enterprises listed on overseas stock exchanges has not been collected by the PRC tax authorities. However, we cannot assure that the PRC tax authorities will not change these practices which could result in levying IIT on non-Chinese resident individuals on gains from the sale of our H Share.

(B) Enterprise

In accordance with the PRC Enterprise Income Tax Law(中華人民共和國企業所得稅法) and the Implementation Regulations of the PRC Enterprise Income Tax Law (中華人民共和國企業所得稅法實施條例), a resident enterprise shall pay EIT at a rate of 25% for the capital gains obtained from selling company shares. For a non-resident enterprise having no office or establishment inside China, or for a non-resident enterprise whose incomes have no actual connection to its office or establishment inside China, it shall pay EIT at the rate of 10% for the capital gains from selling company shares.

Pursuant to the PRC Enterprise Income Tax Law (中華人民共和國企業所得稅法), the Implementation Regulations of the PRC Enterprise Income Tax Law (中華人民共和國企業所得稅法實施條例) and Notice of the State Administration of Taxation on Some Tax Issues Concerning the Implementation of the Enterprise Income Tax Law (Guo Shui Han [2010] No.79) (國家稅務總局關於貫徹落實企業所得稅法若干稅收問題的通知(國稅函[2010]79號)), revenue of an enterprise arising from the equity transfer shall be recognised upon the transfer agreement becoming effective and the completion of formalities relating to the change in equity. The amount of revenue generated from the equity transfer less costs incurred for the acquisition of such equity shall be deemed as income arising from the equity transfer. In computing its income arising from the equity transfer, an enterprise should not deduct the amount of retained earnings (unallocated profit) of the investee that might be attributable to the equity transferred.

(viii) Stamp Duty

According to the Provisional Rules of the People's Republic of China on Stamp Duty (中華人民共和國印花稅暫行條例), the applicable stamp duty of PRC on transfers of shares of PRC public companies shall not apply to purchases and disposals of H shares that take place outside the PRC. The said Provisional Rules specifies that PRC stamp duty shall apply only to documents executed or received and legally binding inside the PRC and protected under PRC laws.

(ix) Estate Duty

Currently, no estate duty is payable in China.

Foreign Exchange Control

The lawful currency of the PRC is Renminbi, which is still subject to foreign exchange controls and is not freely convertible. SAFE, under the authority of the PBOC, is empowered to administer all matters relating to foreign exchange, including the enforcement of foreign exchange control regulations.

On 29 January 1996, the State Council promulgated the new Administrative Regulations of the People's Republic of China on Foreign Exchange (中華人民共和國外匯管理條例) (the "Foreign Exchange Regulations"), which was last amended and took effect on 5 August 2008. The Foreign Exchange Regulations classified all international payments and transfers into current account items and capital account items. China does not restrict the international payment and account transfer under current accounts. Convertibility of foreign exchange under the capital accounts, including direct investments and capital contributions, is still subject to restrictions, and approval from the SAFE and its subordinates must be obtained.

On 20 June 1996, the PBOC promulgated the Regulations for Administration of Settlement, Sale and Payment of Foreign Exchange (結匯、售匯及付匯管理規定), which took effect on 1 July 1996, pursuant to which, the PRC abolished the restrictions on convertibility of foreign exchange in respect of current account items, while retaining the existing restrictions on foreign exchange transactions in respect of capital account items. Clarification and Explanation of Issues relating to Regulations for the Settlement, Sale and Payment of Foreign Exchange (關於〈結匯、售匯及付匯管理規定〉中有關問題的解釋和説明) promulgated by SAFE on 4 July 1996 specifies that the outbound remittance of profits and bonus by foreign-funded enterprises is considered a current account.

On 25 October 1998, the PBOC and SAFE promulgated the Circular on Ceasing the Foreign Exchange Swap Business Activities (關於停辦外匯調劑業務的通知), pursuant to which with effect from 1 December 1998, all foreign exchange swap business for foreign-invested enterprises in the PRC would be discontinued, while the trading of foreign exchange by foreign-invested enterprises would be incorporated into the banking system for settlement and sale of foreign exchange.

On 21 July 2005, the PBOC announced that, with immediate effect, the PRC would implement a managed floating exchange rate system based on market supply and demand and with reference to a basket of currencies. Therefore, the Renminbi was no longer only pegged to the U.S. dollar. The PBOC would announce the closing price of foreign currencies, such as the U.S. dollar, against the Renminbi in the inter-bank foreign exchange market after the market closed on each working day. Such closing price would be taken as the middle price for the Renminbi exchange rate quoted on the following working day. Furthermore, the PBOC will, with reference to exchange rate on international foreign exchange market, publish exchange rates of RMB traded against other major currencies. In foreign exchange transactions, designated foreign exchange banks may by themselves draw up applicable foreign exchange rate within specific scope in accordance with the exchange rate published by the PBOC.

Since 4 January 2006, the PBOC had improved the method of generating the middle price for quoting the Renminbi exchange rate by introducing an enquiry system in the inter-bank spot foreign exchange market, while keeping the matching system. In addition, the PBOC provided liquidity in the foreign exchange market by introducing the market-making system in the inter-bank foreign exchange market.

The foreign exchange income from the current account items may be retained or sold to financial institutions operating foreign exchange settlement and sales business. For foreign exchange income from the capital account items, before retention or being sold to any financial institution operating foreign exchange settlement and sales business, approval by the foreign exchange authority should be obtained, unless provided otherwise by the PRC.

When PRC enterprises (including foreign-invested enterprises) require foreign exchange for transactions relating to current account items, they may effect payment from their foreign exchange account or convert funds into foreign exchange and make payment at the designated foreign exchange banks without obtaining approval from SAFE, provided valid receipts and evidences of transactions must be produced. When foreign-invested enterprises require foreign exchange for distribution of profits to their shareholders, and when PRC enterprises are required to pay dividends to shareholders in foreign currencies according to relevant provisions, they may effect payment from their foreign exchange accounts or convert funds into foreign exchange and make payments at the designated foreign exchange banks pursuant to the relevant resolutions approved by the general meeting of shareholders or meeting of the board of directors for the distribution of profits.

In accordance with the Decision of the State Council on Cancelling or Adjusting a Group of Administrative Approval Items and other Matters(國務院關於取消和調整一批行政審批項目等事項的決定) as promulgated by the State Council and became effective on October 23, 2014, SAFE and its branches shall cancel the approval for foreign exchange settlement in relation to the proceeds from an overseas listing by a domestic company of its overseas listed foreign shares.

In accordance with the Circular on the Relevant Issues of Foreign Exchange Administration of Overseas Listing (關於境外上市外匯管理有關問題的通知) as promulgated by SAFE and became effective on 31 December 2014, a domestic company shall complete the registration procedure for overseas listing with the local branch of SAFE at the place of its incorporation within 15 working days after completion of its overseas listing. The proceeds from an overseas listing may be remitted to domestic or deposited overseas, and the use of proceeds shall be consistent with relevant contents of this prospectus, circular to the shareholders, resolution of the directors' meeting or the shareholders' general meeting and other public disclosure documents. A domestic enterprise applying for a special domestic account for settlements of funds for overseas listing shall apply to the relevant bank for the remittance, payment or settlement of funds in the special account for overseas listing to the payment account by presenting its certificate of overseas listing registration.

1. SUMMARY OF MATERIAL DIFFERENCES BETWEEN HONG KONG AND PRC COMPANY LAW

The Hong Kong law applicable to a company incorporated in Hong Kong is based on the Companies Ordinance and the Companies (Winding Up and Miscellaneous Provisions) Ordinance and is supplemented by common law and the rules of equity that are applicable to Hong Kong. As a joint stock limited company established in the PRC that is seeking a listing of shares on the Hong Kong Stock Exchange, we are governed by the PRC Company Law and all other rules and regulations promulgated pursuant to the PRC Company Law.

Set out below is a summary of certain material differences between Hong Kong company law applicable to a company incorporated in Hong Kong and the PRC Company Law applicable to a joint stock limited company incorporated under the PRC Company Law. This summary is, however, not intended to be an exhaustive comparison.

Corporate Existence

Under Hong Kong company law, a company with share capital, is incorporated by the Registrar of Companies in Hong Kong which issues a certificate of incorporation to the company upon its incorporation and the company will acquire an independent corporate existence upon its incorporation. A company may be incorporated as a public company or a private company. Pursuant to the Companies Ordinance, the articles of association of a private company incorporated in Hong Kong shall contain provisions that restrict a member's right to transfer shares. A public company's articles of association do not contain such provision.

Under the PRC Company Law, a joint stock limited company may be incorporated by promotion or subscription. The amended PRC Company Law which came into effect on 1 March 2014 has no provision on the minimum registered capital of joint stock company, except that laws, administrative regulations and the State Council decisions have separate provisions on paid-in registered capital and the minimum registered capital, in which case the company should follow such provisions.

Hong Kong law does not prescribe any minimum capital requirement for a Hong Kong company.

Share Capital

Under Hong Kong law, the shares of a Hong Kong company has no nominal value and the directors may, with the prior approval of the shareholders if required, issue new shares of the company to the maximum number, if any, set out in its articles of association. The PRC Company Law provides that any increase in our registered capital must be approved by our shareholders' general meeting and the relevant PRC governmental and regulatory authorities.

Under the Securities Law, a company which is authorised by the relevant securities regulatory authority to list its shares on a stock exchange must have a total share capital of not less than RMB30 million. Hong Kong law does not prescribe any minimum capital requirements for companies incorporated in Hong Kong.

Under the PRC Company Law, the shares may be subscribed for in the form of money or non-monetary assets (other than assets not entitled to be used as capital contributions under relevant laws and administrative regulations). For non-monetary assets to be used as capital contributions, appraisals and verification must be carried out to ensure no over-valuation or under-valuation of the assets. There is no such restriction on a Hong Kong company under Hong Kong law.

Restrictions on Shareholding and Transfer of Shares

Under PRC law, the domestic shares of a joint stock limited company, which are denominated and subscribed for in Renminbi, may only be subscribed for or traded by the State, PRC legal persons, natural persons, qualified foreign institutional investors, or eligible foreign strategic investors. Overseas listed shares, which are denominated in Renminbi and subscribed for in a currency other than Renminbi, may only be subscribed for, and trade by, investors from Hong Kong, Macau and Taiwan or any country and territory outside the PRC, or qualified domestic institutional investors.

Under the PRC Company Law, a promoter of a joint stock limited company is not allowed to transfer the shares it holds for a period of one year after the date of establishment of the company. Shares in issue prior to our public offering cannot be transferred within one year from the listing date of the shares on a stock exchange. Shares in a joint stock limited liability company held by its directors, supervisors and senior management and transferred each year during their term of office shall not exceed 25% of the total shares they held in the company, and the shares they held in the company cannot be transferred within one year from the listing date of the shares, and also cannot be transferred within half a year after the said personnel has left office. The articles of association may set other restrictive requirements on the transfer of the company's shares held by its directors, supervisors and senior management. There are no such restrictions on shareholdings and transfers of shares under Hong Kong law apart from the six-month lockup on the company's issue of shares and the 12-month lockup on controlling shareholder's disposal of shares, imposed by the undertakings given by our Company and our Controlling Shareholder to the Hong Kong Stock Exchange described in the section headed "Underwriting" in this Prospectus.

Financial Assistance for Acquisition of Shares

The PRC Company Law does not prohibit or restrict a joint stock limited company or its subsidiaries from providing financial assistance for the purpose of an acquisition of its own or its holding company's shares. However, the Mandatory Provisions contain certain restrictions on a company and its subsidiaries on providing such financial assistance similar to those under the Hong Kong company law which allows financial assistance to be given on the basis of a solvency test and relevant directors' and shareholders' resolutions.

Variation of Class Rights

The PRC Company Law has no special provision relating to variation of class rights. However, the PRC Company Law states that the State Council can promulgate regulations relating to other kinds of shares. The Mandatory Provisions contain elaborate provisions relating to the circumstances which are deemed to be variations of class rights and the approval procedures required to be followed in respect thereof. These provisions have been incorporated in the Articles of Association, which are summarised in the appendix headed "Appendix VI — Summary of Articles of Association" to this Prospectus.

Under the Companies Ordinance, no rights attached to any class of shares can be varied except (i) with the approval of a special resolution of the holders of the relevant class at a separate meeting, (ii) with the consent in writing of the holders representing at least 75% of the total voting rights of holders of shares in the class in question or (iii) if there are provisions in the articles of association relating to the variation of those rights, then in accordance with those provisions.

Directors, Senior Management and Supervisors

The PRC Company Law, unlike Hong Kong company law, does not contain any requirements relating to the declaration of directors' interests in material contracts, restrictions on companies providing certain benefits to directors and guarantees in respect of directors' liability and prohibitions against compensation for loss of office without shareholders' approval. The Mandatory Provisions, however, contain certain restrictions on major disposals and specify the circumstances under which a director or a supervisor may receive compensation for loss of office.

Board of Supervisors

Under the PRC Company Law, a joint stock limited company's directors and senior management are subject to the supervision of a Board of Supervisors which is required to be established for a joint stock limited company. There is no mandatory requirement for the establishment of a board of supervisors for a company incorporated in Hong Kong. The Mandatory Provisions provide that each supervisor owes a duty, in the exercise of his rights or performance of his obligations, to act in good faith and honestly in what he considers to be in the best interests of the company and to exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances.

Derivative Action by Minority Shareholders

Hong Kong law permits minority shareholders to initiate a derivative action on behalf of all shareholders against directors who have committed a breach of their fiduciary duties to the company if the directors control a majority of votes at a general meeting, thereby effectively preventing a company from suing the directors in breach of their duties in its own name. The PRC Company Law provides shareholders of a joint stock limited company with the right so that in the event where the directors and senior management violate the laws, administrative regulations or the provisions of the articles of association in performing the duties of the company and result in losses of the company, the shareholders individually or jointly holding over 1% of the shares in the company for more than 180 consecutive days may request in writing the board of supervisors to initiate proceedings in the people's court. In the event that the board of supervisors violates the laws, administrative regulations or the provisions of the articles of association in performing the duties of the company and result in losses of the company, the above said shareholders may send written request to the board of directors to initiate proceedings in the people's court. Upon receipt of such written request from the shareholders, if the board of supervisors or the board of directors refuses to initiate such proceedings, or has not initiated proceedings within 30 days upon receipt of the request, or if under contingent circumstances, failure of initiating immediate proceeding may cause irremediable damages to the company, the above said shareholders shall, for the benefit of the company's interests, have the right to initiate proceedings directly to the people's court in their own name.

The Mandatory Provisions provide further remedies against the directors, supervisors and senior management who breach their duties to the company.

In addition, as a condition to the listing of shares on the Hong Kong Stock Exchange, each director and supervisor of a joint stock limited company is required to give an undertaking in favour of the company acting as agent for the shareholders. This allows minority shareholders to take action against directors and supervisors in default.

Protection of Minorities

Under Hong Kong law, a shareholder who complains that the affairs of a company incorporated in Hong Kong are conducted in a manner unfairly prejudicial to his interests may petition to the court to either appoint a receiver or manager over the property or business of the company or make an appropriate order regulating the affairs of the company. In addition, on the application of a specified number of members, the Financial Secretary of Hong Kong may appoint inspectors who are given extensive statutory powers to investigate the affairs of a company incorporated in Hong Kong. The PRC law does not contain similar safeguards. The Mandatory Provisions, however, contain provisions that a controlling shareholder may not exercise its voting rights in a manner prejudicial to the interests of the shareholders generally or of a proportion of the shareholders of a company to relieve a director or supervisor of his duty to act honestly in the best interests of the company or to approve the expropriation by a director or supervisor of the company's assets (including but not limited to any opportunities favourable to the company) or the individual rights of other shareholders (including but not limited to any distribution rights and voting rights, but excluding company reorganisation proposed at the general meeting for approval pursuant to the articles of association).

