*You should read this section in conjunction with our combined financial information including the notes thereto, as set forth in the Accountants' Report. The Accountants' Report has been prepared on the basis set out in Appendix I to this [REDACTED] and in accordance with our accounting policies that are in conformity with International Financial Reporting Standards ("***IFRS***").*

This section contains forward-looking statements that involve risks and uncertainties. Our actual results may differ from those anticipated in these forward-looking statements as a result of a number of factors, including those set forth in the "Risk Factors" section in this [REDACTED].

MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

OVERVIEW

We are a pharmaceutical company based in Zhongshan. Our business operations can broadly be divided into two segments, namely, (i) pharmaceutical manufacturing; and (ii) operation of chain pharmacies.

- Pharmaceutical manufacturing

  We are engaged in the research and development, manufacturing and sale of (i) Chinese patent medicines; and (ii) decoction pieces (consisting of traditional decoction pieces and modern decoction pieces) under our brands in the PRC. Our core brands include "Zeus (中智)", "Liumian* (六棉牌)" and "Caojinghua* (草晶華)". For the manufacture of our own-branded products, we have two GMP certified production plants with an aggregate gross floor area of approximately 46,700 sq.m. located in Zhongshan. Our own-branded products are sold on a wholesale basis to distributors and independent chain pharmacies in the PRC, and also through our self-operated chain pharmacies. For each of the three years ended 31 December 2014, the revenue from our pharmaceutical manufacturing segment was RMB172.2 million, RMB207.3 million and RMB294.8 million, respectively.

- Operation of chain pharmacies

  We have been operating chain pharmacies in Zhongshan under our brand "Zeus (中智)" for the sale of pharmaceutical products since 2001. As at the Latest Practicable Date, we have 201 self-operated chain pharmacies in Zhongshan. For each of the three years ended 31 December 2014, the revenue from our operation of chain pharmacies was RMB237.8 million, RMB275.5 million and RMB300.7 million, respectively. According to the Ipsos Report, we are the largest self-operated pharmaceutical chain in Zhongshan in terms of the number of pharmacies and revenue for three consecutive years from 2012 to 2014. Apart from our own-branded products manufactured by us, we also sell a variety of non-own branded products comprising (i) Chinese patent medicines; (ii) Western medicines; (iii) medical devices; and (iv) healthcare products (such as vitamin, mineral supplements and protein powder), which we sourced from independent suppliers (including pharmaceutical wholesalers and distributors).

Driven by the rapidly increasing market demand on pharmaceutical products, we have enjoyed growth in both the revenue and net profit during the Track Record Period. For each of the three years ended 31 December 2014, we recorded total revenue of approximately RMB410.1 million, RMB482.8 million and RMB595.6 million, respectively and profit attributable to our Company's equity holders of approximately RMB17.3 million, RMB37.6 million and RMB86.7 million, respectively.

For further information about our business and operations, please refer to the "Business" section in this [REDACTED].

PRINCIPAL FACTORS AFFECTING OUR RESULTS OF OPERATIONS

Our results of operations are subject to the influence of numerous factors, the principal of which are set out below:

Growth of the pharmaceutical markets in the PRC

PRC is one of the world's largest and fastest growing pharmaceutical markets, from which we derived all of our revenue for each of the three years ended 31 December 2014. Our revenue for the respective periods amounted to approximately RMB410.1 million, RMB482.8 million and RMB595.6 million, representing a CAGR of approximately 20.5%. According to the Ipsos Report, total retail sales value of pharmaceutical products in the PRC grew at a CAGR of approximately 23.9% from 2009 to 2013. It is estimated that total retail sales value of the pharmaceutical products in the PRC will further grow at a CAGR of approximately 22.2% from 2014 to 2018, respectively.

The rapid growth of the pharmaceutical markets in the PRC has been driven by a number of socio-economic factors, such as (i) the rapid growth of GDP; (ii) the increasing disposable income and healthcare spending; and (iii) the aging population. If any of these factors changes unexpectedly or unfavorably, our business, financial condition and results of operations may be adversely affected.

Our ability to control the cost of raw materials

Our profitability is affected by our ability to procure raw materials at commercially reasonable prices for the manufacturing of our own-branded products. Our raw materials mainly include Chinese herbs, packaging materials and other consumables. For each of the three years ended 31 December 2014, raw material costs accounted for approximately 75.6%, 73.2% and 73.1% of the cost of sales of our pharmaceutical manufacturing, and approximately 29.2%, 29.6% and 32.4% of our total cost of sales, respectively. Our ability to control our raw material costs significantly affects our profitability. During the Track Record Period, the raw material price fluctuations have not had a material impact on our gross profit margins. However, should there be any increase in raw material costs which cannot be passed on to our customers due to government price controls or other reasons, our Group's profitability will be adversely affected.

The following sensitivity analysis illustrates the impact of hypothetical fluctuations in raw material costs on our cost of sales, gross profit, gross profit margin and net profit during the Track Record Period. Fluctuations are assumed to be 10%, 20% and 30% for each of the three years ended 31 December 2014, respectively, which correspond to the range of historical fluctuations of our raw material costs during the Track Record Period. Our raw material costs increased by approximately 11.3% from approximately RMB64.7 million for the year ended 31 December 2012 to approximately RMB72 million for the year ended 31 December 2013, and further increased by approximately 23.8% to approximately RMB89.1 million for the year ended 31 December 2014.

	RMB'000, except percentages		
Hypothetical fluctuation in cost of raw materials	+10%	+20%	+30%
Impact on certain combined income statement items for the year ended 31 December 2012			
Change in cost of sales	+6,469	+12,937	+19,406
Change in gross profit	–6,469	–12,937	–19,406
Change in gross profit margin	–1.6%	–3.2%	–4.7%
Change in net profit	–4,761	–9,522	–14,283
Impact on certain combined income statement items for the year ended 31 December 2013			
Change in cost of sales	+7,199	+14,398	+21,596
Change in gross profit	–7,199	–14,398	–21,596
Change in gross profit margin	–1.5%	–3.0%	–4.5%
Change in net profit	–5,788	–11,576	–17,364
Impact on certain combined income statement items for the year ended 31 December 2014			
Change in cost of sales	+8,906	+17,812	+26,718
Change in gross profit	–8,906	–17,812	–26,718
Change in gross profit margin	–1.5%	–3.0%	–4.5%
Change in net profit	–6,760	–13,519	–20,279

Distribution network

Our sales volume is directly correlated to the level of our market penetration, which in turn is affected by the size of our distribution network. As at 31 December 2014, our extensive distribution network comprised 1,111 distributors (comprising upper-level distributors, lower-level distributors and non-contractual distributors) and 381 independent chain pharmacies for the sale of our own-branded products to 30 provinces, municipalities and autonomous regions in the PRC. Our Directors believe that our extensive distribution network has enabled us to achieve rapid market expansion and wide geographical coverage. We will continue to expand our distribution and marketing network, with a view to further increase our market share and deepen market penetration.

Launch of new products

Our ability to develop and launch new products is critical to our future growth. In 2011, we launched our modern decoction pieces which have received positive market response. For each of the three years ended 31 December 2014, revenue from the sale of modern decoction pieces amounted to RMB22.4 million, RMB65.5 million and RMB156.5 million, respectively, representing a CAGR of approximately 164.3%.

To ensure that our product portfolio can meet the changing market demand, we will continue enhancing our strong research and development capabilities and developing a pipeline of new products that supports sustainable growth and helps us meet our ongoing and future targets of profitability.

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

Product offering

Our turnover and profitability are affected by our product offering. As at the Latest Practicable Date, we offered over 5,000 types of products for sale in our self-operated chain pharmacies, including 193 types of our own-branded products and other products sourced from independent suppliers, such as Chinese patent medicines, Western medicines, medical devices and healthcare products. This diversified product portfolio enables us to cater for the changing needs of consumers of different ages and consuming power.

We will continue to evaluate and enrich our product portfolio on a regular basis with a focus on products with higher gross profit margin and greater market demand to increase our overall profitability.

Taxation

For each of the three years ended 31 December 2014, Zhongzhi Herb Pieces and Honeson Pharmaceutical were granted the status of High and New Technology Enterprise* (高新技術企業) and, according to the applicable PRC laws and regulations, were entitled to the reduced EIT rate of 15%. Under the relevant PRC laws and regulations, the 15% reduced EIT rate is subject to review and approval by the tax authorities every three years. The current status of Zhongzhi Herb Pieces and Honeson Pharmaceutical as High and New Technology Enterprise and their entitlement to the reduced EIT rate will expire in 2017.

There is no assurance that the PRC policies on preferential tax treatments will not change or that the current preferential tax treatments we enjoy will not be cancelled. If such change and cancellation occur, the resulting increase in our tax liability or reduction in the amount of subsidies we receive would have an adverse effect on our net profits and cash flow. If we were not entitled to the preferential tax treatments during the Track Record Period, we would have been subject to the EIT rate of 25% and our net profit after tax for the respective year would have decreased by RMB2 million, RMB3 million and RMB4.2 million, representing a decline of 0.5%, 0.6% and 0.7% in our net profit margin respectively.