Notice of Shareholders' General Meetings

Under the PRC Company Law, notice of a shareholder's annual general meeting of the joint stock limited company must be given not less than 20 days before the meeting, whereas notice of a shareholder's special general meeting must be given not less than 15 days before the meeting. Under the Special Provisions and the Mandatory Provisions, at least 45 days' written notice must be given to all shareholders, and shareholders who wish to attend the general meeting of the joint stock limited company must return the written reply slip for attending the meeting to the company at least 20 days before the date of the meeting. Under the Hong Kong company law, for a company incorporated in Hong Kong, the minimum period of notice is 21 days in case of an annual general meeting and 14 days in other cases.

Quorum for Shareholders' General Meetings

Under Hong Kong company law, the quorum for a general meeting must be at least two members unless the articles of association of the company otherwise provide. For companies with only one member, the quorum must be one member. The PRC Company Law does not specify any quorum requirement for a shareholders' general meeting, but the Special Provisions and the Mandatory Provisions provide that general meetings may only be convened when replies to the notice of that meeting have been received from shareholders whose shares represent more than 50% of the voting rights at least 20 days before the proposed date of the meeting, or if the number of shares represented by the shareholders who intend to attend the meeting is less than 50% of the total number of voting shares of the company, the company shall within five days notify its shareholders by way of a public announcement and the shareholders' general meeting may be held thereafter.

Voting

Under Hong Kong company law, an ordinary resolution is passed by a simple majority and a special resolution is passed by a majority of at least 75%. Under the PRC Company Law, the passing of any resolution at a general meeting requires affirmative votes of shareholders representing more than half of the voting rights represented by the shareholders who attend the general meeting except in cases of proposed amendments to a company's articles of association, increase or reduction of registered capital, merger, division or dissolution, or change of company form, which require affirmative votes of shareholders representing more than two-thirds of the voting rights represented by the shareholders who attend the general meeting.

Financial Disclosure

Under the PRC Company Law, a joint stock limited company is required to make available at the company for inspection by shareholders its financial report 20 days before its shareholders' annual general meeting. In addition, a joint stock limited company of which the shares are publicly offered must publish its financial report. The Companies Ordinance requires a company incorporated in Hong Kong to send every shareholder a copy of its financial statements, auditors' report and directors' report, which are to be presented before the company in its annual general meeting, not less than 21 days before the annual general meeting. A joint stock limited liability company is required under the PRC law to prepare its financial statements in accordance with the PRC GAAP. The Mandatory Provisions require that a company must, in addition to preparing financial statements according to the PRC GAAP, have its financial statements prepared and audited in accordance with international or Hong Kong accounting standards and its financial statements must also contain a statement of the financial effect of the material differences (if any) from the financial statements prepared in accordance with the PRC GAAP.

The Special Provisions require that there should not be any inconsistency between the information disclosed within and outside the PRC and that, to the extent that there are differences in the information disclosed in accordance with the relevant PRC and overseas laws, regulations and requirements of the relevant stock exchanges, such differences should also be disclosed simultaneously.

Information on Directors and Shareholders

The PRC Company Law gives shareholders the right to inspect the company's articles of association, register of members, counterfoils of corporate bonds, minutes of the shareholders' general meetings, resolutions of board meetings, resolutions of supervisory board meetings and financial and accounting reports. Under the articles of association, shareholders have the right to inspect and copy (at reasonable charges) certain information on shareholders and on directors which is similar to the shareholders' rights of Hong Kong companies under Hong Kong law.

Receiving Agent

Under the PRC Company Law and Hong Kong law, dividends once declared are debts payable to shareholders. The limitation period for debt recovery action under Hong Kong law is six years, while under the PRC law this limitation period is two years. The Mandatory Provisions require the relevant company to appoint a trust company registered under the Hong Kong Trustee Ordinance (Chapter 29 of the Laws of Hong Kong) as a receiving agent to receive on behalf of holders of shares dividends declared and all other monies owed by the company in respect of its shares.

Corporate Reorganisation

Corporate reorganisation involving a company incorporated in Hong Kong may be effected in a number of ways, such as a transfer of the whole or part of the business or property of the company in the course of voluntary winding up to another company pursuant to Section 237 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance or a compromise or arrangement between the company and its creditors or between the company and its members under Division 2 of Part 13 of the Companies Ordinance, which requires the sanction of the court. Under PRC Company Law, merger, division, dissolution or change of company form of a joint stock limited liability company has to be approved by shareholders in general meeting, and shall obtain approval from the government regulatory authorities in accordance with relevant laws, administrative regulations and provisions of the statues (if applicable).

Dispute Arbitration

In Hong Kong, disputes between shareholders on the one hand, and a company incorporated in Hong Kong or its directors on the other, may be resolved through legal proceedings in the courts. The Mandatory Provisions provide that such disputes should be submitted to arbitration at either the HKIAC or the CIETAC, at the claimant's choice.

Mandatory Deductions

Under the PRC Company Law, a joint stock limited company, in distributing profits after tax to the shareholders, is required to make transfers equivalent to certain prescribed percentages by law of its after tax profit to the statutory common reserve fund. There are no corresponding provisions under Hong Kong law.

Remedies of the Company

Under the PRC Company Law, if a director, supervisor or senior management officer in carrying out his duties infringes any law, administrative regulation or the articles of association of a company, which results in damage to the company, that director, supervisor or senior management officer should be liable to the company for such damages. In addition, the Listing Rules require listed companies' articles to provide for remedies of the company similar to those available under Hong Kong law (including rescission of the relevant contract and recovery of profits from a director, supervisor or senior management officer).

Dividends

The company has the power in certain circumstances to withhold, and pay to the relevant tax authorities, any tax payable under PRC law on any dividends or other distributions payable to a shareholder. Under Hong Kong law, the limitation period for an action to recover a debt (including the recovery of dividends) is six years, whereas under PRC laws, the relevant limitation period is two years. The company must not exercise its powers to forfeit any unclaimed dividend in respect of shares until after the expiry of the applicable limitation period.

Fiduciary Duties

In Hong Kong, there is the common law concept of the fiduciary duty of directors. Under the PRC Company Law, directors, supervisors and senior management of a company should be loyal and diligent. Under the Special Provisions, directors, supervisors and senior management shall fulfil their duties honestly and safeguard the interests of the company in accordance with the articles of association, and shall not take advantage of their positions and powers in the company to seek personal gains.

Closure of Register of Shareholders

The Companies Ordinance requires that the register of shareholders of a company must not generally be closed for the registration of transfers of shares for more than 30 days (extendable to 60 days in certain circumstances) in a year, whereas, as required by the Mandatory Provisions, share transfers shall not be registered within 30 days before the date of a shareholders' general meeting or within five days before the benchmark date set for the purpose of distribution of dividends.

2. LISTING RULES

The Listing Rules provide additional requirements which apply to us as an issuer incorporated in the PRC as a joint stock limited company and seeking a primary listing or whose primary listing is on the Hong Kong Stock Exchange. Set out below is a summary of the principal provisions containing the additional requirements which apply to our Company.

Compliance Adviser

A company seeking listing on the Hong Kong Stock Exchange is required to appoint a compliance adviser acceptable to the Hong Kong Stock Exchange for the period from its listing date up to the date of the publication of its financial results for the first full financial year commencing after the listing date. The compliance adviser should provide professional advice on continuous compliance with the Listing Rules and all other applicable laws and regulations, and to act at all times, in addition to its two authorised representatives, as the principal channel of communication with the Hong Kong Stock Exchange. The appointment of the compliance adviser may not be terminated until a replacement acceptable to the Hong Kong Stock Exchange has been appointed.

If the Hong Kong Stock Exchange is not satisfied that the compliance adviser in fulfilling its responsibilities adequately, it may require the company to terminate the compliance adviser's appointment and appoint a replacement.

The compliance adviser must keep the company informed on a timely basis of changes in the Listing Rules and any new or amended law, regulation or code in Hong Kong applicable to the company. It must act as the company's principal channel of communication with the Hong Kong Stock Exchange if the authorised representatives of the company are expected to be frequently outside Hong Kong.

Accountant's Report

The accountant's report must normally be drawn up in conformity with: (a) HKFRS; or (b) IFRS; or (c) China Accounting Standards for Business Enterprises ("CASBE") in the case of a PRC issuer that has adopted CASBE for the preparation of its annual financial statements.

Process Agent

A listed company is required to appoint and maintain a person authorised to accept service of process and notices on its behalf in Hong Kong throughout the period during which its securities are listed on the Hong Kong Stock Exchange and must notify the Hong Kong Stock Exchange of his, her or its appointment, the termination or his, her or its appointment and his, her or its contact particulars.

Public Shareholding

If at any time there are issued securities of a PRC issuer other than foreign invested shares which are listed on the Hong Kong Stock Exchange, the Listing Rules require that the aggregate amount of H shares and other securities held by the public must constitute not less than 25% of the PRC issuer's issued share capital and that the class of securities for which listing is sought must not be less than 15% of the issuer's total issued share capital, having an expected market capitalisation at the time of listing of not less than HK$50 million. The Hong Kong Stock Exchange may, at its discretion, accept a lower percentage of between 15% and 25% if the issuer is expected to have a market capitalisation at the time of listing of more than HK$10 billion.

Independent Non-Executive Directors and Supervisors

Independent non-executive directors of a PRC issuer are required to demonstrate an acceptable standard of competence and adequate commercial or professional expertise to ensure that the interests of the listed company's general body of shareholders will be adequately represented. Supervisors of a PRC issuer must have the character, expertise and integrity and be able to demonstrate the standard of competence commensurate with their position as supervisors.

Restrictions on Repurchase of Securities

Subject to governmental approvals and the articles of association of the company, a listed company may repurchase its own shares on the Hong Kong Stock Exchange in accordance with the provisions of the Listing Rules. Approval by way of a special resolution of the holders of class shares at separate class meetings conducted in accordance with the articles of association is required for share repurchases. In seeking approvals, a listed company is required to provide information on any proposed or actual purchases of all or any of its equity securities, whether or not listed or traded on the Hong Kong Stock Exchange. The director must also state the consequences (if any) of any purchases which will arise under either or both of the Hong Kong Takeovers Code and any similar PRC law of which directors are aware. Any general mandate given to directors to repurchase shares must not exceed 10% of the total number of its issued shares.

Redeemable Shares

A listed company must not issue any redeemable shares unless the Hong Kong Stock Exchange is satisfied that the relative rights of its shareholders are adequately protected.

Pre-emptive Rights

Except in the circumstances mentioned below, directors are required to obtain approval by way of a special resolution of shareholders at general meeting, and the approvals by way of special resolutions of the holders of class shares (each being otherwise entitled to vote at general meetings) at separate class meetings conducted in accordance with and as required by the articles of association, prior to authorising, allotting, issuing or granting shares or securities convertible into shares, options, warrants or similar rights to subscribe for any shares or such convertible securities.

No such approval will be required under the Listing Rules to the extent that (i) the existing shareholders have by special resolution in general meeting given a mandate to the board of directors, either unconditionally or subject to such terms and conditions as may be specified in the resolution, to authorise, allot or issue, either separately or concurrently once every 12 months, not more than 20% of each of the existing issued domestic shares and H shares as of the date of the passing of the relevant special resolution, or (ii) such shares are issued as part of the Company's plan at the time of its establishment to issue domestic shares and H shares and which plan is implemented within 15 months from the date of approval by the securities regulatory authority of the State Council.

Supervisors

A company listed or seeking a listing on the Hong Kong Stock Exchange is required to adopt rules governing dealings by the Supervisors in securities of the Company on terms no less exacting than those of the Model Code (as set out in Appendix 10 to the Listing Rules) issued by the Hong Kong Stock Exchange.

A PRC issuer is required to obtain the approval of its shareholders at a general meeting (at which the relevant supervisor and his associates must abstain from voting on the matter) prior to the company or any of its subsidiaries entering into a service contract of the following nature with a supervisor or proposed supervisor of the listed company or any of its subsidiaries: (1) the term of the contract exceeds three years; or (2) the contract expressly requires the company (or its subsidiaries) to give more than one year's notice or to pay compensation or make other payments equivalent to the remuneration more than one year in order for it to terminate the contract.

The nomination and remuneration committee of the listed company or an independent board committee must form a view in respect of service contracts that require shareholders' approval and advise shareholders (other than shareholders with a material interest in the service contracts and their associates) as to whether the terms are fair and reasonable, advise whether such contracts are in the interests of the listed company and its shareholders as a whole and advise shareholders on how to vote.

Amendment to Articles of Association

A PRC issuer may not permit or cause any amendment to the made to its articles of association which would contravene the PRC Company Law, the Mandatory Provisions or the Listing Rules.

Documents for Inspection

A PRC issuer is required to make available at a place in Hong Kong for inspection by the public and shareholders free of charge, and for copying by its shareholders at reasonable charges of the following:

(a) a complete duplicate register of shareholders;

(b) a report showing the status of its issued share capital;

(c) its latest audited financial statements and the reports of the directors, auditors and supervisors, if any, thereon;

(d) special resolutions;

(e) reports showing the number and nominal value of securities repurchased by it since the end of the last financial year, the aggregate amount paid for such securities and the maximum and minimum prices paid in respect of each class of securities repurchased (with a breakdown between class shares);

(f) copy of the latest annual return filed with the SAIC or other competent PRC authorities; and

(g) for shareholders only, copies of minutes of shareholders' general meetings.

Receiving Agents

Under Hong Kong law, a PRC issuer is required to appoint one or more receiving agents in Hong Kong and pay to such agent(s) dividends declared and other monies owed in respect of the H shares to be held, pending payment, in trust for the holders of such H shares.

Statements in Share Certificates

A PRC issuer is required to ensure that all of its listing documents and share certificates include the statements stipulated below and to instruct and cause each of its share registrars not to register the subscription, purchase or transfer of any of its shares in the name of any particular holder unless and until such holder delivers to the share registrar a signed form in respect of such shares bearing statements to the following effect, that the acquirer of shares:

(a) agrees with the company and each shareholder, and it agrees with each shareholder, to observe and comply with the PRC Company Law, the Special Provisions and its articles of association;

(b) agrees with the company, each shareholder, director, supervisor, manager and other senior management officer and it (acting both for the company and for each director, supervisor, manager and other senior management officer), agree with each shareholder to refer all differences and claims arising from the articles of association or any rights or obligations conferred or imposed by the PRC Company Law or other relevant laws and administrative regulations concerning its affairs to arbitration in accordance with the articles of association. Any reference to arbitration shall be deemed to authorise the arbitration tribunal to conduct hearings in open session and to publish its award. Such arbitration shall be final and conclusive;

(c) agrees with the company and each shareholder that shares are freely transferable by the holder thereof; and

(d) authorises the company to enter into a contract on his behalf with each director and senior management officer whereby such directors and senior management undertake to observe and comply with their obligations to shareholder as stipulated in the articles of association.

Legal Compliance

A PRC issuer is required to observe and comply with the PRC Company Law, the Special Provisions and its articles of association.