CRITICAL ACCOUNTING POLICIES AND SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The discussion and analysis of our financial position and results of operations as included in this [REDACTED] is based on the combined financial statements prepared in accordance with the significant accounting policies set out in note 2.4 of the Accountants' Report, which conform with the IFRS.

In the application of our Group's accounting policies, management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and underlying assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ under different assumptions or conditions.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Set forth below are the most critical accounting policies, judgements and estimates used in the preparation of our financial statements:

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to our Group and when the revenue can be measured reliably, on the following bases:

(i) ***Sale of goods***

Revenue of our pharmaceutical manufacturing is recognised when the goods have been delivered to the customers' premises and the customers have inspected and accepted the goods as well as the related risks and rewards of ownership.

Revenue of our operation of chain pharmacies is recognised when we sell our goods to the customers over the counter.

Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

(ii) ***Interest income***

Interest income is recognised on an accrual basis using the effective interest rate method.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average cost method. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. We initially recognise loans and receivables at fair value plus transaction costs and subsequently carry them at amortised cost using the effective interest method. At the end of each reporting period, we assess whether there is objective evidence that a financial asset or a group of financial assets is impaired. We derecognise financial assets when the rights to receive cash flow from the assets have expired or have been transferred and we have transferred substantially all risks and rewards of ownership.

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The estimated useful lives of property, plant and equipment used are as follows:

Leasehold improvement	3–10 years
Buildings	20 years
Machinery	3–10 years
Motor vehicles	4–5 years
Office equipment	3–5 years

Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at the end of each reporting period.

In determining the useful life and residual value of an item of property, plant and equipment, our Group has to consider various factors, such as technical or commercial obsolescence arising from changes or improvements in production, or from a change in the market demand for the product or service output of the asset, expected usage of the asset, expected physical wear and tear, the care and maintenance of the asset, and legal or similar limits on the use of the asset. The estimation of the useful life of the asset is based on the experience of our Group with similar assets that are used in a similar way. Additional depreciation is made if the estimated useful lives and/or the residual values of items of property, plant and equipment are different from the previous estimation. Useful lives and residual values are reviewed at the end of each reporting period based on changes in circumstances.

MANAGEMENT DISCUSSION AND ANALYSIS

Summary of results of operations

The following table summarises our Group's combined revenue and results for the Track Record Period, details of which are set out in the Accountants' Report. The financial information contained herein and in the Accountants' Report is prepared in accordance with IFRS and is presented as if our current group structure had been in existence throughout the periods indicated.

	For the year ended 31 December		
	2012	2013	2014
	RMB'000	RMB'000	RMB'000
Revenue	410,052	482,805	595,565
Cost of sales	(221,365)	(243,430)	(275,290)
Gross profit	188,687	239,375	320,275
Other income and gains	7,370	5,383	6,528
Selling and distribution expenses	(121,904)	(142,326)	(148,747)
Administrative expenses	(35,258)	(38,881)	(50,196)
Other expenses	(11,152)	(15,364)	(12,048)
Finance costs	(4,294)	(1,384)	(1,002)
Profit before tax	23,449	46,803	114,810
Income tax expense	(6,195)	(9,165)	(28,122)
Profit for the year	17,254	37,638	86,688
Attributable to equity holders of our Company	17,254	37,638	86,688

Revenue

(i) *By business segments*

We derive our revenue from two business segments: (i) pharmaceutical manufacturing; and (ii) operation of chain pharmacies. For each of the three years ended 31 December 2014, our total revenue was approximately RMB410.1 million, RMB482.8 million and RMB595.6 million, respectively.

The table below sets forth our revenue by business segment and the percentage of total revenue for each business segment represented during the Track Record Period:

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

Pharmaceutical manufacturing

For our pharmaceutical manufacturing, we derive revenue from our own-branded products which we manufacture and then sell to distributors and independent chain pharmacies. For each of the three years ended 31 December 2014, revenue from this segment was approximately RMB172.2 million, RMB207.3 million and RMB294.8 million, accounting for approximately 42%, 42.9% and 49.5% of our total revenue, respectively.

Our own-branded products can be categorised into (i) Chinese patent medicines; and (ii) decoction pieces, which include traditional and modern decoction pieces. The table below sets forth our revenue from our pharmaceutical manufacturing by product category and the percentage of revenue from this segment for each product category represented during the Track Record Period:

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

For each of three years ended 31 December 2014, revenue from the sale of Chinese patent medicines and traditional decoction pieces remained relatively stable. Our modern decoction pieces were launched in the market in 2011. Satisfactory market response was received and revenue from the sales of modern decoction pieces grew from approximately RMB12.5 million in 2012 to RMB131.9 million in 2014, representing a CAGR of approximately 224.8%.

Operation of chain pharmacies

For our operation of chain pharmacies, we derive revenue from the sale of pharmaceutical products, healthcare products and other miscellaneous items in our self-operated chain pharmacies to retail consumers. For each of the three years ended 31 December 2014, revenue from this segment amounted to approximately RMB237.8 million, RMB275.5 million and RMB300.7 million, accounting for approximately 58%, 57.1% and 50.5% of our total revenue, respectively. As at the respective year-end, we had 198, 195 and 198 self-operated chain pharmacies in Zhongshan.

The products offered for sale in our chain pharmacies include our own-branded products and non-own branded products sourced from independent suppliers (including pharmaceutical wholesalers and distributors). The table below sets forth our revenue from the operation of chain pharmacies by product category and the percentage of revenue from this segment for each product category represented during the Track Record Period:

	For the year ended 31 December					
	2012		2013		2014	
	RMB'000	% of revenue	RMB'000	% of revenue	RMB'000	% of revenue
Own-branded products						
Chinese patent medicines	9,482	4.0	8,843	3.2	10,338	3.4
Decoction pieces						
— Traditional decoction pieces	34,904	14.7	38,153	13.9	36,306	12.1
— Modern decoction pieces	9,921	4.2	19,094	6.9	24,625	8.2
	54,307	22.9	66,090	24.0	71,269	23.7
Non-own branded products						
Chinese patent medicines	66,229	27.8	74,191	26.9	83,418	27.8
Western medicines	67,883	28.5	80,299	29.1	85,807	28.5
Healthcare products	25,853	10.9	28,553	10.4	27,955	9.3
Others *(Note)*	23,540	9.9	26,410	9.6	32,276	10.7
	183,505	77.1	209,453	76.0	229,456	76.3
Total revenue from the operation of chain pharmacies	237,812	100.0	275,543	100.0	300,725	100.0

Note: Others mainly include personal care products and medical devices.

(ii) *By product category*

The table below sets forth our revenue by product category and the percentage of revenue for each product category represented during the Track Record Period:

	For the year ended 31 December					
	2012		2013		2014	
	RMB'000	% of total revenue	RMB'000	% of total revenue	RMB'000	% of total revenue
Own-branded products	226,547	55.2	273,352	56.6	366,109	61.5
Non-own branded products	183,505	44.8	209,453	43.4	229,456	38.5
Total	410,052	100.0	482,805	100.0	595,565	100.0

Cost of sales, Gross Profit and Gross Profit Margin

(i) *By business segments*

The table below sets forth our cost of sales, gross profit and gross profit margin for our two business segments during the Track Record Period:

	For the year ended 31 December					
	2012		2013		2014	
	RMB'000	% of segment revenue	RMB'000	% of segment revenue	RMB'000	% of segment revenue
Pharmaceutical manufacturing						
Revenue	172,240	100.0	207,262	100.0	294,840	100.0
Cost of sales	85,578	49.7	98,317	47.4	121,928	41.4
Gross profit	86,662	50.3	108,945	52.6	172,912	58.6
Operation of chain pharmacies						
Revenue	237,812	100.0	275,543	100.0	300,725	100.0
Cost of sales	135,787	57.1	145,113	52.7	153,362	51.0
Gross profit	102,025	42.9	130,430	47.3	147,363	49.0
Total						
Revenue	410,052	100.0	482,805	100.0	595,565	100.0
Cost of sales	221,365	54.0	243,430	50.4	275,290	46.2
Gross profit	188,687	46.0	239,375	49.6	320,275	53.8

Pharmaceutical manufacturing

Cost of sales of our pharmaceutical manufacturing mainly comprises the cost of raw materials, employee benefit expenses and depreciation of property, plant and equipment. For each of the three years ended 31 December 2014, cost of sales of this segment amounted to approximately RMB85.6 million, RMB98.3 million and RMB121.9 million, respectively.

Our raw materials mainly include Chinese herbs, packaging materials and other consumables. For each of the three years ended 31 December 2014, our cost of raw materials amounted to approximately RMB64.7 million, RMB72 million and RMB89.1 million, representing approximately 75.6%, 73.2% and 73.1% of the total segment cost of sales, respectively. The increase in our cost of raw materials during the Track Record Period was primarily due to the increased production volume driven by the sales growth of our own-branded products.

Our employee benefit expenses increased by approximately 43.1% from approximately RMB11.6 million for the year ended 31 December 2012 to approximately RMB16.6 million for the year ended 31 December 2013, and then further increased by approximately 13.9% to approximately RMB18.9 million for the year ended 31 December 2014. Basic salaries of our staff increased by approximately 19% due to rise in the PRC statutory minimum wage in early 2013 and the general inflation.