Contract between the PRC Issuer and Directors, Senior Management and Supervisors

A PRC issuer is required to enter into a contract in writing with every director and senior management containing at least the following provisions:

(a) an undertaking by the director or senior management to itself to observe and comply with the PRC Company Law, the Special Provisions, its articles of association, the Hong Kong Takeovers Code and an agreement that it must have the remedies provided in its articles of association and that neither the contract nor his office is capable of assignment;

(b) an undertaking by the director or senior management to it acting as agent for each shareholder to observe and comply with his obligations to our shareholders as stipulated in the articles of association; and

(c) an arbitration clause which provides that whenever any disputes or claims arise from the contract, its articles of association or any rights or obligations conferred or imposed by the PRC Company Law or other relevant law and administrative regulations concerning affairs between us and its directors or senior management and between a holder of H shares and a director or senior management, such disputes or claims will be referred to arbitration at either the CIETAC in accordance with its rules or the HKIAC in accordance with its Securities Arbitration Rules, at the election of the claimant and that once a claimant refers a dispute or claim to arbitration, the other party shall submit to the arbitral tribunal elected by the claimant. Such arbitration will be final and conclusive. If the party seeking arbitration elects to arbitrate the dispute or claim at HKIAC, then either party may apply to have such arbitration conducted in Shenzhen, according to the Securities Arbitration Rules of the HKIAC. PRC laws shall govern the arbitration of disputes or claims referred to above, unless otherwise provided by law or administrative regulations. The award of the arbitral tribunal is final and shall be binding on the parties thereto. Disputes over who is a shareholder and over the share registrar do not have to be resolved through arbitration.

A PRC issuer is also required to enter into a contract in writing with every supervisor containing statements in substantially the same terms.

Subsequent Listing

A PRC issuer must not apply for the listing of its H shares on a PRC stock exchange unless the Hong Kong Stock Exchange is satisfied that the relative rights of the holders of its H shares are adequately protected.

English Translation

All notices or other documents required under the Listing Rules to be sent by a PRC issuer to the Hong Kong Stock Exchange or to holders of the H shares are required to be in English, or accompanied by a certified English translation.

General

If any change in the PRC law or market practices materially alters the validity or accuracy of any basis upon which the additional requirements have been prepared, the Hong Kong Stock Exchange may impose additional requirements or make listing of H shares by a PRC issuer subject to special conditions as the Hong Kong Stock Exchange may consider appropriate. Whether or not any such changes in the PRC law or market practices occur, the Hong Kong Stock Exchange retains its general power under the Listing Rules to impose additional requirements and make special conditions in respect of any company's listing.

3. OTHER LEGAL AND REGULATORY PROVISIONS

Upon the listing on the Hong Kong Stock Exchange, the provisions of the SFO, the Hong Kong Takeovers Code and such other relevant ordinances and regulations will apply to a PRC issuer.

4. SECURITIES ARBITRATION RULES

The Securities Arbitration Rules of the HKIAC contain provisions allowing, upon application by any party, an arbitral tribunal to conduct a hearing in Shenzhen for cases involving the affairs of companies incorporated in the PRC and listed on the Hong Kong Stock Exchange so that PRC parties and witnesses may attend. Where any party applies for a hearing to take place in Shenzhen, the tribunal shall, where satisfied that such application is based on bona fide grounds, order the hearing to take place in Shenzhen conditional upon all parties, including witnesses and arbitrators, being permitted to enter Shenzhen for the purpose of the hearing. Where a party, other than a PRC party, or any of its witnesses or any arbitrator is not permitted to enter Shenzhen, then the tribunal shall order that the hearing be conducted in any practicable manner, including the use of electronic media. For the purpose of the Securities Arbitration Rules, a PRC party means a party domiciled in the PRC other than the territories of Hong Kong, Macau and Taiwan.

This Appendix sets out summaries of the main clauses of our Articles of Association adopted on 8 August 2015 and its subsequent amendments which shall become effective as of the date on which the H Shares are listed on the Hong Kong Stock Exchange. As the main purpose of this Appendix is to provide potential investors with an overview of the Articles of Association, it may not necessarily contain all data that is important for investors. As discussed in "Appendix VIII — Documents Delivered to the Registrar of Companies and Available for Inspection" to this prospectus, the full document of the Articles of Association in Chinese is available for examination.

1 DIRECTORS AND BOARD OF DIRECTORS

(a) Power to allocate and issue shares

The Articles of Association does not contain clauses that authorise the Board of Directors to allocate or issue shares. The Board of Directors shall prepare proposals for allotment or issuance of shares, which are subject to approval by the Shareholders at the shareholders' general meeting by a special resolution. Any such allotment or issue shall be in accordance with the procedures stipulated in applicable laws and administrative regulations.

(b) Power to dispose assets of our Company or our subsidiaries

If the sum of the expected value of the fixed assets to be disposed of, and the amount or value of the cost received from the fixed assets of our Company disposed of within the four months immediately preceding this suggestion for disposal exceeds 33% of the value of fixed assets of our Company indicated on the latest audited balance sheet submitted to the Shareholders at the shareholders' general meeting, the Board of Directors shall not dispose or agree to dispose such fixed assets without the prior approval of Shareholders at the shareholders' general meeting. The above disposal refers to the transfer of rights and interests in certain assets, but does not include the provision of guarantees with fixed assets. The validity of the transactions with respect to the disposal of fixed assets of our Company shall not be affected by the violation of the above restrictions contained in the Articles of Association.

(c) Indemnification or compensation for loss of office

As provided in the contract entered into between our Company and the Directors or Supervisors in connection with their emoluments, they are entitled to compensation or other payments for loss of office or retirement as a result of the acquisition of our Company, subject to the prior approval of the Shareholders at the shareholders' general meeting. Acquisition of our Company refers to any of the following circumstances:

(i) An offer made to all the Shareholders; or

(ii) An offer made by any person such that the offeror will become the Controlling Shareholder of our Company (as defined in the Articles of Association).

If the relevant Director or Supervisor fails to comply with the above requirements, any payment received shall belong to the person who sells the shares for accepting the aforesaid offer. The Director or Supervisor shall bear all expenses arising from the distribution of such payments to the person in a proportional manner and all related expenses shall not be deducted from these payments distributed.

(d) Loans to Directors, Supervisors or other management personnel

Our Company shall neither provide the Directors, Supervisors or senior management of our Company or our parent company with loans or loan guarantees, directly or indirectly, nor provide persons related to the above personnel with loans or loan guarantees.

The following transactions are exempted from the above clauses:

(i) Our Company provides our subsidiaries with loans or loan guarantees;

(ii) Our Company provides any of the Directors, Supervisors or senior management with loans, loan guarantees or any other fund pursuant to the employment contracts approved at the shareholders' general meeting to pay all expenses incurred for the purpose of our Company or performing our duties; and

(iii) In case that the normal scope of business of our Company covers the provision of loans or loan guarantees, our Company may provide any of the Directors, Supervisors or senior management or other related personnel with loans or guarantees for loans, provided that the conditions governing the above loans or loan guarantees shall be normal commercial conditions.

In the event that our Company provides loans in violation of this restriction, the person who receives the loan(s) shall payoff the loan(s) immediately, regardless of the conditions of loans. Any loan provided by our Company in violation of the above requirements shall not be mandatorily enforced against us, unless under the following circumstances:

(i) The loan provider unknowingly provides loans to personnel related to the Directors, Supervisors or senior management of our Company or its parent company; or

(ii) The collateral provided by our Company is sold lawfully by the lender to the buyer in good faith.

For the purpose of the above provisions, "guarantee" includes the acts of the guarantor bearing the liabilities or providing properties to ensure that the obligor performs the obligations.

(e) Provide financial aid for acquiring the Shares or shares of any of our subsidiaries

Pursuant to the Articles of Association:

(i) Our Company or our subsidiaries shall not provide any financial assistance at any time or in any manner to person who acquires or plans to acquire our Shares. Such person includes any who undertake obligations, directly or indirectly, from acquiring the Shares; and

(ii) Our Company or any of our subsidiaries shall not provide personnel mentioned in the preceding paragraph with financial aid at any time or in any manner to mitigate or exempt the obligations of the above personnel.

The following transactions are not prohibited:

(i) Financial aid provided by our Company which is in good faith in our interest and the main purpose of the financial aid is not to acquire our Shares or is an incidental part of a master plan of our Company;

(ii) The lawful distribution of our properties by way of dividend;

(iii) Distribution of dividends in the form of shares;

(iv) Reducing the registered capital, redeeming the Shares or adjusting the equity structure pursuant to the Articles of Association;

(v) Our Company grants loans within our scope of business and in the ordinary course of our business, provided that such loans shall not result in reduction in the net assets of our Company or even if the net assets are reduced, this financial aid is paid from the profit available for distribution; and

(vi) Our Company provides the employee stock ownership plan with fund, provided that such loans shall not result in reduction in the net assets of our Company or, even if the net assets are reduced, this financial aid is paid from the profit available for distribution.

For the purpose of the above provisions:

(i) "Financial aid" includes, but is not limited to:

(aa) Gifts;

(bb) Guarantees (including acts of the guarantor assuming liabilities or providing property to ensure that the obligor performs the obligations), compensation (excluding compensation arising from mistakes of our Company), release or waiver of rights;

(cc) Provision of loans or signing of contracts whereby our Company performs some obligations before others, change of the parties to the loans/contracts as well as the assignment of the rights in the loans/contracts; or

(dd) Financial aid provided by our Company in any other manner when it is insolvent, has no net assets, or will suffer significant decreases in net assets.

(ii) "Assuming obligations" includes an obligator undertaking obligations by signing agreements or making arrangements (no matter whether the agreements or arrangements are enforceable on demand or bearing the obligations by itself or jointly with any other person) or changing its financial status in any other manner.

(f) Disclose matters relating to the contract rights of our Company and voting on the contract

When any of the Directors, Supervisors and senior management has material interests in the contracts, transactions or arrangements that our Company has entered into or plans to enter into in any manner directly or indirectly (except for employment contracts that our Company has entered into with the Directors, Supervisors and senior management), the above personnel shall disclose the nature and degree of their interests to the Board of Directors as soon as possible no matter whether the above contracts, transactions, arrangements or suggestions are subject to the approval of the Board of Directors in normal circumstances.

With respect to any contract, transaction, arrangement or proposal in which a Director or his associates have a material interest, subject to such certain exceptions available under the Hong Kong Listing Rules or such exceptions as the Hong Kong Stock Exchange may approve, the Director shall withdraw and not participate in voting; and the Director shall not be included when determining whether the number of directors attending the meeting reaches a quorum.

Unless the Directors, Supervisors and senior management who have interests have made disclosure to the Board of Directors in accordance with the above requirements and the Board of Directors approves the matters at the meeting in which they are not included in the quorum nor participate in voting, our Company shall have the right to cancel the contracts, transactions or arrangements, except where the opposite party is a party in good faith without knowledge of the acts of related Directors, Supervisors and senior management violating their obligations.

Where associates of the Directors, Supervisors and senior management have interests in certain contracts, transactions and arrangements, the related Directors, Supervisors and senior management shall be deemed to have interests.

(g) Remuneration

Our Company shall sign written agreements with the Directors and Supervisors regarding remuneration, which shall be subject to prior approval of the shareholders' general meeting, including:

(i) Remuneration for providing services as the Directors, Supervisors or senior management of our Company;

(ii) Remuneration for providing services as the Directors, Supervisors or senior management of our subsidiaries;

(iii) Remuneration for providing other services for management of our Company and our subsidiaries; and

(iv) Compensation to be received by the Directors or Supervisors as a result of loss of position or retirement.

No Director or Supervisor shall institute any litigation against our Company over any interests payable relative to the above unless provided for in the above contracts.

(h) Resignation, Appointment and Dismissal

None of the following persons shall serve as our Director, Supervisor, general manager or other senior management:

(i) Anyone who has no civil capacity or has limited civil capacity;

(ii) Anyone who has been convicted of the offence of corruption, bribery, embezzlement, larceny, or disrupting the social economic order and is within five years of the expiry date of punishment or has been deprived of political rights because of this conviction and is within five years of the expiry date of the sentence;

(iii) Anyone who has served as director, factory manager or manager of a company or enterprise that is bankrupt and liquidated as a result of improper management, was personally liable for the bankruptcy of the company or enterprise, and is within three years of the date of completion of bankruptcy and liquidation of the company or enterprise;

(iv) Anyone who has served as the legal representative of a company or enterprise whose business licence was revoked due to violation of the law, was personally liable, and is within three years of the date on which the business licence of such company or enterprise was revoked;

(v) Anyone who has a large sum of debt, which was not paid at maturity;

(vi) Anyone who is investigated by the judicial agencies for violation of criminal law and whose case is pending;

(vii) Anyone who may not serve as a head of the company pursuant to the provisions of the laws and administrative regulations, or regulations of the competent authorities;

(viii) Anyone who is not a natural person;

(ix) Anyone judged by the competent agencies to have violated the provisions of relevant securities laws, has been involved in deceptive or dishonest acts and is within five years of the date on which the judgement was made;

(x) Other circumstances which are applicable pursuant to the provisions of the laws and administrative regulations, or regulations of the competent authorities.

The validity of the acts of the Directors, general manager or senior management on behalf of our Company to bona fide third parties shall not be affected by any irregularities in their appointment, election or qualifications.

The Board of Directors consists of eight directors and these are elected at the shareholders' general meeting. The Directors shall not hold any of our Shares.

The chairman and vice chairman of the Board shall be elected and dismissed by a vote of more than one half of the Directors. Subject to compliance with relevant laws and administrative regulations, the shareholders' general meeting may remove any Director whose term has not expired by an ordinary resolution without affecting any claim for damages that may be made pursuant to any contract.

The Directors serve three-year terms. Upon expiration of the term, the Director may be re-elected.

Written notice concerning proposed nomination of a director candidate and indication of the candidate's intention to accept the nomination shall be sent to our Company ten days before the shareholders' general meeting is convened (the period shall commence on the day after the dispatch of the notice of the shareholders' general meeting appointed for such election by our Company).

(i) Power to Obtain Loans

Subject to compliance with the laws and administrative regulations of the PRC, our Company has the right to raise funds and obtain loans, including (but not limited to) issuing bonds, mortgaging or pledging all or part of the properties of our Company, as well as exercising other rights approved by the laws and administrative regulations of the PRC, provided that such action shall not undermine or revoke the rights of any Shareholder.

The Articles of Association does not include any special provision regarding the manner in which the Directors may exercise the right to obtain loans or the manner in which such a right is created except (a) the provision regarding the power of the Directors to develop schemes for our Company to issue bonds, and (b) the provision that the bond issue shall be approved by the Shareholders through a special resolution at the shareholders' general meeting.

(j) Responsibilities

The Directors, Supervisors and senior management shall bear the obligations of good faith and diligence towards our Company. In the event of violation of obligations owed to our Company by the Directors, Supervisors and senior management, we shall have the right to take the following measures in addition to various rights and remedial measures stipulated in legal and administrative regulations:

(i) Require related Directors, Supervisors or senior management to compensate our Company for losses sustained as a result of their neglect of duty;

(ii) Cancel any contract or transaction entered into between the Company and related Directors, Supervisors or senior management as well as any contract or transaction entered into between our Company and any third person when the third person knew or should have known that the Directors, Supervisors or senior management acting on behalf of our Company violated their obligations owed to our Company;

(iii) Require related Directors, Supervisors or senior management to turn over the proceeds obtained from the violation of their obligations;

(iv) Recover funds collected by related Directors, Supervisors or senior management that should have been collected for our Company, including but not limited to commissions;

(v) Require related Directors, Supervisors or senior management to return to the Company the interest earned or that may be earned from funds that should have been paid to our Company.

When performing their responsibilities, the Directors, Supervisors and senior management shall comply with the principle of integrity and shall not put themselves in situations where their own interests may conflict with the obligations they have undertaken. This principle includes, but is not limited to, performing the following obligations:

(i) Sincerely taking the best interests of our Company as the starting point of any action;

(ii) Exercising one's rights within but not exceeding the scope of authority;

(iii) Exercising conferred discretionary powers personally without being manipulated by others; not transferring discretionary powers to other persons unless and to the extent permitted by laws and administrative regulations or with the informed consent of Shareholders given in the shareholders' general meeting;

(iv) Treating Shareholders of the same type equally and Shareholders of different types fairly;

(v) Entering into any contract, transaction or arrangement with our Company is not allowed, unless in line with the Articles of Association or otherwise by the approval of the shareholders' general meeting with its full knowledge;

(vi) Seeking private gain using the properties of our Company in any manner is not allowed, unless agreed by the shareholders' general meeting with its full knowledge;

(vii) Using one's position to take bribes or other illegal gains is not allowed, nor is any form of embezzlement of our property, including, but not limited to, opportunities beneficial to our Company;

(viii) Accepting commissions associated with transactions of our Company is not allowed unless agreed by the shareholders' general meeting with its full knowledge;

(ix) Compliance with the Articles of Association, discharging duties in a faithful manner, safeguarding the interests of our Company rather than seeking private gain by taking advantage of one's position and authority in our Company;

(x) Competing with our Company in any manner is not allowed, unless agreed by the Shareholders at the shareholders' general meeting with its full knowledge;

(xi) Misappropriation of our funds or lending these funds to others is not allowed, nor is depositing the assets of our Company in an account opened in one's own name or other names, nor is using the assets of our Company to provide guarantees for the debts of the Shareholders or other individuals;

(xii) Disclosure of any confidential information relating to our Company obtained during employment without the consent of the shareholders' general meeting with its full knowledge; unless in the interest of our Company, using such information is also not allowed; however, under the following circumstances the information may be disclosed to a court or other competent government agencies as required by (1) the provisions of the law; (2) the public interest; (3) the interest of the Directors, Supervisors or senior management.

The Directors, Supervisors and senior management may not direct the following personnel or institutions ("related personnel") to do acts that the Directors, Supervisors and senior management are prohibited from doing:

(i) Spouses or minor children of the Directors, Supervisors and senior management;

(ii) Trustors of the Directors, Supervisors and senior management or the persons mentioned in (i);

(iii) Partners of the Directors, Supervisors and senior management or persons mentioned in (i) and (ii);

(iv) The company under de facto control by the Directors, Supervisors and senior management individually or jointly with the persons or other directors, supervisors and senior management of companies mentioned in (i), (ii) and (iii);

(v) Directors, Supervisors or senior management of the controlled companies mentioned in (iv).

The good faith obligation owed by the Directors, Supervisors and senior management may not necessarily terminate with the expiration of their terms; their obligation to keep the trade secrets of our Company in confidence shall survive the expiration of their terms, until such secrets become public available. The duration of other obligations shall be determined in accordance with the principle of fairness, depending on the length of time from the occurrence of the events to the time of resignation, as well as the circumstances and conditions under which the relationship with our Company is terminated.

Unless or otherwise provided in the Articles of Association, liabilities of Directors, Supervisors and senior management arising from the violation of specific duties may be released by informed Shareholders in shareholders' general meetings.

Apart from the obligations set forth in relevant laws, administrative regulations or the listing rules of the stock exchange where the Shares are listed, the Directors, Supervisors or senior management shall assume the following obligations for each of the Shareholders when exercising their rights and performing their responsibilities:

(i) They may not cause our Company to operate beyond the scope of business indicated on our business licence;

(ii) They shall sincerely take the best interests of our Company as the starting point of any action;

(iii) They may not deprive our Company of our properties in any manner, including, but not limited to, opportunities beneficial to our Company; and

(iv) They may not deprive the Shareholders of personal rights and interests, including, but not limited to, the right to receive dividends distributed and to vote, except for restructuring of our Company approved at the shareholders' general meeting pursuant to the provisions of the Articles of Association.

The Directors, Supervisors and senior management have the responsibility when exercising their rights or carrying out their obligations to act with the care, diligence and skill due from a reasonably prudent person under similar circumstances.

2 MODIFICATION OF THE ARTICLES OF ASSOCIATION

We may amend the Articles of Association based on the provisions of relevant laws, administrative regulations and Articles of Association.

Any amendment to the Articles of Association that involves Mandatory Provisions shall be approved by company approval authorities authorised by the State Council before taking effect.

Where the amendment of the Articles of Association involves our registration, it shall be necessary to carry out the lawfully prescribed procedures for registration change.

3 SPECIAL VOTING PROCEDURES OF CLASS SHAREHOLDERS

Any Shareholder who holds different types of Shares is a class Shareholder. Any plan of our Company to change or abolish the rights of a class Shareholder is subject to the approval of the shareholders' general meeting in the form of a special resolution and the approval of the affected class Shareholders at a separately convened shareholders' general meeting in accordance with the Articles of Association before it can be implemented. The rights of a class Shareholder shall be viewed as changed or abolished under any of the following circumstances:

(a) Increase/reduce the number of the class Shares, or increase/reduce the number of class Shares with equal or more voting rights, distribution rights and other privileges than this type of class Shares;

(b) Convert all or part of the class Shares into other types or convert another type of Shares, partly or wholly, into this type of class Shares or grant such conversion right;

(c) Cancel/reduce the right of the class Shares to obtain dividends generated or cumulative dividends;

(d) Reduce/cancel the right of the class Shares to receive dividends on a priority basis or the priority right to receive property distribution in the liquidation of our Company;

(e) Increase/cancel or reduce the right of the class Shares to convert Share rights, options rights, voting rights, transfer rights, and pre-emptive rights, or the right to obtain the securities of our Company;

(f) Cancel/reduce the right of the class Shares to receive funds payable of our Company in specified currencies;

(g) Create new class Shares entitled to equal or more voting rights, distribution rights, or other privileges than the class Shares;

(h) Impose restrictions on the transfer or ownership of the class Shares or increase such restrictions;

(i) Issue subscription or conversion rights for this or other class Shares;

(j) Increase the rights and privileges of other types of Shares;

(k) The restructuring plan of our Company may constitute different types of Shareholders to assume responsibilities disproportionately;

(l) Amend or abolish clauses stipulated in our Articles of Association.

Whether or not the affected class Shareholders have voting rights at the shareholders' general meeting, in the event of matters described above from (b) through (h), (k) and (l), they have voting rights at the class shareholders' general meeting, but the Shareholders that have interests at stake (as defined in our Articles of Association) shall have no voting rights at the class shareholders' general meeting.

The resolution of the class shareholders' general meeting shall be passed by votes representing more than two thirds of Shareholders with voting rights attending the class shareholders' general meeting.

When convening a class shareholders' general meeting, 45 days (excluding the date of the meeting) before the meeting is convened, our Company shall send a written notice to inform all registered holders of the class Shares on matters to be deliberated at the meeting, as well as the date and venue of the meeting. Shareholders planning to attend the meeting shall send our Company a written reply concerning attendance at the meeting 20 days before the meeting.

In the event that the number of shares with voting power represented by Shareholders planning to attend the meeting accounts for more than one half of the total number of said class Shares with voting power at the meeting, our Company may convene a class shareholders' general meeting. If this number is not reached, our Company shall again inform the Shareholders of the matters to be deliberated as well as the date and venue of the meeting within five days in the form of an announcement.

Our Company may convene a class shareholders' general meeting once the announcement is delivered.

The notice of the class shareholders' general meeting shall be sent to the Shareholders who have the right to vote at the meeting only.

Insofar as possible, any class shareholders' general meeting shall be held in accordance with the same procedures as those of the shareholders' general meeting, and any clause that relates to the procedures for convening the shareholders' general meeting in the Articles of Association shall apply to any class shareholders' general meeting.

Apart from the holders of other class Shares, the holders of Domestic Shares and the holders of overseas listed foreign Shares are considered as different class Shareholders.

The special procedures for voting by the class Shareholders shall not apply under the following circumstances:

(a) Upon the approval by a special resolution at the shareholders' general meeting, our Company either separately or concurrently issues Domestic Shares and overseas listed foreign shares once every 12 months, and the number of those shares to be issued shall not account for more than 20% of each of its outstanding shares;

(b) The plan to issue Domestic Shares and overseas-listed foreign Shares upon the establishment of our Company is completed within 15 months of the date of approval by the securities regulatory agency of the State Council;

(c) Upon the approval by the securities regulatory authorities of the State Council, the unlisted Shares held by our Shareholders become listed or traded on an overseas stock exchange.

4 SPECIAL RESOLUTIONS SHALL BE ADOPTED BY MAJORITY VOTE

The resolutions of the shareholders' general meeting are categorised as ordinary resolutions and special resolutions.

An ordinary resolution can be adopted by a simple majority of the votes held by the Shareholders (including proxies) attending the shareholders' general meeting.

A special resolution can be adopted by a two-thirds majority of the votes held by the Shareholders (including proxies) attending the shareholders' general meeting.

5 VOTING RIGHTS (GENERALLY ON A POLL AND RIGHT TO DEMAND A POLL)

The ordinary Shareholders have the right to attend or appoint a proxy to attend and vote at the shareholders' general meeting. When voting at the shareholders' general meeting, the Shareholder (or proxy) may exercise his or her voting rights in accordance with the number of shares with voting power held with each share representing one vote.

When voting at a shareholders' general meeting, Shareholders (including their proxies) who are entitled to two or more votes are not required to vote against or in favour with their total number of votes.

When the number of dissenting votes equals the number of supporting votes, the chairman of the meeting is entitled to one additional vote.

6 SHAREHOLDERS' GENERAL MEETINGS

The general shareholders' general meetings are divided into annual general meetings and extraordinary general meetings. Shareholders' general meetings are called by the Board of Directors. The annual general meeting shall be convened once a year and be held within six months of the end of the previous fiscal year.

7 ACCOUNTING AND AUDITS

(a) Financial and accounting policies

Our Company shall develop its financial accounting policies pursuant to PRC laws, administrative regulations, as well as accounting standards developed by the competent department in charge of finance under the State Council.

The Board of Directors shall submit the financial reports of our Company, as required by the laws, administrative regulations or directives promulgated by local governments and competent authorities to be prepared by our Company, at every annual general meeting.

Apart from the Chinese accounting standards for business enterprises and regulations, the financial reports of our Company shall also conform to international accounting standards and the accounting standards of overseas areas where the Shares are listed. In the event of any major discrepancy between the financial reports prepared in accordance with the two accounting standards, such difference shall be provided in the notes to the financial reports. As to the distribution of after-tax profits of our Company in a fiscal year, the after-tax profits indicated on the two financial reports, whichever is lower, shall prevail.

Our Company shall make its financial reports available for inspection by the Shareholders 20 days before the annual general meeting is convened. Each Shareholder is entitled to obtain one copy of the financial report.

Our Company shall send the aforesaid reports to each of the holders of overseas listed foreign shares by the manner as stipulated in the Articles of Association of our Company or by postage-paid mail at least 21 days before the annual general meeting is convened and the recipient's address shall be the address as shown in the register of Shareholders.

Our Company's interim results or financial information published or disclosed by our Company shall at the same time be prepared in accordance with PRC accounting standards, regulations, international accounting standards as well as the accounting standards of the overseas areas in which the Shares are listed.

Our Company shall publish the financial reports twice in each fiscal year. An interim financial report shall be published within 60 days of the end of the first six months of a fiscal year, while the annual financial report shall be published within 120 days of the completion of each fiscal year.

The Company shall not keep any accounting books other than those specified by law.

(b) Appointment and Dismissal of Accountants

Our Company shall appoint an independent accounting firm that conforms to applicable requirements of the state to be responsible for auditing its annual report and other financial reports.

The term of the accounting firm appointed by our Company shall start at the close of the annual general meeting and continue until the close of the next annual general meeting.

Without prejudice to the right of the accounting firm to claim for compensation (if any) for being dismissed and replaced, the Shareholders may replace the accounting firm through an ordinary resolution at the shareholders' general meeting prior to the expiration of the term of any accounting firm notwithstanding the terms and conditions of the contract howsoever entered into between our Company and the accounting firm.

Remuneration of the accounting firm and the manner in which the remuneration is determined shall be decided on by the Shareholders at the shareholders' general meeting. The remuneration of the accounting firm appointed by the Board of Directors shall be confirmed by the Board of Directors.

Appointment, dismissal/replacement or termination of the contract with the accounting firm by our Company is subject to the resolution of the Shareholders at the shareholders' general meeting and shall be filed with the securities regulatory authority of the State Council.

Before dismissing, reappointing, replacing or terminating the contract with the accounting firm, our Company shall send a notice to the accounting firm in advance notifying it of the matters relating to the dismissal, reappointment, replacement or contract termination, and the accounting firm shall be entitled to attend the shareholders' general meeting and make a statement.

In the event that the accounting firm requests to resign, it shall declare to the shareholders' general meeting whether our Company is affected by any improprieties.

The accounting firm shall resign by sending a written resignation notice to our Company's legal address. The notice shall take effect on the date of delivery to that address or on the date specified in the notice, whichever is later.

The notice shall include the following statements:

(i) Its resignation does not include any statement that should be disclosed to the Shareholders or creditors of our Company; or

(ii) Any statement that should be disclosed.

Within 14 days of receipt of the notice mentioned above, our Company shall send the copy of the notice to related competent authorities. If the notice includes statements mentioned in (ii) of the preceding paragraph, our Company shall retain a copy thereof for perusal by the Shareholders and deliver such copy in accordance with Articles of Association or send a copy of the above-mentioned statements to Shareholders of overseas listed foreign shares in accordance with the addresses registered on the register of Shareholders by postage-prepaid mail.

In the event that the resignation notice of the accounting firm includes any statement that should be disclosed to the Shareholders or creditors, the accounting firm may request the Board of Directors to convene an extraordinary general meeting to hear its explanations regarding the resignation.

8 NOTIFICATION AND AGENDA OF SHAREHOLDERS' GENERAL MEETINGS

The shareholders' general meeting is the authorised organ of our Company that can perform duties and exercise powers in accordance with the law.

Apart from special circumstances such as where our Company is in crisis, without the approval of a special resolution of the shareholders' general meeting, our Company shall not enter into a contract with any person other than the Directors, Supervisors and senior management that would make a person responsible for the management of all or part of the main business of our Company.

Under any of the following circumstances, the Board of Directors shall convene an extraordinary general meeting within two months:

(a) The number of Directors is less than the number specified in the PRC Company Law or less than two thirds of the number required in the Articles of Association;

(b) The uncovered losses of our Company reach one-third of its total paid-in share capital;

(c) The Shareholders with 10% or more voting power separately or jointly request to convene an extraordinary general meeting in writing;

(d) The Board of Directors considers it necessary or the Board of Supervisors proposes convening an extraordinary general meeting; or

(e) Any other circumstances stipulated in laws, administrative regulations, regulations of the competent authorities or the Articles of Association.

When convening a shareholders' general meeting, our Company shall send a written notice to inform all registered Shareholders of the matters to be deliberated at the meeting as well as the date and venue of the meeting 45 days before it is convened (excluding the date of meeting). Shareholders planning to attend shall send to our Company a written reply to that effect 20 days before the meeting is held.

At our Company's shareholders' general meeting, the Shareholders jointly holding 3% or more of Shares with voting power are entitled to submit written proposals to our Company.

Our Company shall calculate the number of Shares with voting power represented by the Shareholders planning to attend the shareholders' general meeting in accordance with the written replies received 20 days before the meeting is convened. In the event that the number of Shares with voting power represented by the Shareholders planning to attend reaches more than one half of our total number of Shares with voting power, our Company may convene the shareholders' general meeting. If this number is not reached, our Company shall again inform the Shareholders of the matters to be deliberated and the date and venue of the meeting within five days in the form of an announcement before the shareholders' general meeting may be convened.