For each of the three years ended 31 December 2014, gross profit of this segment was approximately RMB86.7 million, RMB108.9 million and RMB172.9 million, respectively. The gross profit margin of this segment for the same periods was approximately 50.3%, 52.6% and

58.6%, respectively. The increase in gross profit margin of this segment was primarily resulted from the growth in the sales of our modern decoction pieces, which has a significantly higher gross profit margin than our other own-branded products.

Operation of chain pharmacies

Cost of sales of our operation of chain pharmacies represents the cost of our own-branded products and non-own branded products sourced from independent suppliers for resale in our chain pharmacies. For each of the three years ended 31 December 2014, cost of sales of this segment amounted to approximately RMB135.8 million, RMB145.1 million and RMB153.4 million, respectively. The increase in cost of sales of this segment during the Track Record Period was in line with the growth in sales from this segment.

For each of the three years ended 31 December 2014, gross profit of this segment was approximately RMB102 million, RMB130.4 million and RMB147.4 million, respectively. The gross profit margin of this segment for the same periods was approximately 42.9%, 47.3% and 49%, respectively. The increase in gross profit margin of this segment for the respective periods was due to the combined effect of (i) more favourable product pricing offered by some suppliers due to our increased purchase volume; and (ii) the increased sales of our own-branded products, in particular, our modern decoction pieces which have higher gross profit margin than non-own branded products.

For each of the three years ended 31 December 2014, our Group recorded total gross profit of approximately RMB188.7 million, RMB239.4 million and RMB320.3 million, together with a overall gross profit margin of approximately 46%, 49.6% and 53.8%, respectively.

(ii) ***By product category***

The table below sets forth our gross profit and gross profit margin by product category during the Track Record Period:

	For the year ended 31 December					
	2012		2013		2014	
	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin
	RMB'000	%	RMB'000	%	RMB'000	%
Own-branded products						
Chinese patent medicines	81,632	48.9	77,676	46.4	80,574	47.4
Decoction pieces						
— Traditional decoction pieces	20,248	54.2	23,587	58.3	24,440	61.7
— Modern decoction pieces	18,004	80.3	51,268	78.3	121,425	77.6
	119,884	52.9	152,531	55.8	226,439	61.9
Non-own branded products						
Chinese patent medicines	24,067	36.3	29,304	39.5	32,206	38.6
Western medicines	21,711	32.0	28,812	35.9	30,757	35.8
Healthcare products	13,469	52.1	16,852	59.0	16,783	60.0
Others *(Note)*	9,556	40.6	11,876	45.0	14,090	43.7
	68,803	37.5	86,844	41.5	93,836	40.9
Total	188,687	46.0	239,375	49.6	320,275	53.8

Note: Others mainly include personal care products and medical devices.

Our own-branded modern decoction pieces are manufactured by using our patented techniques, which enable us to achieve higher gross profit margin from the sales of our own-branded products as compared with non-own branded products.

Through years of research and development, we have successfully developed the techniques related to the production of modern decoction pieces, which are intended to enhance the functional effectiveness of traditional decoction pieces. These products are sold at a higher price than traditional decoction pieces and we have received satisfactory market response. The gross profit margin of our modern decoction pieces were approximately 80% during the Track Record Period.

(iii) *By distribution channel*

The table below sets forth our gross profit and gross profit margin by distribution channel during the Track Record Period:

	For the year ended 31 December					
	2012		2013		2014	
	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin
	RMB'000	%	RMB'000	%	RMB'000	%
Our self-operated chain pharmacies (Note 1)	102,025	42.9	130,430	47.3	147,363	49.0
Distributors (Note 2)						
— contractual (Note 3)	35,996	44.2	38,982	46.1	45,508	50.4
— non-contractual	34,507	56.5	38,647	55.6	31,248	54.7
Independent chain pharmacies (Note 1)	16,159	54.2	31,316	58.7	96,156	65.2
Total	188,687	46.0	239,375	49.6	320,275	53.8

Notes:

1. Revenue generated from our self-operated chain pharmacies represented sales of both our own-branded products and non-owned branded products.

2. Revenue generated from distributors and independent chain pharmacies represented sales of our own-branded products.

3. Revenue generated from contractual distributors represented our sales to upper-level distributors as we do not sell directly to lower-level distributors.

We sell our Chinese patent medicines to our contractual and non-contractual distributors. However, the Chinese patent medicines sold to non-contractual distributors generally have forms and/or packaging different from those being sold to contractual distributors and are at a higher selling price. As such, our gross profit margins from the sales to non-contractual distributors for each of the three years ended 31 December 2014 was higher as compared with those of the contractual distributors.

We mainly sell our modern decoction pieces to the independent chain pharmacies outside Zhongshan. For each of the three years ended 31 December 2014, our gross profit and gross profit margin from the sales to independent chain pharmacies were on an increasing trend. This was driven by the increased sales of our modern decoction pieces, which has the highest gross profit margin amongst our own-branded products.

Other income and gains

Other income and gains mainly comprise government grants and interest income. As a reputable pharmaceutical company in Zhongshan, we have been gaining support from the Guangdong provincial government and Zhongshan municipal government for our continuous effort in research and development of pharmaceutical products as well as the expansion of our business operations. The aforesaid government authorities would consider various factors, such as the technical requirements, feasibility and expected economic benefits of our research and development projects. These government grants were in the form of subsidies for our research and development projects, including but not limited to the acquisition of related equipments and software.

Our entitlement to the government grants is subject to the conditions set by the government authorities, which generally require us to complete the relevant projects and submit the completion reports to the government authorities. We recognise government grants at fair value where there is reasonable assurance that the grants have been received and all attaching conditions have been complied with. For each of the three years ended 31 December 2014, our government grants amounted to approximately RMB6 million, RMB3 million and RMB4.1 million, representing approximately 34.7%, 8% and 4.7% of our net profit for the respective years.

The table below shows the breakdown of our other income and gains for the Track Record Period:

	For the year ended 31 December		
	2012	**2013**	**2014**
	RMB'000	**RMB'000**	**RMB'000**
Government grants	6,049	2,956	4,095
Bank interest income	320	303	366
Interest income from available-for-sale investments	388	364	532
Gain on disposal of property, plant and equipment	34	554	67
Others	579	1,206	1,468
Total	7,370	5,383	6,528

Selling and distribution expenses

Selling and distribution expenses mainly represent staff costs, advertisement and promotional costs and rental expenses of our chain pharmacies. For each of the three years ended 31 December 2014, our selling and distribution expenses amounted to approximately RMB121.9 million, RMB142.3 million and RMB148.7 million, representing approximately 29.7%, 29.5% and 25% of our total revenue, respectively. Our advertisement and promotional costs were on a decreasing trend, as our sales staff provide regular seminars on our products to independent chain pharmacies which directly market our products to consumers. We consider that this is an effective and cost efficient way of marketing and promoting our new products.

The table below shows the breakdown of selling and distribution expenses incurred by us for the Track Record Period:

	For the year ended 31 December		
	2012	2013	2014
	RMB'000	RMB'000	RMB'000
Staff costs	54,079	75,382	79,930
Depreciation and amortisation	4,118	4,234	4,618
Travelling and entertainment expenses	4,892	7,106	9,951
Advertisement and promotional costs	33,152	27,722	23,369
Rental expenses	13,240	15,675	17,059
Transportation expenses	3,317	3,565	3,739
Others	9,106	8,642	10,081
Total	121,904	142,326	148,747

Administrative expenses

Administrative expenses mainly represent salaries and benefits of our administrative and management staff as well as legal and professional fees. Our administrative expenses for each of the three years ended 31 December 2014 were RMB35.3 million, RMB38.9 million and RMB50.2 million, respectively.

The table below shows the breakdown of administrative expenses incurred by us during the Track Record Period:

	For the year ended 31 December		
	2012	2013	2014
	RMB'000	RMB'000	RMB'000
Staff costs	15,860	21,061	22,205
Depreciation and amortisation	4,763	3,346	2,622
Legal and professional fees	872	3,897	10,785
Rental expenses	1,482	1,498	1,592
Travelling and entertainment expenses	2,849	4,607	3,049
[REDACTED] expenses	—	—	[REDACTED]
Share-based payment expenses	5,680	—	—
Others	3,752	4,472	5,644
Total	35,258	38,881	50,196

Other expenses

Other expenses mainly represent research and development expenses, loss on disposal of property, plant and equipment and miscellaneous expenses. Research and development expenses mainly comprise expenditures and costs relating to the development of new products, enhancement of the efficacy of existing products, the improvement of our production methods and other internal research and development programs. For each of the three years ended 31 December 2014, our other expenses were RMB11.2 million, RMB15.4 million and RMB12 million, respectively.

The table below shows the breakdown of other expenses incurred by us during the Track Record Period:

	For the year ended 31 December		
	2012	2013	2014
	RMB'000	RMB'000	RMB'000
Research and development expenses	10,750	14,001	11,184
Loss on disposal of property, plant and equipment	325	456	137
Loss on disposal of non-current available-for-sale investment	—	99	—
Others	77	808	727
Total	11,152	15,364	12,048

Finance costs

Finance costs represent interest expenses on bank borrowings. For each of the three years ended 31 December 2014, our finance costs were approximately RMB4.3 million, RMB1.4 million and RMB1 million, respectively. During the Track Record Period, our bank borrowings were on a decreasing trend. Cash generated from our operations has been our major source of finance.