The notice of the shareholders' general meeting shall be in writing and meet the following requirements:

(a) Specified venue, date and time of the meeting;

(b) Specified matters to be deliberated at the meeting;

(c) Provision to the Shareholders of the detailed information and contract and the materials and explanations about the cause and consequence necessary for the Shareholders to make sound decisions about the matters to be deliberated. This principle includes, but is not limited to, the provision of the detailed terms and contract(s), if any, of the proposed transaction(s) and proper explanations about relevant causes and effects when our Company proposes merger(s), redemption of shares, restructuring of stock capital or other restructuring;

(d) In the event that any of the Directors, Supervisors, managers or other senior management has material interests at stake in matters to be deliberated, the nature and extent of the interests at stake shall be disclosed. If the matters to be deliberated affect any Director, Supervisor, manager or other senior management as a Shareholder in a manner different from how they affect other Shareholders of the same type, the difference shall be explained;

(e) Inclusion of the full text of any special resolution to be proposed for adoption at the meeting;

(f) A clear explanation that the Shareholder is entitled to attend and vote at the shareholders' general meeting, or to appoint one or more entrusted representative to attend and vote at the meeting on his or her behalf and that such may not necessarily be Shareholders; and

(g) Specified delivery time and place of the power of attorney for proxy voting of the meeting.

The notice and circular of the shareholders' general meeting of the Company shall be sent in person or by postage-paid mail, to the holders of H Shares in accordance with the relevant provisions of the Hong Kong Listing Rules regardless of whether such Shareholders have the right to vote at the shareholders' general meeting, and each recipient's address shall be according to the address indicated on the register of Shareholders. For holders of Domestic Shares, the notice of our shareholders' general meeting may be given in the form of an announcement.

This announcement shall be published in one or more newspapers designated by the securities regulatory authority of the State Council within a period of 45 to 50 days before the meeting is convened. Once the announcement is made, all holders of Domestic Shares shall be deemed to have received the notice of our shareholders' general meeting. In the event that the notice of the meeting is not sent to persons entitled to receive it due to accident or oversight, or such persons fail to receive notice of the meeting, the meeting and resolutions made at the meeting shall not be thereby affected.

An extraordinary general meeting or class shareholders' general meeting required by Shareholders shall be convened in accordance with the following procedures:

(a) Shareholders who separately or jointly hold 10% or more of our Shares carrying voting rights may request the Board to convene an extraordinary general meeting or class shareholders' general meeting by signing a written requirement or several copies with the same format and to illustrate the subject of the meetings. The Board shall convene an extraordinary general meeting or class shareholders' general meeting as soon as practicably upon receipt of the foresaid written requirement. The aforesaid number of share holdings is calculated as at the date of the submission of the written requirement by the Shareholders.

(b) In the event that the Board cannot or fails to perform its duty to convene a meeting, the Board of Supervisors shall convene and chair the meeting in time; if the Board of Supervisors fails to convene and chair the meeting, the Shareholders who separately or jointly hold more than 10% of the Shares of our Company within more than 90 consecutive days may convene and chair the meeting by themselves.

If the Shareholders call and convene a meeting by themselves since the Board cannot convene a meeting in accordance with the foresaid requirement, the expenses reasonably resulted therefrom shall be borne by our Company and deducted from the amounts owed to the Directors as a result of loss of office.

Shareholders who separately or jointly hold more than 3% of the Shares of our Company may submit a written temporary proposal to the Board 10 days before the convening of the shareholders' general meeting; the Board shall notify other Shareholders within 2 days upon receiving the proposal and submit this temporary proposal to the shareholders' general meeting for consideration. The contents of the temporary proposal shall fall into the category of the terms of reference of the shareholders' general meeting and it shall have the explicit subject and specific resolutions.

Apart from aforesaid matters, the convener shall not amend the proposals stated in the notice of the shareholders' general meeting or add new proposals upon issuance of the announcement on the notice of the shareholders' general meeting.

The shareholders' general meeting shall be convened by the Board and chaired by the Chairman; if the Chairman cannot or fails to perform his duties, the shareholders' general meeting shall be chaired by the vice chairman; if the vice chairman cannot or fails to perform his duties, the shareholders' general meeting shall be chaired by a Director co-elected by more than half of the Directors. If the Board cannot or fails to perform its duty to convene the shareholders' general meeting, the Board of Supervisors shall convene and chair the meeting in time; if the Board of Supervisors cannot or fails to perform its duty to convene and chair the shareholders' general meeting, the Shareholders who separately or jointly hold more than 10% of our Company's Shares within more than 90 consecutive days may convene and chair the meeting by themselves. If the Shareholders cannot elect the chairman due to any reason, the Shareholder (including his proxy) presented at the meeting who hold the Shares carrying the maximum voting rights shall act as the chairman of the meeting.

The following matters shall be approved by ordinary resolution at the shareholders' general meeting:

(a) Work reports of the Board of Directors and Board of Supervisors;

(b) Plans of earnings distribution and loss make-up schemes drafted by the Board of Directors;

(c) Appointment or dismissal of the members of the Board of Directors and the members of Board of Supervisors who are not assumed by staff representatives, their remuneration and payment methods;

(d) Annual budget/final account report, balance sheet, income statement and other financial statements of our Company;

(e) Other matters in addition to those approved by special resolution stipulated in the laws, administrative regulations or the Articles of Association.

The following matters shall be approved by special resolution at the shareholders' general meeting:

(a) Our Company's capital stock increases/decreases and issues of any type of shares, warrants and other similar securities;

(b) Our Company's bond issues;

(c) Division, merger, dissolution and liquidation of our Company and the change of form of our Company;

(d) Amendment of the Articles of Association;

(e) Other matters as required by the laws, administrative regulations or the Articles of Association shall be approved by special resolution, and as approved by ordinary resolution of the shareholders' general meeting which are believed could materially affect our Company and shall be approved by special resolution.

9 SHARE TRANSFERS

All fully paid up overseas listed foreign shares listed in Hong Kong shall be exempted from any restriction on the right of transfer (except when permitted by the Hong Kong Stock Exchange) and shall also be exempted from all lien pursuant to the Articles of Association.

However, unless the overseas listed foreign shares listed in Hong Kong meet the following conditions, the Board of Director may refuse to recognise any transfer document without giving any reason:

(a) Any instrument of transfer or other documents which are related to or will affect the ownership of Shares shall be subject to registration, and a fee thereupon shall be paid to the Company at a rate to be stipulated by the Listing Rules;;

(b) The transfer documents only involve overseas listed foreign shares listed in Hong Kong;

(c) The stamp duty chargeable on the transfer documents has been paid and this has been registered in accordance with the regulations of the Hong Kong Stock Exchange;

(d) The relevant Share certificate, and upon the reasonable request of the Board of Directors, any evidence in relation to the right of the transferor to transfer the Shares has been submitted;

(e) If the Shares are to be transferred to joint holders, the number of the joint holders shall not exceed four; and

(f) Our Company does not have any lien on the relevant Shares.

No change shall be made to the information in the register of Shareholders as a result of the share transfer within 30 days before the shareholders' general meeting is convened or within five days prior to the record date on which our Company has decided to distribute dividends.

10 RIGHTS OF OUR COMPANY TO BUY BACK OUR OUTSTANDING ISSUED SHARES

Under any of the following circumstances, our Company may buy back our outstanding issued Shares pursuant to the requirements of the laws, administrative rules and regulations and the Articles of Association:

(a) Cancellation of the Shares to reduce our Company's share capital;

(b) Merger with other companies which hold these Shares;

(c) Granting Shares to the staff of our Company as incentives;

(d) Buying back the Shares from Shareholders who vote against any resolutions adopted at the shareholders' general meeting concerning the merger and division of our Company; or

(e) Other circumstances as required by the laws and administrative regulations and as approved by the competent authorities of the PRC.

In the event our Company buys back the Shares for reasons stated in (a) through (c) of the preceding paragraph, related resolutions shall be adopted at the shareholders' general meeting. If our Company buys back the Shares according to the provision of the preceding paragraph under the circumstances set forth in (a), the Shares bought back shall be cancelled within ten days of the date on which they are bought back. In the event of the circumstances set forth in (b) and (d) the Shares bought back shall be transferred or cancelled within six months.

In the event that our Company buys back the Shares pursuant to the provisions of (c) in the preceding paragraph, the Shares bought back may not exceed 5% of the total Shares issued. The fund used for such buyback shall be allocated from the after-tax net profit of our Company and the Shares bought back shall be transferred to the staff within one year.

Our Company may buy back Shares in any of the following ways:

(a) Making a comprehensive buyback offer on a pro-rata basis to all Shareholders;

(b) Buying back Shares through public trading on a stock exchange;

(c) Buying back Shares by an agreement outside a stock exchange.

Where our Company buys back the Shares by an agreement outside a stock exchange, it shall obtain prior approval at the shareholders' general meeting pursuant to the Articles of Association. Likewise, subject to the prior approval of the shareholders' general meeting, our Company may dissolve or change the contract signed in the aforesaid manner or waive any of its rights in the contract. As for the redeemable Shares that our Company is entitled to buy back, if they are not bought back in the market or by bidding, the price may not exceed a certain maximum limit. If the Shares are bought back by bidding, a proposal to bid shall be made to all Shareholders on equal terms. The contract that buys back the Shares includes, but is not limited to, an agreement that consents to undertake the obligation to buy back the Shares and obtain the rights to buy them back.

Our Company shall not transfer any contract that buys back the Shares or any rights conferred under the contract.

Unless our Company has entered into the liquidation process, we shall observe the following provisions for the buyback of issued Shares:

(a) Where our Company buys back Shares at book value, the funds shall be deducted from the book balance of our distributable earnings and the proceeds obtained from the issue of new Shares to buy back the old Shares;

(b) Where our Company buys back the Shares at a premium to the book value, the portion of funds equivalent to book value shall be deducted from the book balance of our distributable earnings and the proceeds obtained from the issue of new Shares made for the purpose of buying back of Shares, while the portion of funds higher than book value shall be dealt with in the following manner:

    (i) Where the Shares bought back were issued at book value, the funds shall be deducted from the book balance of our distributable earnings;

    (ii) Where the Shares bought back were issued at a premium to the book value, the funds shall be deducted from the book balance of our distributable earnings and the proceeds obtained from the issue of new Shares made for the purpose of buying back of Shares. However, the amount deducted from the proceeds obtained from the issue of new Shares shall not exceed the total premium amount obtained when the Shares bought back were issued or the amount (including the premium amount of the issue of new Shares) in our capital reserve account when the Shares are bought back.

(c) The funds paid by our Company for the following purposes shall be allocated from our distributable earnings:

(i) To obtain the right to buy back the Shares;

(ii) To modify any contract to buy back the Shares;

(iii) To release any obligation of our Company under the share buyback contract.

(d) After the total book value of the cancelled Shares is deducted from our registered capital pursuant to the relevant provisions, the amount deducted from the distributable earnings for paying up the book value portion of the Shares bought back shall be credited to our capital reserve account.

11 DIVIDEND AND DISTRIBUTION METHODS

Our Company may distribute dividends by way of cash or shares. When our Company pays cash dividends and other funds to the holders of Domestic Shares, payment shall be made in Renminbi.

When our Company pays cash dividends and other funds to holders of overseas listed foreign Shares, payment shall be denominated in Renminbi and paid in Hong Kong dollars. The foreign exchange required by our Company to pay cash dividends and other funds to holders of overseas listed foreign Shares shall be handled in accordance with the relevant regulations of SAFE.

Our Company shall appoint, on behalf of holders of overseas listed foreign Shares, receiving agents to receive dividends and other payable funds that are distributed with respect to our overseas listed foreign Shares and the receiving agent shall be a trust company registered under the Trustee Ordinance.

The receiving agents appointed by our Company shall comply with relevant provisions of the laws or the stock exchange where the Shares are listed.

12 SHAREHOLDER PROXIES

Any shareholder who is entitled to attend and vote at our shareholders' general meetings has the right to appoint one or more persons (who may not necessarily be shareholders) as his or her shareholder proxy to attend and vote at the meeting in his or her place. Pursuant to the authorisation of the Shareholder, the proxy may exercise the following rights:

(a) Speak for the Shareholder at the shareholders' general meeting;

(b) Demand a poll individually or with others;

(c) Exercise the right to vote by a show of hands or a poll, but the shareholder proxy may only exercise the right to vote by a poll when more than one proxy is appointed.

The shareholder proxy appointment shall be in writing and shall be signed by the appointor or a person duly authorised in writing. Where the appointor is a legal person, the stamp of the legal person shall be affixed, or signed by the Director or a duly authorised agent. The power of attorney shall be kept at the residential address or other location designated in the notice convening the meeting no later than 24 hours before the meeting at which the power of attorney is put to vote is convened or 24 hours before the designated time at which the resolution is adopted. If the power of attorney is signed by another person authorised by the appointor by means of power of attorney or other instrument of authorisation, the power of attorney or other instrument shall be verified by a notary. The power of attorney or other instrument verified by the notary shall be kept together with the power of attorney appointing the entrusted representative at our residential address or other location designated at the notice convening the meeting.

Where the appointor is a legal person, a power of attorney may be signed by its duly authorised person to authorise its legal representative or any person authorised by resolutions of its board of directors or other governing body to attend our shareholders' general meetings as representative.

Any form sent by the Directors to the Shareholder for appointing a Shareholders proxy shall allow the Shareholder, according to his or her free will, to instruct the proxy to vote and provide instructions separately for matters to be put to vote on each item on the meeting agenda. The power of attorney shall specify that the Shareholders proxy may vote at his or her own discretion if the Shareholders do not provide instructions.

The votes of the Shareholders proxy given pursuant to the terms of an instrument of proxy shall remain valid notwithstanding the previous death, loss of capacity of the appointor or revocation of the proxy or of the authority under which the proxy was executed, or the transfer of the Shares in respect of which the proxy is given, provided that our Company does not receive written notice concerning such matters before the relevant meeting is convened.

13 REGISTER OF SHAREHOLDERS AND OTHER RIGHTS OF SHAREHOLDERS

Pursuant to the understanding reached and agreement entered into between the competent agency in charge of securities under PRC and the overseas securities regulatory agency, our Company may keep overseas a register of the holders of the overseas listed foreign Shares and entrust an overseas entity to manage it. The original register of the holders of the overseas listed foreign Shares listed in Hong Kong shall be kept in Hong Kong.

Our Company shall keep a copy of the register of the holders of the overseas listed foreign Shares at our residential address. The overseas entrusted entity shall at all times maintain consistency between the original and copy of the register of the holders of the overseas listed foreign Shares.

In case of inconsistency between the original and copy of the register of the holders of the overseas listed foreign Shares, the original shall prevail.

Our Company shall keep a complete register of Shareholders.

The register of Shareholders shall include the following:

(a) Register of Shareholders kept at our residential address other than those specified in (b) and (c);

(b) Register of the holders of our overseas listed foreign Shares kept at the location of the stock exchange where such Shares are listed;

(c) Register of Shareholders kept in other locations according to the decision of the Board of Directors as required for the listing of the Shares.

Different parts of the register of Shareholders shall not overlap. The transfer of Shares registered in a certain part of the register of Shareholders shall not be registered elsewhere in the register of Shareholders as long as the Shares remain registered. Any alteration or rectification to any part of the register of Shareholders shall be made in accordance with the laws in the place where such part of the register of Shareholders is maintained.

No change of the register of Shareholders as a result of share transfer shall be made within 30 days before the shareholders' general meeting is convened or within five days prior to the record date on which our Company decides to pay dividends.

When our Company convenes the shareholders' general meeting, pays dividends, goes into liquidation or is involved in other actions that require the confirmation of equities, the Board of Directors shall fix a date as the equity registration date, upon expiration of which the Shareholders whose names appear on the register of Shareholders shall be the Shareholders.

Any person who objects to the register of Shareholders and requests to register his or her name (title) in the register of Shareholders or to remove his or her name (title) from the register of Shareholders may apply to the court with jurisdiction to amend the register of Shareholders.