Income tax expenses

During the Track Record Period, all our revenue was derived in the PRC.

Our PRC subsidiaries are subject to EIT rate of 25% on their assessable profits, except for Zhongzhi Herb Pieces and Honeson Pharmaceutical which were granted the status of High and New Technology Enterprise* (高新技術企業). According to the applicable PRC laws and regulations, they were entitled to the reduced EIT rate of 15%.

During the Track Record Period, our income tax expenses amounted to approximately RMB6.2 million, RMB9.2 million and RMB28.1 million, respectively. Our effective income tax rate was approximately 26.4%, 19.6% and 24.5% for each of the three years ended 31 December 2014, respectively. Our effective income tax rate for the year ended 31 December 2012 was higher than the our applicable EIT rates as certain expenses were non-deductible for tax purposes. These expenses mainly included a one-off share-based payment expense of approximately RMB5.7 million, which were not considered as deductible expenses by the PRC tax authorities.

The increase in our effective tax rate for the year ended 31 December 2014 was primarily attributable to the recognition of dividend withholding tax of approximately RMB3 million.

Year ended 31 December 2014 compared with year ended 31 December 2013

Revenue

Our total revenue increased by approximately 23.4% from approximately RMB482.8 million for the year ended 31 December 2013 to approximately RMB595.6 million for the year ended 31 December 2014. Revenue from both of our business segments increased.

Pharmaceutical manufacturing

Segment revenue of our pharmaceutical manufacturing increased by approximately 42.2% from approximately RMB207.3 million for the year ended 31 December 2013 to approximately RMB294.8 million for the year ended 31 December 2014. Our modern decoction pieces had received satisfactory market receptiveness since they were launched in 2011. Revenue from the wholesale of our modern decoction pieces increased by approximately 184.3% from approximately RMB46.4 million for the year ended 31 December 2013 to approximately RMB131.9 million for the year ended 31 December 2014.

Operation of chain pharmacies

Segment revenue of our operation of chain pharmacies increased by approximately 9.1% from approximately RMB275.5 million for the year ended 31 December 2013 to approximately RMB300.7 million for the year ended 31 December 2014. The increase was a result of the organic growth of our chain pharmacies, driven by the increase in the overall market demand on pharmaceutical and healthcare products.

Cost of sales, Gross Profit and Gross Profit Margin

Our cost of sales increased by approximately 13.1% from approximately RMB243.4 million for the year ended 31 December 2013 to approximately RMB275.3 million for the year ended 31 December 2014. Our cost of sales increased with our sales growth.

Our gross profit increased by approximately 33.8% from approximately RMB239.4 million for the year ended 31 December 2013 to RMB320.3 million for the year ended 31 December 2014. Our gross profit margin increased from 49.6% for the year ended 31 December 2013 to 53.8% for the year ended 31 December 2014, primarily resulted from the increase in the wholesale of our modern decoction pieces, which had gross profit margin of approximately 80%. As a percentage to our total revenue, the revenue of our modern decoction pieces increased from 13.6% for the year ended 31 December 2013 to 26.3% for the year ended 31 December 2014.

Other income and gains

Our other income and gains increased by approximately 20.4% from approximately RMB5.4 million for the year ended 31 December 2013 to approximately RMB6.5 million for the year ended 31 December 2014, primarily due to the increase in discretionary government grants received by our Group.

Selling and distribution expenses

Our selling and distribution expenses for the year ended 31 December 2014 amounted to approximately RMB148.7 million, representing approximately 25% of our total revenue for the same year. Our rental expenses increased by approximately 8.9% from approximately RMB15.7 million for the year ended 31 December 2013 to approximately RMB17.1 million for the year ended 31 December 2014, primarily attributed to a net increase of three chain pharmacies and the lease renewal of existing pharmacies. Despite that, as compared with 29.5% for the year ended 31 December 2013, the decrease in our selling and distribution expenses as a percentage to total revenue was mainly resulted from the reduction of our advertisement and promotional costs.

Administrative expenses

Our administrative expenses increased by approximately 29% from approximately RMB38.9 million for the year ended 31 December 2013 to approximately RMB50.2 million for the year ended 31 December 2014. During the year, we have recognised [REDACTED] expenses of approximately RMB[REDACTED] and professional fees of RMB5 million. The professional fees related to the engagement of an independent consultancy firm to provide us market analysis in relation to the market development, sales and distribution channels, local regulations, opportunities and challenges of Chinese pharmaceutical products in Hong Kong, the PRC and certain major cities across the Southeast Asia. The firm provided various services to our Group, including but not limited to conducting feasibility studies on carrying business in relation to Chinese patent medicines in various jurisdictions, provision and maintenance (if required) of relevant databases, recruitment of relevant personnel to explore business opportunities and devising business development plans in these cities. Our Directors will consider the possibility of business expansion into other regions should any opportunities arise.

Other expenses

Our other expenses decreased by approximately 22.1% from approximately RMB15.4 million for the year ended 31 December 2013 to approximately RMB12 million for the year ended 31 December 2014, as our research and development expenses was partially capitalised as property, plant and equipment according to the relevant accounting standard. For the year ended 31 December 2014, we incurred an aggregate amount of approximately RMB18.2 million on our research and development projects, of which the capitalised portion of approximately RMB7 million was related to the set-up of a State-level laboratory for the development of our modern decoction pieces. The remaining was expensed in the profit or loss. Consequently, our research and development expenses decreased by approximately 20% from RMB14 million for the year ended 31 December 2013 to RMB11.2 million for the year ended 31 December 2014.

Finance costs

Our finance costs decreased by approximately 28.6% from approximately RMB1.4 million for the year ended 31 December 2013 to approximately RMB1 million for the year ended 31 December 2014. We had repaid certain of our bank borrowings.

Income tax expense

Our income tax expense increased by approximately 205.4% from approximately RMB9.2 million for the year ended 31 December 2013 to approximately RMB28.1 million for the year ended 31 December 2014 due to the increase in taxable profits and the recognition of dividend withholding tax of approximately RMB3 million.

Profit for the year

As a result of the above factors, our profit for the year increased by approximately 130.6% from approximately RMB37.6 million for the year ended 31 December 2013 to approximately RMB86.7 million for the year ended 31 December 2014. During the year, we adopted an effective control on our selling and distribution expenses in particular, reduced our advertisement and promotional costs and the percentage of our staff costs to total revenue from approximately 17.1% for the year ended 31 December 2013 to approximately 15.1%. As a result, our net profit margin increased from approximately 7.8% for the year ended 31 December 2013 to approximately 14.6% for the year ended 31 December 2014.

Dividends

We declared and paid a dividend of RMB96 million during the year ended 31 December 2014. No dividend was declared and paid during the year ended 31 December 2013.

Year ended 31 December 2013 compared with year ended 31 December 2012

Revenue

Our total revenue increased by approximately 17.7% from approximately RMB410.1 million for the year ended 31 December 2012 to approximately RMB482.8 million for the year ended 31 December 2013. The increase primarily reflected the increase in revenue from both of our business segments.

Pharmaceutical manufacturing

Segment revenue of our pharmaceutical manufacturing increased by approximately 20.4% from approximately RMB172.2 million for the year ended 31 December 2012 to approximately RMB207.3 million for the year ended 31 December 2013. Revenue from the wholesale of our modern decoction pieces significantly increased by approximately 271.2% from approximately RMB12.5 million for the year ended 31 December 2012 to approximately RMB46.4 million for the year ended 31 December 2013.

Operation of chain pharmacies

Segment revenue of our operation of chain pharmacies increased by approximately 15.9% from approximately RMB237.8 million for the year ended 31 December 2012 to approximately RMB275.5 million for the year ended 31 December 2013. Our increase in sales was mainly resulted from the sales contributed by additional self-operated pharmacies opened in 2012.

Cost of sales, Gross Profit and Gross Profit Margin

Our cost of sales increased by approximately 9.9% from approximately RMB221.4 million for the year ended 31 December 2012 to approximately RMB243.4 million for the year ended 31 December 2013. Our cost of sales increased with our sales growth.

Our gross profit increased by approximately 26.9% from approximately RMB188.7 million for the year ended 31 December 2012 to RMB239.4 million for the year ended 31 December 2013. Our gross profit margin increased from 46% for the year ended 31 December 2012 to 49.6% for the year ended 31 December 2013, primarily due to (i) the increased sales of our modern decoction pieces; (ii) those additional self-operated pharmacies opened in 2012 began to contribute profits; and (iii) more favourable pricing offered by some suppliers of our chain pharmacies segment for our increased purchase volume. As a percentage to our total revenue, the revenue of our modern decoction pieces increased from 5.5% for the year ended 31 December 2012 to 13.6% for the year ended 31 December 2013.

Other income and gains

Our other income and gains decreased by approximately 27% from approximately RMB7.4 million for the year ended 31 December 2012 to approximately RMB5.4 million for the year ended 31 December 2013, as a result of the decrease in discretionary government grants received by our Group.