The Shareholders are entitled to obtain the following data, including but not limited to:

(a) The Articles of Association after paying the cost;

(b) The right to inspect and copy the following after paying a reasonable fee:

(i) All parts of the register of Shareholders;

(ii) Personal data of the Directors, Supervisors and senior management;

(iii) Status of the share capital of our Company;

(iv) Report on the total book value, quantity, maximum and minimum prices of each class of own Shares repurchased by our Company since the previous accounting year and all expenses paid by our Company for this purpose, and;

(v) Minutes of the shareholders' general meeting.

Whenever a Shareholder proposes to inspect the relevant data as described above or requests data, he or she shall provide our Company with written documents certifying the class and number of Shares held and our Company shall provide the relevant data and materials in accordance with the requirements of the Shareholder after verifying his or her identity.

14 QUORUM OF SHAREHOLDERS' GENERAL MEETINGS

If the number of Shares carrying voting rights represented by the Shareholders intending to attend the meeting exceeds one half of the total number of Shares carrying voting rights, our Company may convene the shareholders' general meeting. If the number of a class of Shares carrying voting rights represented by the Shareholders intending to attend the meeting exceeds one half of the total number of such class of Shares, our Company may convene a class shareholders' general meeting.

15 RESTRICTIONS ON RIGHTS OF THE CONTROLLING SHAREHOLDERS

Apart from the obligations required by laws, administrative regulations or the listing rules of the stock exchange on which the Shares are listed, the Controlling Shareholders shall not make any decision that is detrimental to the interest of all or part of the Shareholders on the following issues by exercising his or her Shareholder voting rights:

(a) Releasing the Directors and Supervisors from the responsibility of acting honestly in the best interest of our Company;

(b) Permitting the Directors and Supervisors (for their own or others' interests) to deprive our Company of assets in any form, including but not limited to, any opportunity that is beneficial to our Company;

(c) Permitting the Directors and Supervisors (for their own or others' interests) to deprive the Shareholders of their personal rights and interests, including but not limited to, any dividend distribution or voting right, but excluding the restructuring of our Company approved at the shareholder's general meeting pursuant to the Articles of Association.

16 COMPANY LIQUIDATION

Under any of the following circumstances, our Company shall be lawfully dissolved and liquidated:

(a) The shareholder's general meeting adopts a resolution to dissolve our Company;

(b) Our Company shall be dissolved for the purpose of merger or division;

(c) Our Company is declared legally bankrupt as a result of failure to pay debts as they fall due;

(d) The business licence is revoked, or our Company is ordered to close or be eliminated according to applicable law;

(e) Where our Company encounters significant difficulties in business and management, continuous survival may be significantly detrimental to the interests of the Shareholders, and the difficulties may not be overcome through other means, Shareholders who hold more than 10% of the Shares carrying voting rights may request the court to dissolve our Company.

Where our Company is dissolved due to the provisions set forth in (a), (d) and (e) above, the liquidation team shall be established within 15 days and the personnel of the liquidation team shall consist of the persons determined by the Board of Directors or the shareholder's general meeting. In the event the liquidation team is not established during such period, the creditors can request the people's court to appoint relevant personnel to establish the liquidation team for liquidation. In the event that our Company is dissolved in accordance with the provisions set forth in (c) above, the people's court shall organise the Shareholders, related agencies and professionals to form the liquidation team pursuant to relevant provisions of the law.

If the Board of Directors decides to liquidate our Company (except where our Company is liquidated after declaring bankruptcy), the Board of Directors shall state in the notice of the shareholder's general meeting convened for this purpose that the Board of Directors has performed a comprehensive investigation of the status of our Company and believes that our Company is able to pay off all of our debts within 12 months of the start of liquidation.

After the resolution to liquidate our Company is adopted by the shareholder's general meeting, the powers and duties of the Board of Directors shall terminate immediately.

In accordance with the instructions of the shareholder's general meeting, the liquidation team shall at least once a year report at the shareholder's general meeting on the income and expenditure of the liquidation team, progress of the business and liquidation of our Company, and submit a final report at the shareholder's general meeting upon completion of liquidation.

Within ten days of the establishment of the liquidation team, the creditors shall be notified and an announcement shall be published in newspaper within 60 days. The creditors shall declare their claims to the liquidation team within 30 days of the date on which the notice is received or 45 days of the date of announcement if the notice is not received.

The liquidation team shall carry out registration of the creditors' claims.

The liquidation team shall exercise the following powers during the liquidation period:

(a) Take stock of our Company's assets and prepare a balance sheet and a list of assets respectively;

(b) Notify or publish an announcement to all creditors;

(c) Deal with and liquidate any pending business associated with our Company;

(d) Pay off all outstanding taxes and taxes in connection with liquidation;

(e) Settle claims and debts;

(f) Dispose of the remaining assets of our Company after paying up all the debts; and

(g) Represent our Company in any civil litigation proceedings.

After taking stock of the assets of our Company and preparing the balance sheet and list of properties, the liquidation team shall draw up a liquidation scheme and submit it to the shareholders' general meeting or the people's court for recognition.

In the event of liquidation in connection with dissolution of the Company and the liquidation team finds that, after taking stock of our Company's assets and preparing the balance sheet and list of assets, that the assets are insufficient to pay the debts, it shall immediately apply to the court to declare bankruptcy.

After our Company is declared insolvent by ruling of the court, the liquidation team shall turn over matters regarding the liquidation to the court. Upon completion of liquidation of our Company, the liquidation team shall prepare a liquidation report, income and expenditure report and financial record during the liquidation period, which, after being verified by a China-registered accountant, shall be submitted to our general shareholder meeting or the people's court for recognition.

Within 30 days of the date of approval by the shareholders' general meeting or the people's court, the liquidation team shall submit the above-mentioned documents to the company registration authority and apply for cancellation of our registration and publish an announcement on our termination.

17 OTHER IMPORTANT PROVISIONS FOR OUR COMPANY OR THE SHAREHOLDERS

(a) General Provisions

Our Company is a permanently existing joint stock limited liability company.

Our Company may invest in other limited liability companies or joint stock limited liability companies, provided that the liabilities of our Company to be invested in are limited to the amount of its capital contribution.

The Articles of Association is binding on our Company, the Shareholders, Directors, Supervisors and senior management. These personnel may assert their rights in connection with the affairs of our Company based on the Articles of Association. Pursuant to the Articles of Association, Shareholders may sue Shareholders, Directors, Supervisors and senior management, Shareholders may sue our Company, and our Company may sue Shareholders, Directors, Supervisors and senior management.

(b) Our Company may increase stock capital by the following means:

(i) Issue new Shares to unspecified investors;

(ii) Place new Shares with existing Shareholders;

(iii) Give new Shares to existing Shareholders;

(iv) Convert the reserve funds into share capital;

(v) Other means approved by the laws, administrative regulations and securities regulatory agency of PRC Council.

Upon approval to increase our Company's share capital according to the provisions of the Articles of Association, the matter shall be dealt with in accordance with the procedures of relevant laws and administrative regulations of PRC.

Subject to compliance with relevant laws and administrative rules and regulations of PRC, our Company may decrease our registered share capital in line with the provisions of the Articles of Association.

If our Company decreases our registered capital, a balance sheet and a list of properties shall be prepared.

(c) Shareholders

The Shareholders are persons lawfully holding the Shares and whose names (titles) are already listed in the register of Shareholders. Each Share of the same class has the same rights.

Shares issued by our Company to overseas investors and subscribed for in foreign currencies are known as foreign Shares. Foreign Shares that are listed overseas are known as overseas listed foreign Shares. Overseas investors refer to investors in other countries, Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan who subscribe to the Shares issued by our Company. Domestic Shareholders refer to investors within the territory of the PRC that subscribe for the Shares issued by our Company. Both domestic Shareholders and foreign Shareholders are ordinary Shareholders, entitled to the same rights and assuming the same obligations. The rights of our ordinary Shareholders are as follows:

(i) to receive distribution of dividends and other forms of benefits according to the number of Shares held;

(ii) to participate in or appoint a shareholder proxy to participate in and exercise voting rights at the shareholders' general meeting;

(iii) to supervise and manage our business and operational activities, provide suggestions or submit queries;

(iv) to transfer the Shares held according to the provisions of the laws, administrative regulations and the Articles of Association;

(v) to obtain relevant information according to the provisions of the Articles of Association;

(vi) to participate in the distribution of the remaining assets of our Company according to the number of Shares held upon our termination or liquidation;

(vii) to request the Company to repurchase the Shares of Shareholders who raise objection to a resolution at the shareholders' general meeting on merger or division of the Company;

(viii) Other rights conferred by laws, administrative regulations and the Articles of Association.

When any person is interested directly or indirectly in the Shares of our Company, our Company shall not freeze or otherwise impair any of the rights attaching to any Share by reason only that the person has failed to disclose his interests to our Company.

Our Company shall adopt the registered method for the Shares.

The Share certificates are signed by the chairman of the Board of Directors. Where the stock exchange on which the Shares are listed requires our other senior management to sign the Share certificates, they shall also be signed by other such personnel. The Share certificates shall become effective after being affixed with the stamp of our Company (including our securities stamp) or print-stamped. Affixing our Company stamp or our securities stamp to the Share certificates is subject to the authorisation of the Board of Directors. The signature of the chairman of the Board of Directors or other related senior management may also be printed on the Share certificates.

If any person whose name appears in the register of Shareholders or requests to register his or her name (title) in the register of Shareholders loses his or her Share certificates (that is, "original Share certificates"), he or she may apply to our Company to reissue new Share certificates for those Shares.

In the event a holder of Domestic Shares applies to our Company for a reissue after losing the Share certificates, the matter shall be dealt with pursuant to relevant provisions of the PRC Company Law.

In the event a holder of overseas listed foreign Shares applies to our Company for a reissue after losing the Share certificates, the matter shall be dealt with pursuant to the laws and rules of the stock exchange where the original register of holders of the overseas listed foreign Shares is kept, or other relevant provisions. If a holder of H Shares loses Share certificates and applies for a replacement issue, the Share certificates shall be issued in compliance with the following requirements:

(i) The applicant shall submit the application in the standard format designated by our Company and attach a notary certificate or legal declaration. The contents of the notary certificate or legal declaration shall include the reason for the applicant's request, circumstances and evidence of loss of Share certificates, as well as a statement that nobody else may request to be registered as a Shareholder with respect to the pertinent Shares.

(ii) Before deciding to reissue new Share certificates, our Company does not receive any statement in which any person other than the applicant requests to be registered as the Shareholder with respect to the Shares.

(iii) If our Company decides to reissue new Share certificates to the applicant, we shall publish an announcement in a newspaper designated by the Board of Directors indicating that we plan to reissue new Share certificates. The announcement period shall be 90 days and the announcement shall be published at least once every 30 days.

(iv) Before publishing the announcement on our proposal to re-issue new Share certificates, our Company shall submit a copy of the announcement to be published to the stock exchange on which the Shares are listed and may publish the announcement after receiving a reply from the stock exchange confirming that the announcement has been displayed at the stock exchange. The period of displaying the announcement at the stock exchange is 90 days.

If the application for reissue of new Share certificates is not approved by the registered Shareholders of the Shares, our Company shall mail the copy of the announcement to be published to the Shareholders.

(v) In the event that nobody raises any objection to the reissue of new Share certificates to our Company, upon expiration of the 90-day display period of the announcement specified in (iii) and (iv) above, the new Share certificates may be reissued according to the application.

(vi) When re-issuing new Share certificates, our Company shall immediately cancel the original Share certificates and register the cancellation and replacement issue on the register of Shareholders.

(vii) All expenses incurred by our Company from the cancellation of the original Share certificates and replacement issue of the new Share certificates shall be borne by the applicant. Before the applicant has provided reasonable security, our Company shall have the right to refuse to take any action.

(d) Shareholders Failing to be Contacted

Our Company is entitled to reclaim without payment the Shares of a Shareholder failing to be contacted under the circumstances indicated below and sell them to any other persons:

(i) Our Company has paid dividends at least three times on these Shares within 12 years, but no one has claimed the dividends during that period;

(ii) Upon expiration of the 12-year period, our Company publishes an announcement in a newspaper, indicating our intention to sell the Shares and notifies the Hong Kong Stock Exchange of such intention.

(e) Regulations on the Powers of the Board of Directors and Convening the Board of Directors' Meetings

The Board of Directors is responsible to the shareholder's general meeting and exercises the following powers:

(i) to convene the shareholder's general meeting and report on work to the shareholder's general meeting;

(ii) to implement the resolutions of the shareholder's general meeting;

(iii) to determine our business and investment plans;

(iv) to devise our annual financial budget and closing account plans;

(v) to devise our earnings distribution and loss offset plans;

(vi) to formulate the plans for increasing or decreasing our registered capital, the issuance of corporate bonds or other securities, as well as the listing or the repurchase of the stock of our Company;

(vii) to formulate plans for repurchase, corporate merger, separation, dismiss, changing the form and dissolution of our Company;

(viii) to formulate proposal on the amendments on this articles.;

(ix) to determine the setup of our Company's internal management organisation;

(x) to appoint or dismiss the general manager of the Company, the secretary of the Board of Directors, chairman of special committee of the Board of Directors and secretary of the Company; appoint or dismiss the deputy general manager of the Company and other senior management based on the nomination of the general manager and determine their remuneration;

(xi) to formulate the basic management system of the Company;

(xii) to formulate the plan for acquisition and disposal of major assets within one year, which account for over 30% of our audited total assets for the latest period;

(xiii) to formulate the plan for material transaction, which account for 50% of the audited net assets of the Company for the latest period; (the meaning of material transaction is defined in Clause 8.2);

(xiv) to consider and approve the acquisition and disposal of major assets within in one year amounting over RMB10 million but not over 30% of audited total assets of the Company for the latest period;

(xv) to consider and approve the material transactions amounting over RMB10 million but not over 50% of audited net assets of the Company for the latest period (the meaning of material transaction is defined in Clause 8.2);

(xvi) to consider the connected transactions subject to the approval of the Board of Directors' in accordance with the listing rules of the place on which the shares of the Company are listed;

(xvii) to propose the appointment or replacement of the accounting firm that performs audits for our Company at the shareholders' general meeting;

(xviii) to formulate stock incentive scheme;

(xix) to attend to the work report of our general manager and review the work of the general manager;

(xx) to submit the proposals on the candidate or replacement of the independent non-executive Directors of our Company to the shareholders' general meeting;

(xxi) Other powers and duties authorised by the laws, administrative regulations, departmental rules, listing rules, the shareholders' general meetings and this Articles of Association.

All of the above resolutions adopted by the Board of Directors, except those in (vi), (vii) and (viii) and those that shall be approved by more than a two-thirds vote of the Directors otherwise specified in laws, administrative regulations and the Articles of Association, shall be approved by a simple majority of votes by the Directors.

Meetings of the Board of Directors shall be convened at least four times a year and be called by the chairman of the Board of Directors, and a notice of at least 14 days shall be sent to all Directors before the meeting is convened.

The chairman of the Board of Directors shall convene and preside over an extraordinary meeting of the Board of Directors within ten days since receiving the proposal in case of the occurrence of any one of the following events:

(i) When the Shareholders representing over 10% of voting rights make a proposal;

(ii) When the chairman of the Board of Directors deems necessary;

(iii) When over one third of Directors make a proposal;

(iv) When the Board of Supervisors makes a proposal;

(v) When requested by relevant regulatory authorities.

Notice of an extraordinary meeting of the Board of Directors and meeting documents shall be served during a reasonable period before the meeting is convened.