Selling and distribution expenses

Our selling and distribution expenses for the year ended 31 December 2013 amounted to approximately RMB142.3 million and accounted for approximately 29.5% of our total revenue. Our rental expenses increased by approximately 18.9% from approximately RMB13.2 million for the year ended 31 December 2012 to approximately RMB15.7 million for the year ended 31 December 2013, primarily attributed to the lease renewal of existing pharmacies. As a percentage to total revenue, our selling and distribution expenses for the year ended 31 December 2013 remained stable as compared to 29.7% for the year ended 31 December 2012.

Administrative expenses

We recognised a one-off share-based payment expenses of approximately RMB5.7 million for the year ended 31 December 2012. Without taking into account such expenses, our administrative expenses would have increased by approximately 31.4% from approximately RMB29.6 million for the year ended 31 December 2012 to approximately RMB38.9 million for the year ended 31 December 2013. Staff costs increased by approximately RMB5.2 million as a result of the increase in bonuses paid to our employees.

Other expenses

Our other expenses increased by approximately 37.5% from approximately RMB11.2 million for the year ended 31 December 2012 to approximately RMB15.4 million for the year ended 31 December 2013. During the year, we incurred additional expenditure of approximately RMB3.3 million on our research and development projects, representing an increase of approximately 29.6% as compared with 2012.

Finance costs

Our finance costs decreased by approximately 67.4% from approximately RMB4.3 million for the year ended 31 December 2012 to approximately RMB1.4 million for the year ended 31 December 2013 due to our decreased level of bank borrowings.

Income tax expense

Our income tax expense increased by approximately 48.4% from approximately RMB6.2 million for the year ended 31 December 2012 to approximately RMB9.2 million for the year ended 31 December 2013 as a result of increase in our taxable profits.

Profit for the year

As a result of the above factors, our profit for the year increased by approximately 117.3% from approximately RMB17.3 million for the year ended 31 December 2012 to approximately RMB37.6 million for the year ended 31 December 2013. Net profit margin increased from approximately 4.2% for the year ended 31 December 2012 to approximately 7.8% for the year ended 31 December 2013.

Dividends

No dividend was declared and paid during the two years ended 31 December 2013.

DESCRIPTION OF CERTAIN ITEMS FROM OUR COMBINED STATEMENTS OF FINANCIAL POSITION

The following table sets forth our combined statements of financial position as at each of the three years ended 31 December 2014, which have been derived from, and should be read in conjunction with our Accountants' Report.

	As at 31 December		
	2012	2013	2014
	RMB'000	RMB'000	RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	63,782	71,406	79,366
Prepayment for property, plant and equipment	1,908	883	2,100
Prepaid land lease payments	15,776	15,306	14,836
Goodwill	1,628	1,628	1,628
Other intangible assets	1,439	1,573	1,366
Available-for-sale investments	450	—	—
Deferred tax assets	3,966	5,534	4,976
Rental deposits	2,491	2,505	3,275
Total non-current assets	91,440	98,835	107,547
CURRENT ASSETS			
Prepaid land lease payments	470	470	470
Inventories	81,241	108,940	88,471
Trade and notes receivables	26,806	28,804	35,489
Prepayments, deposits and other receivables	4,620	7,748	7,943
Available-for-sale investments	10,000	25,000	—
Cash and cash equivalents	25,044	29,077	58,004
Total current assets	148,181	200,039	190,377
CURRENT LIABILITIES			
Trade payables	49,458	54,218	52,802
Other payables and accruals	57,759	75,856	60,805
Amount due to a shareholder	54	53	—
Amounts due to the related parties	—	—	8,786
Interest-bearing bank borrowings	25,000	16,000	15,000
Deferred income	2,485	1,921	6,019
Tax payable	4,781	9,718	20,219
Total current liabilities	139,537	157,766	163,631
Net current assets	8,644	42,273	26,746
Total assets less current liabilities	100,084	141,108	134,293

	As at 31 December		
	2012	2013	2014
	RMB'000	RMB'000	RMB'000
NON-CURRENT LIABILITIES			
Deferred income	6,099	9,509	9,047
Deferred tax liabilities	1,414	1,389	4,349
Total non-current liabilities	7,513	10,898	13,396
Net assets	92,571	130,210	120,897
EQUITY			
Equity attributable to equity holders of our Company			
Issued capital	—	—	—
Reserves	92,571	130,210	120,897
Total equity	92,571	130,210	120,897

Property, plant and equipment

The table below shows the net book value of our property, plant and equipment as at each of the three years ended 31 December 2014:

	As at 31 December		
	2012	2013	2014
	RMB'000	RMB'000	RMB'000
Buildings	36,326	33,530	30,736
Leasehold improvement	14,212	20,169	18,641
Machinery	10,675	14,603	14,175
Motor vehicles	682	700	1,151
Office equipment	1,887	2,404	3,908
Construction in progress	—	—	10,755
Total	63,782	71,406	79,366

Our property, plant and equipment mainly comprise our office buildings, factories and warehouses located in Zhongshan, the machineries for the production of our pharmaceutical products, the leasehold improvements of our chain pharmacies and construction in progress. For the year ended 31 December 2013, we incurred (i) capital expenditure of approximately RMB7.5

million in connection with the purchase of production machineries for the expansion of our production capacity; and (ii) capital expenditure of approximately RMB10.4 million on the renovation of our production plants and chain pharmacies.

The net book value of our property, plant and equipment further increased from approximately RMB71.4 million as at 31 December 2013 to approximately RMB79.4 million as at 31 December 2014. We have incurred capital expenditure of approximately RMB7 million on the set-up of the State-level laboratory and approximately RMB10.8 million for the expansion of our production plant. The expansion work remained incomplete at the respective year end, and hence the related capital expenditure was classified as construction in progress.

Inventories

The following table is a summary of our inventories as at each of the three years ended 31 December 2014 and the turnover days for the respective years:

	As at 31 December		
	2012	2013	2014
	RMB'000	RMB'000	RMB'000
Raw materials	19,692	31,698	22,146
Work in progress	7,811	14,177	7,983
Finished goods			
— Own-branded products	17,828	26,742	10,892
— Non-own branded products	35,910	36,323	47,450
Total	81,241	108,940	88,471

	For the year ended 31 December		
	2012	2013	2014
Inventory turnover days *(Note)*	65.0	71.9	60.5

Note: Turnover days of inventory are derived by dividing the arithmetic mean of the opening and closing balances of inventory by revenue for the relevant period and multiplying the number of days during the period generating the sales (i.e. 365 days for each of the three years ended 31 December 2014).

Our inventories consist of raw materials, work in progress and finished goods. Raw materials mainly include Chinese herbs. Work in progress represents the unfinished products of our pharmaceutical manufacturing. Finished goods include (i) our own-branded products awaiting delivery as well as those kept on the shelves in our chain pharmacies; and (ii) the products sourced from independent suppliers for resale in our chain pharmacies.

Our information system enables us to keep track of our inventory movement so that we can maintain a sufficient level of raw materials and finished products for our business. We write down our inventories to their net realisable values based on a case-by-case assessment. For each of the three years ended 31 December 2014, we recognised loss on write-down of inventories of approximately RMB0.1 million, RMB0.1 million and nil, respectively.

Our inventories increased by approximately 34.1% from approximately RMB81.2 million as at 31 December 2012 to approximately RMB108.9 million as at 31 December 2013, but decreased by approximately 18.7% to approximately RMB88.5 million as at 31 December 2014. During the year ended 31 December 2013, we increased our inventories to avoid any delay in product delivery when the relevant government authorities carried out GMP compliance inspections on our production facilities in 2014.

As a result, the turnover of inventory as at 31 December 2013 was prolonged to about 72 days.

As at 30 April 2015, 50% of our Group's raw materials as at 31 December 2014 had been utilised. All of our work in progress as at 31 December 2014 had been completed and delivered. 84.2% of our finished goods as at 31 December 2014 had been delivered. On an overall basis, 77.1% of our Group's inventories as at 31 December 2014 had been utilised or delivered.

Trade and notes receivables

The following table is a summary of our Group's trade and notes receivables as at each of the three years ended 31 December 2014 and the turnover days of trade and notes receivables for the respective years:

	As at 31 December		
	2012	2013	2014
	RMB'000	RMB'000	RMB'000
Trade receivables	16,122	17,069	25,381
Notes receivables	10,758	11,759	10,125
	26,880	28,828	35,506
Less: Impairment of trade receivables	(74)	(24)	(17)
Trade and notes receivables — net	26,806	28,804	35,489

	For the year ended 31 December		
	2012	2013	2014
Trade and notes receivables turnover days *(Note)*	50.6	49.0	39.8

Note: Turnover days of trade and notes receivables are derived by dividing the arithmetic mean of the opening and closing balances of trade and notes receivables by revenue from our pharmaceutical manufacturing for the relevant period and multiplying the number of days during the period generating the sales (i.e. 365 days for each of the three years ended 31 December 2014).

Our trade and notes receivables as at each of the three years ended 31 December 2014 were due from sizable upper-level contractual distributors and independent chain pharmacies, which have stable business relationship with us and no default payment in the past. We generally offer these customers a credit period of not exceeding 60 days, whereas other customers (including our non-contractual distributors) are required to make full payment before product delivery. The credit terms offered to contractual distributors and independent chain pharmacies are determined by our senior management and depend on various factors such as financial strength, size of the business and payment history of the customer and length of business relationship with us. For our operation of chain pharmacies segment, sales are usually made in cash or settled by debit or credit cards or medical insurance cards.

Our trade and notes receivables, net of impairment, were approximately RMB26.8 million, RMB28.8 million and RMB35.5 million as at each of the three years ended 31 December 2014, respectively.

Our trade and notes receivable turnover days for each of the two years ended 31 December 2013 remained stable at 50.6 days and 49 days, respectively. For the year ended 31 December 2014, our trade and notes receivables days decreased to 39.8 days.

We allow certain customers to settle their purchases by way of bank acceptance notes. Such notes receivables are generally settled by the relevant banks within a period ranging from one month to six months. As at each of the three years ended 31 December 2014, our Group endorsed notes receivables (the "**Endorsed Notes**") with carrying amounts of approximately RMB31.5 million, RMB29.2 million and RMB35.9 million to our suppliers, of which RMB22.3 million, RMB20.4 million and RMB27.8 million were derecognised, respectively. As the holders of the Endorsed Notes have a right of recourse against our Group in the event that the relevant banks default, we carefully assess the default risks before we derecognise any notes receivables. Such assessment is based on the credit rating reports on these banks publicly announced by an independent credit rating agency in the PRC. We only derecognise those notes receivables that have been accepted by PRC banks with high credit ratings as our Directors are of the view that the risk of these banks going default is remote and our Group has transferred all risks and rewards relating to the relevant notes receivables to the suppliers. We confirmed that derecognising these notes receivables fully complied with the relevant accounting standards.

The following is an ageing analysis of trade receivables, based on the invoice date, as at each of the three years ended 31 December 2014:

	As at 31 December		
	2012	2013	2014
	RMB'000	RMB'000	RMB'000
Within 3 months	15,211	16,795	24,863
3 to 12 months	672	274	334
Over 12 months	239	—	184
	16,122	17,069	25,381

Our management closely monitors the recoverability of overdue trade receivables on a regular basis and provides for impairment for these trade receivables when there are indications that the balances may not be recoverable. We recognised an impairment of trade receivables of approximately RMB74,000 for the year ended 31 December 2012, and a reversal of impairment of trade receivables of approximately RMB50,000 and RMB7,000 for each of the two years ended 31 December 2014, respectively. As at 30 April 2015, 91.3% of our trade receivables as at 31 December 2014 were settled. Our Directors considered that the outstanding balance, net of impairment, will be received and the current provision for impairment of trade receivables was considered adequate.

Prepayments, deposits and other receivables

Our prepayments primarily consist of upfront payment made to independent suppliers for the procurement of raw materials, merchandises for resale in our chain pharmacies and property, plant and equipment, as well as prepaid operating expenses. Our deposits and other receivables primarily consist of prepaid tax and tax refund.

Prepayments, deposits and other receivables as at each of the three years ended 31 December 2014 were approximately RMB4.6 million, RMB7.7 million and RMB7.9 million, respectively, of which RMB1 million, RMB4.6 million and RMB0.9 million was related to value-added tax recoverable.

Available-for-sale investments (current portion)

As at each of the three years ended 31 December 2014, we had available-for-sale financial assets of approximately RMB10 million, RMB25 million and nil, respectively. These financial assets represented our investments in the financial products of a PRC state-owned bank using our surplus funds and the return of these investments was linked to the performance of bonds and listed securities. For each of the three years ended 31 December 2014, we received interest income from these investments of approximately RMB0.4 million, RMB0.4 million and RMB0.5 million, respectively. All of our available-for-sale financial assets reached maturity in August 2014. We do not intend to invest in any financial assets going forward.

Trade payables

Our trade payables mainly represent the procurement costs of (i) raw materials for the production of our own-branded products; and (ii) merchandises for resale in our chain pharmacies. The following is an ageing analysis of trade payables, based on the invoice date, as at each of the three years ended 31 December 2014 and the turnover days for the respective years:

	As at 31 December		
	2012	2013	2014
	RMB'000	RMB'000	RMB'000
Within 3 months	38,366	45,764	43,740
3 to 12 months	9,124	6,734	7,676
Over 12 months	1,968	1,720	1,386
	49,458	54,218	52,802

	For the year ended 31 December		
	2012	2013	2014
Trade payables turnover days *(Note)*	43.0	39.2	32.8

Note: Turnover days of trade payables are derived by dividing the arithmetic mean of the opening and closing balances of trade payables by revenue for the relevant period and multiplying the number of days during the period generating the sales (i.e. 365 days for each of the three years ended 31 December 2014).

Our suppliers generally grant credit period of not exceeding 60 days to us. Our trade payables turnover days decreased from 43 days for the year ended 31 December 2012 to 39.2 days for the year ended 31 December 2013, and further decreased to 32.8 days for the year ended 31 December 2014.

As at 30 April 2015, 98.5% of our trade payables as at 31 December 2014 were settled. We did not have any material defaults in payments of our trade payables during the Track Record Period.

Other payables and accruals

The following table is a summary of our Group's other payables and accruals as at each of the three years ended 31 December 2014:

	As at 31 December		
	2012	2013	2014
	RMB'000	RMB'000	RMB'000
Receipts in advance	21,852	22,554	19,382
Endorsed bills	9,135	8,814	8,112
Accrued employee benefit expenses	12,582	20,725	16,686
Other tax payables	4,458	6,912	6,869
Others	9,732	16,851	9,756
	57,759	75,856	60,805

Other payables and accruals mainly represented receipts in advance from our clients of pharmaceutical manufacturing, bank acceptance notes that were endorsed to our suppliers, accrued employee benefit expenses, other tax payables and payables in connection with the purchase of property, plant and equipment. Other payables and accruals as at each of the three years ended 31 December 2014 amounted to approximately RMB57.8 million, RMB75.9 million and RMB60.8 million, respectively. As at 31 December 2013, accrued bonus increased to approximately RMB11.6 million from approximately RMB6.9 million as at 31 December 2012.

Our Directors confirm that there had been no material defaults by our Group in payments of our other payables and accruals during the Track Record Period.

Amounts due to the related parties

As at each of the three years ended 31 December 2014, amounts due to the related parties were nil, nil and RMB8.8 million respectively, representing the actual amount of investment in Zhongzhi Herb Pieces made by the Registered Shareholders.

In order for our Group to manage the business of Zhongzhi Herb Pieces and exercise control over its economic benefits, Zhongzhi Pharmaceutical entered into the Contractual Arrangements with Zhongzhi Herb Pieces and the Registered Shareholders. When Zhongzhi Pharmaceutical exercises the option pursuant to the call option agreement under the Contractual Arrangements to purchase the equity interests owned by the Registered Shareholders in Zhongzhi Herb Pieces, our Group will return to the Registered Shareholders their actual amount of investment in Zhongzhi Herb Pieces. For details of this call option agreement, please refer to the "Contractual Arrangements" section in this [REDACTED].

Taking into account (i) our internally generated cash flows; (ii) unutilised banking facilities of approximately RMB20 million as at 30 April 2015; and (iii) the estimated net proceeds of the [REDACTED], our Directors are of the opinion that our Group will have sufficient working capital to meet our present requirements, that is, for at least in the next 12 months commencing from the date of this [REDACTED], and that our Group had no financial reliance on the Registered Shareholders.

Deferred income (current and non-current portion)

Deferred income represented the government grants received by us in connection with the government support to our research and development projects as well as our business expansion. As at each of the three years ended 31 December 2014, our deferred income amounted to approximately RMB8.6 million, RMB11.4 million and RMB15.1 million, respectively, of which approximately RMB2.5 million, RMB1.9 million and RMB6 million was recognised as current liabilities whereas the remaining portion was recognised as non-current liabilities. Out of the aggregate deferred income as at 31 December 2014, approximately RMB6 million will be recognised as other income for the year ending 31 December 2015 and the remaining balance will be recognised in financial years from 2016 to 2018.

Net current assets

The following table sets out the breakdown of our Group's current assets, current liabilities and net current assets as at each of the three years ended 31 December 2014 and 30 April 2015:

	As at 31 December			As at 30 April
	2012	2013	2014	2015
	RMB'000	RMB'000	RMB'000	RMB'000
CURRENT ASSETS				
Prepaid land lease payments	470	470	470	470
Inventories	81,241	108,940	88,471	110,909
Trade and notes receivables	26,806	28,804	35,489	19,471
Prepayments, deposits and other receivables	4,620	7,748	7,943	19,446
Available-for-sale investments	10,000	25,000	—	—
Cash and cash equivalents	25,044	29,077	58,004	20,024
Total current assets	148,181	200,039	190,377	170,320
CURRENT LIABILITIES				
Trade payables	49,458	54,218	52,802	68,514
Other payables and accruals	57,759	75,856	60,805	36,570
Amount due to a shareholder	54	53	—	—
Amounts due to the related parties	—	—	8,786	8,786
Bank borrowings	25,000	16,000	15,000	15,000
Deferred income	2,485	1,921	6,019	6,019
Tax payable	4,781	9,718	20,219	10,056
Total current liabilities	139,537	157,766	163,631	144,945
Net current assets	8,644	42,273	26,746	25,375

Our Group recorded net current assets of RMB8.6 million, RMB42.3 million, RMB26.7 million and RMB25.4 million as at each of the three years ended 31 December 2014 and 30 April 2015, respectively. During the year ended 31 December 2013, we increased our inventory level to avoid delay in product delivery during the GMP compliance inspection period. We also increased our available-for-sale investments with our surplus funds. The decrease in our net current assets as at 31 December 2014 was primarily due to the decrease in our inventories, the increase in amounts due to related parties and the increase in our tax payable resulted from the increase in our taxable profits.