The Directors shall attend the meeting of Board of Directors in person. In the event that Directors are unable to attend the meeting for some reason, the Directors may appoint other Directors in writing to attend the meeting of Board of Directors. The proxy letter shall specify the proxy's name, entrusted matters, authority domain and the valid term, and shall be affixed with the signature or seal of the consignor. The Director who attends the meeting on behalf of another Director shall exercise the right of the Director within the scope of authorisation. If any Director fails to attend the meeting of the Board of Directors or entrusts a proxy to be present on his/her behalf, such Director shall be deemed to have waived his/her voting rights at that meeting.

Meetings of the Board of Directors shall be attended by more than one-half of the Directors (including Directors that appoint other Directors in writing to attend the Board of Directors in their place pursuant to the provisions of the Articles of Association) before the meeting of Board of Directors can be convened. Each Director has one vote. Resolutions made by the Board of Directors shall be approved by more than one-half of the Directors' votes.

When the number of affirmative votes equals the number of dissenting votes, the chairman of the Board of Directors is entitled to one additional vote.

Apart from certain exceptions specified in Note 1 of Appendix 3 to the Listing Rules or those permitted by Hong Kong Stock Exchange, a Director shall abstain from voting on passing of any contract or arrangement in which he/she himself/herself or any of his/her associates (as defined in the Listing Rules) is materially interested or any resolution proposed at the meeting of the Board of Directors; such Director shall not be counted in the quorum of relevant meeting.

(f) Independent Director

The Board of Directors includes three independent Directors.

(g) Secretary of the Board of Directors

The secretary of the Board of Directors shall be a natural person with the requisite expertise and experience and be appointed by the Board of Directors.

(h) Board of Supervisors

Our Company shall set up a Board of Supervisors.

The Board of Supervisors consists of three Supervisors which includes one chairman. The Supervisors serve three-year terms and may be re-elected. The chairman of the Board of Supervisors shall be elected and dismissed by more than a two-thirds vote of the members of the Board of Supervisors.

The Board of Supervisors shall consist of three staff representatives of our Company. The Supervisors assumed by non-staff representatives shall be elected and dismissed by the shareholders' general meeting. The Supervisors assumed by the staff representatives shall be elected and dismissed through the staff representatives meetings, staff meetings or through other forms of democratic election.

The Directors and senior management shall not also serve as Supervisors.

The Board of Supervisors shall convene at least two regular meetings every year. Where it is deemed necessary by the chairman of the Board of Supervisors or where other supervisors propose, the chairman shall convene extraordinary meetings of the Board of Supervisors. The chairman shall convene meetings of the Board of Supervisors. Notices and other documents in relation to the meetings shall be delivered to all supervisors ten days before the meetings. Notices and other documents in relation to extraordinary meetings are not subject to the above requirement.

The Board of Supervisors lawfully exercises the following powers:

(i) Examine the financial position of our Company;

(ii) Supervise the Directors and senior management to ensure that they do not, in performing their duties to our Company, act in contravention of any laws, administrative regulations or the Articles of Association, and to put forward suggestions for dismissing any Directors or senior management who are in breach of the laws, administrative regulations, the Articles of Association or resolutions of the general shareholders' general meetings;

(iii) Require the Directors and senior management to take corrective measures when their actions are detrimental to our interests;

(iv) Verify the financial information such as the financial reports, business reports and profit distribution plans to be submitted by the Board to the general shareholders' general meetings and, should any queries arise, to authorise, in the name of our Company, a re-examination by the certified public accountants and practising auditors;

(v) Propose to convene an extraordinary general meeting;

(vi) Propose to convene extraordinary meetings of the Board of Directors;

(vii) Represent our Company in negotiating with or in bringing actions against the Directors;

(viii) Other powers and duties stipulated in the Articles of Association.

The Supervisors shall attend the Board meeting.

(i) General manager

Our Company includes one general manager, nominated, appointed or dismissed by the Board of Directors. The general manager is responsible to the Board of Directors and exercises the following powers:

(i) to in charge of the production and operational management of our Company, to organise the enforcement of resolutions of the Board of Directors and report to the Board of Directors;

(ii) to organise the implementation of the annual operation plans and investment schemes of our Company;

(iii) to formulate the structure scheme of the internal management agency of our Company;

(iv) to formulate the structure scheme of the branch of our Company;

(v) to formulate the basic management system of our Company;

(vi) to formulate the basic rules of our Company;

(vii) to propose the appointment or dismissal of other senior management of our Company;

(viii) to appoint or dismiss other management, except those who should be appointed or dismissed by the Board of Directors

(ix) to determine on investment, financing, contracts and transactions of less than RMB10 million within the scope of authorisation of the Board;

(x) to determine the salaries, benefits, rewards and punishment for the staff of our Company, and to determine the appointment and dismissal of the staff of our Company;

(xi) to propose to convene extraordinary meetings of the Board of Directors;

(xii) other responsibilities authorised by the Articles of Association and the Board of Directors.

(j) Reserves

The profit of the Company shall be distributed in the following order of priority after payment of relevant taxes:

(i) making up losses;

(ii) allocation to the statutory common reserve fund;

(iii) allocation to the discretionary common reserve fund;

(iv) payment of dividends on ordinary shares.

The particular proportion of distribution in the year in respect of items (iii) and (iv) shall be determined by the Board in accordance with the operational condition and development of the Company and shall be subject to the consideration and approval by shareholders' general meeting.

When the annual after-tax earnings of our Company are distributed, our Company shall allocate 10% of the earnings to our statutory reserve. When the total amount of the statutory reserve reaches or exceeds 50% of our Company's registered capital, no more allocations shall be provided.

Our statutory reserves shall be used only for offsetting our losses, expanding the scale of business and operations or for conversion into capital to increase our capital, but the capital reserve shall not be used to offset our losses.

(k) Settlement of Disputes

Our Company shall comply with the following rules governing the settlement of disputes:

(i) Whenever there occur any disputes or claims between holders of the overseas listed foreign investment shares and our Company, holders of the overseas listed foreign investment shares and our Company's Directors, Supervisors or senior management, or holders of the overseas listed foreign investment shares and holders of domestic shares regarding the rights or obligations relating to the affairs of our Company conferred or imposed by the Articles of Association, the PRC Company Law or any other relevant laws and administrative regulations, such disputes or claims shall be referred by relevant parties to arbitration;

Where the aforesaid dispute or claim of rights is referred to arbitration, the entire claim or the dispute as a whole shall be referred to arbitration, and any parties who have a cause of action based on the same facts giving rise to the dispute or the claim or whose participation is necessary for the settlement of such dispute or claim, are bound by the award of the arbitration provided that such person is our Company or a shareholder of our Company, a Director, a Supervisor or senior management. Disputes in relation to the definition of Shareholders and disputes in relation to the Shareholders' register shall not be resolved by arbitration;

(ii) A claimant may elect for arbitration at either the China International Economic and Trade Arbitration Commission in accordance with its rules or the Hong Kong International Arbitration Centre in accordance with its Securities Arbitration Rules. Once a claimant refers a dispute or claim to arbitration, the other party shall submit to the arbitral body so elected by the claimant.

If a claimant elects for arbitration at Hong Kong International Arbitration Centre, any party to the dispute or claim may request the arbitration to be conducted in Shenzhen in accordance with the Securities Arbitration Rules of the Hong Kong International Arbitration Centre;

(iii) The laws of the PRC are applicable to the arbitration for the disputes or claims of rights referred to in paragraph (i), unless otherwise provided in the laws and administrative regulations;

(iv) The award of an arbitration body shall be final and binding on all parties.

A. FURTHER INFORMATION ABOUT OUR COMPANY

1. Incorporation

The predecessor of our Company was established as an enterprise owned by the whole people (全民所有制企業) in the PRC with a registered capital of RMB100,000 on 18 February 1984. On 6 March 2000, our Company was converted into a limited liability company with an initial registered capital of RMB880,000. On 28 May 2015, our Company was converted from a limited liability company to a joint stock company with limited liability. Our Company has established a place of business in Hong Kong at 18/F, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong and has been registered as a non-Hong Kong company in Hong Kong under Part 16 of the Companies Ordinance on 25 November 2015. Ms. Ng Wing Shan of 18/F, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong has been appointed as our agent for the acceptance of service of process in Hong Kong. As we are established in the PRC, our corporate structure and Articles of Association are subject to the relevant laws and regulations of the PRC as set out in Appendix VI of this Prospectus.

2. Registered share capital

At the time when our Company was converted into a joint stock company with limited liability on 28 May 2015, we had an initial registered capital of RMB80,000,000 divided into 80,000,000 Domestic Shares with a nominal value of RMB1.00 each. Upon completion of the conversation, our Company was held by Mr. Yao as to 87.5%, Madam Yao as to 8.125%, Meizhi Investment as to 1.875%, Youran Investment as to 1.25% and Zhichuang Investment as to 1.25%.

Upon completion of the Global Offering, but without taking into account any H Shares which may be issued by our Company pursuant to the Over-allotment Option, our registered share capital will increase to RMB108,000,000, made up of 80,000,000 Domestic Shares and 28,000,000 H Shares fully paid up or credited as fully paid up, representing approximately 74.07% and 25.93% of the registered share capital, respectively.

Save as aforesaid and disclosed in the section headed "History, Development and Reorganisation" of this Prospectus, there has been no change in our Company's share capital since its establishment.

3. Our Company's extraordinary general meeting held on 8 August 2015

At the extraordinary general meeting of our Company held on 8 August 2015, among other things, the following resolutions were passed by our Shareholders:

a) subject to the completion of the Global Offering, the Articles of Association has been approved and adopted, which shall become effective on the Listing Date;

b) the issue of H Shares with a par value of RMB1.00 each (the number of the H Shares so issued shall not be less than 25% of the total issue share capital of our Company after the Global Offering) and granting of the Over-allotment Option in respect of no more than 15% of the number of H Shares issued as above mentioned; and

c) the Board was authorised to handle all matters relating to, among other things, the issue of H Shares and the listing of H Shares on the Stock Exchange.

4. Changes in the share capital of subsidiaries

Certain information on our subsidiaries is contained in the Accountant's Report in Appendix I to this Prospectus.

Save as disclosed in the section headed "History, Development and Reorganisation" of this Prospectus, there has not been any changes in the share capital to any of our subsidiaries within the two years preceding to the date of this Prospectus.

B. FURTHER INFORMATION ABOUT OUR BUSINESS

1. Summary of material contracts

We have entered into the following contracts (not being contracts entered into in the ordinary course of business), within two years preceding the date of this prospectus that are or may be material:

(a) a state-owned construction land use right transfer contract dated 28 July 2015 and entered into by our Company and Shantou Municipal Land and Resources Bureau (汕頭市國土資源局) pursuant to which our Company purchased the land use right of a parcel of land with a site area of approximately 16,406.8 sq.m located at the north-east side A03 of Dongxia Road and Song Shan Road, Shantou City at a consideration of RMB27.3 million;

(b) the Deed of Indemnity dated 26 November 2015 and entered into by Mr. Yao in favour of our Company to provide indemnities in respect of, among other matters, taxation resulting from income, to which our Group may be subject on or before the Listing Date;

(c) the cornerstone placing agreement date 26 November 2015 entered into between our Company, Xiangxue Group (Hong Kong) Company Limited and the Sole Global Coordinator pursuant to which Xiangxue Group (Hong Kong) Company Limited has agreed to subscribe for such number of H Shares (rounded to the nearest whole number or board lot of Shares, as the case may be) as may be purchased with an aggregate of HK$30 million;

(d) the cornerstone placing agreement dated 27 November 2015 entered into between our Company, Guangzhou Pharmaceutical Baiyunshan Hong Kong Company Limited and the Sole Global Coordinator pursuant to which Guangzhou Pharmaceutical Baiyunshan Hong Kong Company Limited has agreed to subscribe for such number of H Shares (rounded to the nearest whole number or board lot of Shares, as the case may be) as may be purchased with an aggregate of HK$68 million; and

(e) the Hong Kong Underwriting Agreement.

2. Intellectual Property Rights

(a) Trademarks

As of the Latest Practicable Date, we are the registered owner of the following trademarks, which our Directors consider are material to our business:

Trademark	Registered Number	Class	Name of Registered Proprietor	Place of Registration	Date of Registration	Expiry Date
CH'MEI	7433753	30	Our Company	PRC	14 April 2011	13 April 2021
	3286736	35	Our Company	PRC	14 April 2014	13 April 2024
創美	8874640	35	Our Company	PRC	7 January 2012	6 January 2022
創美·CH'MEI	5916915	5	Our Company	PRC	14 September 2010	13 September 2020

Trademark	Registered Number	Class	Name of Registered Proprietor	Place of Registration	Date of Registration	Expiry Date
創美·CH'MEI	5916912	29	Our Company	PRC	21 July 2009	20 July 2019
創美·CH'MEI	5916914	30	Our Company	PRC	28 December 2009	27 December 2019
創美·CH'MEI	5916909	39	Our Company	PRC	28 March 2010	27 March 2020
創美·CH'MEI	5916910	40	Our Company	PRC	7 May 2010	6 May 2020
創美·CH'MEI	5916911	44	Our Company	PRC	7 June 2010	6 June 2020
創美藥業 CHUANGMEI MEDICINE	8874528	35	Our Company	PRC	7 January 2012	6 January 2022
創美藥業 CHUANGMEI MEDICINE	12011083	35	Our Company	PRC	7 April 2015	6 April 2025
創美·CH'MEI	12011084	35	Our Company	PRC	7 April 2015	6 April 2025
	12011087	35	Our Company	PRC	7 April 2015	6 April 2025
ChuangMei	8874333	35	Our Company	PRC	7 January 2012	6 January 2022

Trademark	Registered Number	Class	Name of Registered Proprietor	Place of Registration	Date of Registration	Expiry Date
ChuangMei	12011085	35	Our Company	PRC	28 June 2014	27 June 2024
優兒寶	6331184	32	Our Company	PRC	14 June 2014	13 June 2024
優兒寶	6331185	29	Our Company	PRC	14 October 2009	13 October 2019
優兒寶	6331186	30	Our Company	PRC	21 February 2010	20 February 2020
Superior baby	6366908	29	Our Company	PRC	21 October 2009	20 October 2019
創美	12011086	35	Our Company	PRC	7 April 2015	6 April 2025
創美·CH'MEI	301026233	5, 30, 32, 35, 39, 40	Our Company	Hong Kong	4 January 2008	3 January 2018

As of the Latest Practicable Date, we had applied for the registration of the following trademarks which our Directors consider are material to our business:

Trademark	Application Number	Class	Name of Applicant	Place of Application	Date of Application
創美C藥	16740440	35	Our Company	PRC	17 April 2015
創美商城	16740876	35	Our Company	PRC	17 April 2015
創美在綫	16741208	35	Our Company	PRC	17 April 2015

(b) Domain Name

As of the Latest Practicable Date, we have registered the following domain names which our Directors consider are material to our business:

Domain Name	Name of Registered Proprietor	Registration Date	Expiry Date
cmyynet.com	Our Company	13 November 2003	13 November 2016
cmyynet.cn	Our Company	13 November 2003	13 November 2016
cmyynet.com.cn	Our Company	13 November 2003	13 November 2016
cmyynet.net	Foshan Chuangmei	17 July 2012	17 July 2017
chmyy.cn	Our Company	15 May 2014	15 May 2017
chmyy.com	Our Company	15 May 2014	15 May 2017
chmyy.net	Our Company	15 May 2014	15 May 2017
创美.net	Our Company	15 May 2014	15 May 2017
创美药业.com	Our Company	15 May 2014	15 May 2017
创美药业.net	Our Company	15 May 2014	15 May 2017
创美药业.中国	Our Company	15 May 2014	15 May 2017

C. FURTHER INFORMATION ABOUT OUR DIRECTORS, SUPERVISORS AND SUBSTANTIAL SHAREHOLDERS

1. Disclosure of interests

(a) Interests and short positions of our Directors, Supervisors and the chief executive of our Company in the Shares, underlying Shares and debentures of our Company and its associated corporations

Immediately following completion of the Global Offering and assuming the Over-allotment Option is not exercised, the beneficial interests or short positions of our Directors, Supervisors and the chief executives of our Company in the Shares, underlying Shares and debentures of our Company or any of its associated corporations (within the meaning of Part XV of the SFO) which will be required to be notified to our Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO) or which will be required, under Section 352 of the SFO, to be entered in the register referred to in that section, or which will be required, under the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules (the "**Model Code**"), to be notified to our Company once the H Shares are listed will be as follow:

(i) Interest in our Company

Name of Director/ Supervisor	Capacity/ Nature of interest	Number of Shares held after the Global Offering	Approximate shareholding percentage in the relevant class of Shares after the Global Offering(1)	Approximate percentage of shareholding in the total share capital of our Company after the Global Offering(2)
Mr. Yao	Beneficial owner	70,000,000 Domestic Shares	87.5%	64.81%
	Interest of Spouse	1,000,000 Domestic Shares(3)	1.25%	0.93%
Ms. You Zeyan	Interest of spouse	70,000,000 Domestic Shares(4)	87.5%	64.81%
	Interest of a controlled corporation	1,000,000 Domestic Shares(5)	1.25%	0.93%

Name of Director/ Supervisor	Capacity/ Nature of interest	Number of Shares held after the Global Offering	Approximate shareholding percentage in the relevant class of Shares after the Global Offering(1)	Approximate percentage of shareholding in the total share capital of our Company after the Global Offering(2)
Ms. Zheng Yuyan	Interest of a controlled corporation	1,000,000 Domestic Shares(6)	1.25%	0.93%
Mr. Lin Zhixiong	Interest of a controlled corporation	1,500,000 Domestic Shares(7)	1.875%	1.39%

Notes:

(1) The calculation is based on the percentage of shareholding in the Domestic Shares.