Off balance sheet transactions

As at the Latest Practicable Date, we did not enter into any material off-balance sheet transactions.

LIQUIDITY AND CAPITAL RESOURCES

Overview

We historically financed our working capital requirements through cash generated from our operations and bank borrowings. Our working capital requirements mainly consist of staff costs as well as the procurement costs of raw materials and merchandises for resale in our chain pharmacies. Upon completion of the [REDACTED], our Directors expect that our source of funding will be a combination of cash generated from our operations and net proceeds from the [REDACTED].

Cash flows

The following table is a condensed summary of our combined statements of cash flow for the periods indicated:

	For the year ended 31 December		
	2012	2013	2014
	RMB'000	RMB'000	RMB'000
Net cash flows from operating activities	55,539	44,984	121,636
Net cash flows (used in)/from investing activities	(5,495)	(30,567)	5,293
Net cash flows used in financing activities	(44,010)	(10,384)	(98,002)
Cash and cash equivalents as at the beginning of the year	19,010	25,044	29,077
Cash and cash equivalents as at the end of the year	25,044	29,077	58,004

Operating activities

Net cash flows from operating activities primarily consists of our profit before tax adjusted by non-cash adjustments, such as depreciation on property, plant and equipment, amortisation of prepaid land lease payments and intangible assets and the effect of changes in working capital.

Our Group derives cash inflow from operating activities principally from the receipts of payments for the sale of products. Our Group's cash outflow from operating activities mainly consists of payments for the procurement of raw materials, merchandises sourced from our suppliers, rental expenses and employee benefit expenses.

Net cash flows from operating activities for the year ended 31 December 2014 was approximately RMB121.6 million while our Group's profit before tax for the same period was approximately RMB114.8 million. The difference of approximately RMB6.8 million was attributed to the adjustment of depreciation of approximately RMB12 million and the increase in amounts due to related parties of approximately RMB8.8 million, but partially offset by the decrease in other payables and accruals of approximately RMB14.1 million.

Net cash flows from operating activities for the year ended 31 December 2013 was approximately RMB45 million while our Group's profit before tax for the same period was approximately RMB46.8 million. The difference of approximately RMB1.8 million can be explained by the increase in inventories of approximately RMB27.7 million, but partially offset by the adjustment of depreciation of approximately RMB10.7 million and the increase in other payables and accruals of approximately RMB17.4 million.

Net cash flows from operating activities for the year ended 31 December 2012 was approximately RMB55.5 million while our Group's profit before tax for the same period was approximately RMB23.4 million. The difference of approximately RMB32.1 million was primarily due to the increase in other payables and accruals of approximately RMB25.5 million related to the acquisition of machineries and equipment for the production of our own-branded products.

Investing activities

Net cash flows from investing activities for the year ended 31 December 2014 was approximately RMB5.3 million. During the year, capital expenditure of approximately RMB20.6 million was incurred on the property, plant and equipments for our daily operations. This was partially offset by the principal amount of our available-for-sale investments together with interest income of approximately RMB25.9 million in aggregate received upon maturity.

Net cash flows used in investing activities for the year ended 31 December 2013 was approximately RMB30.6 million. During the year, capital expenditure of approximately RMB16.6 million was incurred on the property, plant and equipments for our daily operations. Our available-for-sale investments also increased by approximately RMB15 million.

Net cash flows used in investing activities for the year ended 31 December 2012 was approximately RMB5.5 million. During the year, capital expenditure of approximately RMB10.1 million was incurred on the property, plant and equipments for our daily operations. This was partially offset by the net decrease in our available-for-sale investments of approximately RMB$5 million.

Financing activities

Net cash flows used in financing activities for the year ended 31 December 2014 was approximately RMB98 million. We had distributed dividends of approximately RMB96 million.

Net cash flows used in financing activities for the year ended 31 December 2013 was approximately RMB10.4 million as a result of the net decrease in bank borrowings of approximately RMB9 million.

Net cash flows used in financing activities for the year ended 31 December 2012 was approximately RMB44 million which was mainly attributable to the net decrease in bank borrowings of approximately RMB50.1 million.

Working capital

Our Directors are of the opinion that our internally generated cash flows, unutilised banking facilities together with the estimated net proceeds of the [REDACTED], will be sufficient to meet our present requirements, that is, for at least in the next 12 months commencing from the date of this [REDACTED].

CAPITAL EXPENDITURES

During the Track Record Period, we incurred capital expenditure mainly on the renovation of our production plants and chain pharmacies, the set-up of a State-level laboratory as well as for the purchase of production machineries. Our capital expenditures, including the deposits for the purchase of property, plant and equipment, were approximately RMB12 million, RMB17.5 million and RMB21.9 million for each of the three years ended 31 December 2014, respectively. These capital expenditures were funded by the cash flows from our operating activities.

We expect that our total capital expenditures for the year ending 31 December 2015 to be approximately RMB22.3 million, which will be used for purchasing fixed assets for research and development activities and production of our own-branded products. We intend to fund our planned capital expenditures through a combination of the net proceeds from the [REDACTED], bank borrowings and cash flow from operating activities.

INDEBTEDNESS

As at 30 April 2015, being the latest practicable date for the purpose of this statement prior to the printing of this [REDACTED], we had available unutilised banking facilities of approximately RMB20 million and had total bank borrowings of approximately RMB15 million, which were secured by our properties, plant and equipment and land use rights.

The following table sets out our bank borrowings as at each of the three years ended 31 December 2014:

	As at 31 December			As at 30 April
	2012	2013	2014	2015
	RMB'000	RMB'000	RMB'000	RMB'000
Current liabilities:				
Secured bank borrowings repayable within one year				
— Fixed interest rate	25,000	16,000	15,000	15,000

In order to minimise our finance costs, we repaid certain portion of our bank borrowings during the Track Record Period. As at each of the three years ended 31 December 2014, our outstanding bank borrowings were approximately RMB25 million, RMB16 million and RMB15 million and all of them were subject to fixed interest rates. The range of effective interest rates of our bank borrowings for each of the three years ended 31 December 2014 was 6.56% to 7.54%, 6% to 6.9% and 6% to 6.9%, respectively.

All of our bank borrowings during the Track Record Period were secured by our properties, plant and equipment and land use rights. As at each of the two years ended 31 December 2013, we had bank facilities of approximately RMB32 million and RMB32 million (of which RMB8 million and RMB8 million was utilised, respectively) secured by the personal guarantee from Mr. Lai, respectively. Mr. Lai's personal guarantee was released during the year ended 31 December 2014.

The agreements under our outstanding bank borrowings do not contain any material covenants that will have a material adverse impact on our ability to make additional borrowings or issue debt or equity securities in the future.

Except as described above and apart from intra-group liabilities and normal trade payables, as at 30 April 2015, being the latest practicable date for determining our indebtedness, we did not have any outstanding loan capital issued or agreed to be issued, bank overdrafts, loans, debt securities, borrowings or other similar indebtedness, liabilities under acceptance (other than normal trade bills) or acceptance credits, debentures, mortgages, charges, finance leases, hire purchase commitments, guarantees or other material contingent liabilities.

Our Directors confirm that there had been no defaults by our Group in payment of its bank borrowings during the Track Record Period.

CONTINGENT LIABILITIES

As at each of the three years ended 31 December 2014, we had no material contingent liabilities. Our Directors confirm that we did not have any material contingent liabilities as at the Latest Practicable Date.

CAPITAL COMMITMENTS

The table below sets forth the capital commitments of our Group as at each of the three years ended 31 December 2014:

	As at 31 December		
	2012	2013	2014
	RMB'000	RMB'000	RMB'000
Contracted, but not provided for:			
Land and buildings	—	1,612	545
Plant and machinery	1,807	1,304	1,745
	1,807	2,916	2,290

OPERATING LEASE COMMITMENTS

Our operating lease commitments represent the leases of various chain pharmacies, offices, warehouse and staff quarters. The lease terms generally range from one year to eight years.