(2) The calculation is based on the total number of 108,000,000 Shares in issue after the Global Offering.

(3) Mr. Yao is the spouse of Ms. You Zeyan, our non-executive Director, and is deemed to be interested in these Share under the SFO.

(4) Ms. You Zeyan is the spouse of Mr. Yao and she is deemed to be interested in these Shares under the SFO.

(5) These Shares are held by Zhichuang Investment. Zhichuang Investment is a limited partnership established in the PRC and is held by Ms. You Zeyan as to 53.90%. As Ms. You Zeyan is the general partner of Zhichuang Investment, she is deemed to be interested in the Shares held by Zhichuang Investment under the SFO.

(6) These Shares are held by Youran Investment. Youran Investment is a limited partnership established in the PRC and is held by Ms. Zheng Yuyan as to 37.70%. Therefore, Ms. Zheng Yuyan is deemed to be interested in the Shares held by Youran Investment under the SFO.

(7) These Shares are held by Meizhi Investment. Meizhi Investment is a limited partnership established in the PRC and is held by Mr. Lin Zhixiong as to 28.47%. As Mr. Lin Zhixiong is the general partner of Meizhi Investment, he is deemed to be interested in the Shares held by Meizhi Investment under the SFO.

(b) Interests and short positions of the Substantial Shareholders in the Share and underlying Shares

So far as our Directors are aware, immediately following the Global Offering (without taking into account any H Shares that may be issued upon the exercise of the Over-allotment Option), each of the following persons (other than a Director or chief executive of our Company) will have an interest or short position in the Shares or underlying Shares which would fall to be disclosed to our Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or who is directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in any circumstance at general meetings of our Company:

Name of shareholder	Capacity/ Nature of interest	Number of Shares	Approximate percentage of shareholding in the relevant class of Shares after the Global Offering(2)	Approximate percentage of shareholding in the total share capital of our Company after the Global Offering(3)
Madam Yao *(note 1)*	Beneficial owner	6,500,000 Domestic Shares	8.125%	6.01%

Notes:

(1) Madam Yao is the mother of Mr. Yao, our Chairman, executive Director and Chief Executive Officer.

(2) The calculation is based on the percentage of shareholding in the Domestic Shares.

(3) The calculation is based on the total number of 108,000,000 Shares in issue after the Global Offering.

2. Particulars of service contracts

Each of the executive Directors has entered into a service contract with our Company for a term of three years commencing from 14 December 2015, which may be terminated by not less than three months' notice in writing served by either party on the other and is subject to termination provisions therein and provisions on retirement by rotation of our Directors as set forth in the Articles of Association.

Each of the executive Directors is entitled to a director's fee. Each executive Director shall be paid a remuneration on the basis of twelve months in a year. In addition, each of the executive Directors is also entitled to bonus as determined by our Board based on the recommendations made by our remuneration committee. The current annual director's fees and remuneration of our executive Directors are as follows:

Name of Directors	**Approximate annual Director's fee**
Mr. Yao Chuanglong	RMB600,000
Ms. Zheng Yuyan	RMB300,000
Mr. Fan Jianbo	RMB300,000
Mr. Lin Zhixiong	RMB300,000

The non-executive Director has been appointed for a term of three years. Our Company intends to pay a director's fee of RMB50,000 per annum to the non-executive Director.

The independent non-executive Directors have been appointed for a term of three years. Our Company intends to pay a director's fee of HK$144,000 per annum to Mr. Wan Chi Wai Anthony, and RMB50,000 per annum to each of Mr. Zhou Tao and Mr. Guan Jian.

Each of the Supervisors has entered into a service contract with our Company in respect of, among others, compliance with the relevant laws and regulations, observation of the Articles of Association and provision on arbitration.

Under the arrangement currently in force, the aggregate amount of emoluments payable by our Group to our Directors (including our non-executive Director and independent non-executive Directors) and Supervisors for the year ending 31 December 2015 is estimated to be approximately RMB1.3 million.

3. Agency fees or commissions received

Save as disclosed in this Prospectus, no commissions, discounts, brokerages or other special terms were granted within the two years preceding the date of this prospectus in connection with the issue or sale of any capital of any member of our Group.

4. Disclaimers

Save as disclosed herein:

(a) none of our Directors, Supervisors or chief executives of our Company has any interest or short position in the Shares, underlying Shares or debentures of our Company or any of its associated corporation (within the meaning of the SFO) which will have to be notified to our Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO or which will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which will be required to be notified to our Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers once the Shares are listed;

(b) none of our Directors, Supervisors or experts referred to under the paragraph headed "D. Other information — 6. Consents of experts" in this Appendix has any direct or indirect interest in the promotion of our Company, or in any assets which have within the two years immediately preceding the date of this prospectus been acquired or disposed of by or leased to any member of our Group, or are proposed to be acquired or disposed of by or leased to any member of our Group;

(c) none of our Directors or Supervisors is materially interested in any contract or arrangement subsisting at the date of this Prospectus which is significant in relation to the business of our Group taken as a whole;

(d) none of our Directors or Supervisors has any existing or proposed service contracts with any member of our Group (excluding contracts expiring or determinable by the employer within one year without payment of compensation (other than statutory compensation));

(e) so far as is known to any Director or chief executive of our Company, no person has an interest or short position in the Shares or underlying Shares of our Company which would fall to be disclosed to our Company under the provisions of Divisions 2 and 3 of Part XV of SFO or be interested, directly or indirectly, in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of our Group;

(f) none of the experts referred to under the paragraph headed "D. Other information — 6. Consents of experts" in this Appendix has any shareholding in any member of our Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of our Group;

(g) none of our Directors, Supervisors or their respective associates (as defined under the Listing Rules) or our Shareholders who are interested in more than 5% of the issued share capital of our Company has any interests in the five largest customers or the five largest suppliers of our Group; and

(h) none of our Directors or Supervisors has any direct or indirect interest in the promotion of, or in any assets which have been, within the two years immediately preceding the date of this Prospectus, acquired or disposed of by or leased to any member of our Group.

D. OTHER INFORMATION

1. Estate duty, tax and other indemnities

We have been advised that no material liability for estate duty under the PRC law in force is likely to fall upon us.

Mr. Yao has entered into the Deed of Indemnity in favour of our Company (for itself and as trustee for each of its present subsidiaries) to provide indemnities in respect of, among other matters, Hong Kong estate duty which might be payable by any member of our Group, by reason of any transfer of property (within the meaning of Section 35 of the Estate Duty Ordinance, Chapter 111 of the Laws of Hong Kong) to any member of our Group on or before the Listing Date.

The Deed of Indemnity also contains, amongst other things, indemnities given by Mr. Yao in respect of (a) taxation resulting from income, profits or gains earned, accrued or received as well as any property claim to which our Group may be subject on or before the Listing Date; and (b) claims and liabilities arising from the non-compliances of our Group, including but not limited to the non-compliance incidents set out in the paragraph headed "Business — Legal and compliance matters" in this Prospectus.

2. Litigation

Save as disclosed in the paragraph headed "Business — Legal and compliance matters" in this Prospectus, as of the Latest Practicable Date, our Company is not involved in any material litigation, arbitration or administrative proceedings. So far as our Directors are aware, no such litigation, arbitration or administrative proceedings are pending or threatened.

3. Sole Sponsor

The Sole Sponsor has declared their independence pursuant to Rule 3A.07 of the Listing Rules.

The Sole Sponsor has made an application on our behalf to the Listing Committee of the Stock Exchange for listing of, and permission to deal in, our H Shares. All necessary arrangements have been made enabling the H Shares to be admitted into CCASS.

Our Company has agreed to pay the Sole Sponsor (a) a fee of HK$6.5 million; and (b) a discretionary bonus of not more than 1% of the gross proceeds from the Global Offering (including the additional net proceeds from the Global Offering in the event that the Over-allotment Option is exercised) in respect of its services rendered as the sponsor to our Company for the Global Offering.

4. Preliminary expenses

The preliminary expenses of our Company are estimated to be approximately RMB450,000 and are payable by our Company.

5. Qualification of experts

The qualifications of the experts who have given opinions in this Prospectus are as follows:

Name	Qualification
Guotai Junan Capital Limited	A licensed corporation under the SFO permitted to carry out type 6 (advising on corporate finance) regulated activities (as defined under the SFO)
SHINEWING (HK) CPA Limited	Certified public accountants
Jingtian & Gongcheng	PRC legal advisers
Roma Appraisals Limited	Independent property valuer and consultant in relation to our Group's property interests

6. Consents of experts

Each of the experts referred to in paragraph 5 above has given and has not withdrawn its written consent to the issue of this prospectus with the inclusion of its report and/or letter and/or valuation certificate and/or opinion and/or the references to its name included herein in the form and context in which it is respectively included.

7. Binding effect

This Prospectus shall have the effect, if an application is made in pursuance hereof, of rendering all persons concerned bound by all the provisions (other than the penal provisions) of sections 44A and 44B of the Companies (Winding Up and Miscellaneous Provisions) Ordinance so far as applicable.

8. Bilingual Prospectus

The English language and Chinese language versions of this Prospectus are being published separately in reliance upon the exemption provided by section 4 of the Companies (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong).

9. Restrictions on Share Repurchases

Please refer to the paragraph headed "Rights of our Company to buy back our outstanding issued Shares" in Appendix VI to this Prospectus.

In addition, all repurchases of our H Shares shall be made in accordance with relevant provisions of the Listing Rules.

10. Miscellaneous

(a) Save as disclosed in this Prospectus, within the two years immediately preceding the date of this Prospectus:

(i) no share or loan capital of our Company or any of its subsidiaries has been issued or agreed to be issued or is proposed to be fully or partly paid either for cash or a consideration other than cash;

(ii) no share or loan capital of our Company or any of its subsidiaries is under option or is agreed conditionally or unconditionally to be put under option;

(iii) our Group has no outstanding convertible debt securities or debentures;

(iv) no commissions, discounts, brokerages or other special terms have been granted or agreed to be granted in connection with the issue or sale of any share or loan capital of our Company or any of its subsidiaries;

(v) no founders, management or deferred shares of our Company or, any of its subsidiaries have been issued or agreed to be issued;

(vi) no commission has been paid or is payable for subscription, agreeing to subscribe, procuring subscription or agreeing to procure subscription of any share in our Company or any of its subsidiaries;

(b) none of the persons named in the paragraph headed "D. Other information — 6. Consents of experts" in this Appendix is interested beneficially or otherwise in any shares of any member of our Group or has any right or option (whether legally enforceable or not) to subscribe for or nominate persons to subscribe for any securities in any member of our Group;

(c) our Directors confirm that there has been no material adverse change in the financial or trading position or prospects of our Group since 30 June 2015 (being the date to which the latest audited consolidated financial statements of our Group were made up);

(d) there has not been any interruption in the business of our Group which may have or has had a significant effect on the financial position of our Group in the 12 months preceding the date of this Prospectus;

(e) there is no arrangement under which future dividends are waived or agreed to be waived;

(f) none of the equity and debt securities of our Company, if any, is listed or dealt with in any other stock exchange nor is any listing or permission to deal being or proposed to be sought;

(g) there is no subsidiary in our Group which is a Sino-foreign equity joint venture or which operates as or under a cooperative or contractual joint venture; and

(h) we currently do not intend to apply for the status of a Sino-foreign investment joint stock limited company and do not expect to be subject to the PRC Sino-Foreign Joint Venture Law.

11. Promoters

The promoters of our Company are Mr. Yao, Madam Yao, Meizhi Investment, Youran Investment and Zhichuang Investment.

Save as disclosed in this prospectus, within the two years immediately preceding the date of this Prospectus, no cash, securities or other benefit has been paid, allotted or given to the promoters named above in connection with the Global Offering or the related transactions described in this Prospectus.

DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES

The documents attached to the copy of this Prospectus delivered to the Registrar of Companies in Hong Kong for registration were:

(a) a copy of the **White** Application Form, **Yellow** Application Form and **Green** Application Form;

(b) the written consents referred to in the paragraph headed "D. Other information — 6. Consents of experts" in Appendix VII to this Prospectus; and

(c) a copy of each of the material contracts referred to in the paragraph headed "B. Further information about our business — 1. Summary of material contracts" in Appendix VII to this Prospectus.

DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the office of Squire Patton Boggs at 29th Floor, Edinburgh Tower, The Landmark, 15 Queen's Road Central, Hong Kong during normal business hours up to and including the date which is 14 days from the date of this Prospectus:

(a) the Memorandum of Association and the Articles of Association;

(b) the Accountant's Report from SHINEWING (HK) CPA Limited, the text of which is set forth in Appendix I to this Prospectus;

(c) the audited consolidated financial statements of our Group for each of the three financial years ended 31 December 2014 and the six months ended 30 June 2015;

(d) the report from SHINEWING (HK) CPA Limited relating to the unaudited pro forma financial information of our Group, the text of which is set forth in Appendix II to this Prospectus;

(e) the letter, summary of values and valuation certificates relating to the property interests of our Group prepared by Roma Appraisals Limited, the texts of which are set forth in Appendix III to this Prospectus;

(f) the PRC Company Law;

(g) the material contracts referred to in the paragraph headed "B. Further information about our business — 1. Summary of material contracts" in Appendix VII to this Prospectus;

(h) the written consents referred to in the paragraph headed "D. Other information — 6. Consents of experts" in Appendix VII to this Prospectus;

(i) the service contracts referred to in the paragraph headed "C. Further information about our Directors, Supervisors and substantial shareholders — 2. Particulars of service contracts" in Appendix VII to this Prospectus; and

(j) the PRC legal opinion issued by our PRC Legal Advisers.

創美藥業股份有限公司
CHUANGMEI PHARMACEUTICAL CO.,LTD.*