As at each of the three years ended 31 December 2014, our Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	As at 31 December		
	2012	2013	2014
	RMB'000	RMB'000	RMB'000
Within one year	16,561	17,113	16,894
In the second to fifth years, inclusive	46,591	31,548	34,561
Beyond five years	5,502	3,388	4,501
Total	68,654	52,049	55,956

MAJOR FINANCIAL RATIOS

The table below sets forth our major financial ratios as at or for each of the three years ended 31 December 2014:

	As at or for the year ended 31 December		
	2012	**2013**	**2014**
Current ratio *(Note 1)*	1.1	1.3	1.2
Quick ratio *(Note 2)*	0.5	0.6	0.6
Gearing ratio *(Note 3)*	27.0%	12.3%	12.4%
Debt to equity ratio *(Note 4)*	—	—	—
Interest coverage *(Note 5)*	6.5 times	34.8 times	115.6 times
Return on equity *(Note 6)*	18.6%	28.9%	71.7%

Notes:

1. Current ratio is calculated by dividing current assets by current liabilities.
2. Quick ratio is calculated by dividing current assets after subtraction of inventories by current liabilities.
3. Gearing ratio is calculated by dividing total debt by total equity. Total debt is defined to include payables incurred not in the ordinary course of business.
4. Debt to equity ratio is calculated by dividing net debt by total equity. Net debt is defined to include all borrowings net of cash and cash equivalents.
5. Interest coverage is calculated by dividing profit before interest and tax by interest.
6. Return on equity is calculated by dividing net profit attributable to the equity holders of our Company with the closing balance of total equity.

Current ratio and quick ratio

Our current ratio and quick ratio as at each of the three years ended 31 December 2014 remained relatively stable at 1.1 and 0.5; 1.3 and 0.6; and 1.2 and 0.6, respectively.

Gearing ratio

Our gearing ratio as at each of the three years ended 31 December 2014 was 27%, 12.3% and 12.4%, respectively. During the year ended 31 December 2013, we have repaid our bank borrowings. We had maintained a low gearing ratio due to our low level of bank borrowings as well as the increase in our equity contributed by our profitable operations.

Debt to equity ratio

We had a net cash position as at each of the three years ended 31 December 2014. Our cash and cash equivalents amounted to approximately RMB25 million, RMB29.1 million and RMB58 million as at the respective year-end.

Interest coverage

Our interest coverage increased from 6.5 times for the year ended 31 December 2012 to 34.8 times for the year ended 31 December 2013, and further increased to 115.6 times for the year ended 31 December 2014. The increase in our interest coverage was due to the combined effects of (i) the decrease in finance costs resulted from our decreased level of bank borrowings; and (ii) the significant increase in our net profit before interest and tax from approximately RMB27.7 million for the year ended 31 December 2012 to approximately RMB48.2 million for the year ended 31 December 2013, and further to approximately RMB115.8 million for the year ended 31 December 2014.

Return on equity

Return on equity was 18.6%, 28.9% and 71.7% for each of the three years ended 31 December 2014. Our return on equity increased with our increase in profitability. However, our total equity decreased to RMB120.9 million as at 31 December 2014 from RMB130.2 million as at 31 December 2013, after the dividend distribution of approximately RMB96 million. Accordingly, our return on equity significantly increased to 71.7% as at 31 December 2014.

QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISKS

We are exposed to various types of market risks, including credit risk and liquidity risk, in the ordinary course of our business.

Credit risk

Our Group's credit risk is primarily attributable to trade and notes receivables as well as cash and cash equivalents. Our management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis.

In order to minimise the credit risk associated with trade receivables, our management is responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, our Group reviews the recoverable amount of each debtor at the end of each reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. No credit terms are granted to new customers or our non-contractual distributors.

There is no concentration of credit risk with respect to trade receivables from third party customers as the five largest receivable balances only accounted for approximately 23.1%, 18.5% and 36.4% of total trade receivables as at each of the three years ended 31 December 2014, respectively.

The credit risks on our notes receivables and cash and cash equivalents are limited because the counterparties are banks with high credit rankings.

Liquidity risk

In the management of the liquidity risk, our Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance our Group's operations and mitigate the effects of fluctuations in cash flows. The management of our Company monitors the utilisation of banking facilities and ensures compliance with borrowing covenants.

[REDACTED] EXPENSES

[REDACTED] expenses directly attributable to the issue of new shares are recognised in equity, otherwise they are recognised as administrative expenses.

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

DISCLOSURE REQUIRED UNDER THE LISTING RULES

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

PROPERTY INTERESTS

Details concerning our property interests are set out in Appendix III to this [REDACTED]. BMI Appraisals Limited, an independent property valuer, has valued our property interests as at 31 May 2015. The full text of the letter, summary of values and valuation certificates with respect to such property interests are set out in Appendix III to this [REDACTED].

The table below sets forth the reconciliation between the net book value of our property interests as at 31 December 2014 and the valuation of such property interests as at 31 May 2015:

	RMB'000
Net book value of property interests as at 31 December 2014	46,042
Depreciation and amortisation	(680)
Net book value of property interests as at 31 May 2015	45,362
Valuation surplus	49,438
Valuation as at 31 May 2015 as per Appendix III to this [REDACTED]	94,800

DIVIDEND POLICY

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

The declaration, payment and amount of any future dividends will be subject to our constitutional documents comprising the memorandum of association and the Articles including, where necessary, the approval of our Shareholders. Investors should note that historical dividend distributions are not indicative of our future dividend distribution policy.

RELATED PARTY TRANSACTIONS

With respect to the related party transactions set out in note 30 of section II to the Accountants' Report, our Directors confirm that these transactions were conducted on normal commercial terms and/or that such terms that were no less favourable to us than terms available from independent third parties which are fair and reasonable and in the interest of the Shareholders as a whole.

DISTRIBUTABLE RESERVES

Our Company was incorporated in the Cayman Islands and has not carried out any business since the date of its incorporation, save for investment holding and the transactions related to the Reorganisation. Accordingly, our Company has no reserve available for distribution to the Shareholders as at the Latest Practicable Date.

UNAUDITED PRO FORMA ADJUSTED COMBINED NET TANGIBLE ASSETS

The following unaudited pro forma adjusted combined net tangible assets have been prepared in accordance with Rule 4.29 of the Listing Rules and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for inclusion in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants for illustration purposes only, and is set out here to illustrate the effect of the [REDACTED] on our combined net tangible assets as of 31 December 2014 as if it had taken place on 31 December 2014.

The unaudited pro forma adjusted combined net tangible assets has been prepared for illustrative purposes only and because of its hypothetical nature, it may not give a true picture of the financial position of our Group had the [REDACTED] been completed as of 31 December 2014 or any future date. It is prepared based on our combined net tangible assets as of 31 December 2014 as set out in the Accountants' Report, and adjusted as described below. The unaudited pro forma adjusted combined net tangible assets does not form part of the Accountants' Report.

	Combined net tangible assets attributable to equity holders of our Company as of 31 December 2014	Estimated net proceeds from the [REDACTED]	Unaudited pro forma adjusted combined net tangible assets	Unaudited pro forma adjusted combined net tangible assets per [REDACTED]	
	RMB'000	RMB'000	RMB'000	RMB	(HK$ equivalent)
	(Note 1)	*(Note 2)*		*(Note 3 and Note 4)*	*(Note 5)*
Based on an [REDACTED] of HK$[REDACTED] per [REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Based on an [REDACTED] of HK$[REDACTED] per [REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]

Notes:

(1) The combined net tangible assets of our Group attributable to equity holders of our Company as of 31 December 2014 is extracted from the Accountants' Report, which is based on the audited combined equity attributable to equity holders of our Company as of 31 December 2014 of approximately RMB120.9 million less goodwill and other intangible assets as of 31 December 2014 of approximately RMB1.6 million and RMB1.3 million, respectively.

(2) The estimated net proceeds from the [REDACTED] are based on the [REDACTED] of HK$[REDACTED] per [REDACTED] and HK$[REDACTED] per [REDACTED], after deduction of the underwriting fees and related expenses payable by our Company and does not take into account of any Shares which may be issued upon the exercise of the [REDACTED]. The estimated net proceeds from the [REDACTED] are converted from Hong Kong dollars into Renminbi at an exchange rate of HK$1.0 to RMB0.8 prevailing on 31 December 2014.

(3) The unaudited pro forma adjusted combined net tangible assets per [REDACTED] is calculated based on [REDACTED] Shares in issue immediately following the completion of the [REDACTED] and does not take into account of any Shares which may be issued upon the exercise of the [REDACTED].

(4) The unaudited pro forma adjusted combined net tangible assets attributable to owners of our Company does not take into account a dividend of RMB30 million declared and paid by Zhongzhi Pharmaceutical in April 2015. Had the dividend been taken into account, the unaudited pro forma adjusted combined net tangible assets per [REDACTED] would be HK$[REDACTED] (assuming an [REDACTED] of HK$[REDACTED] per Share) and HK$[REDACTED] (assuming an [REDACTED] of HK$[REDACTED] per Share), respectively.

(5) The unaudited pro forma adjusted combined net tangible assets per [REDACTED] is converted into Hong Kong dollars at an exchange rate of HK$1.0 to RMB0.8 prevailing on 31 December 2014.

NO MATERIAL ADVERSE CHANGE

Our Directors have confirmed that, up to the date of this [REDACTED], there has been no material adverse change in the financial or trading position or prospect of our Group since 31 December 2014, being the end of period reported in the Accountants' Report, and there has been no event since 31 December 2014 which would materially affect the information shown in the Accountants' Report.