OVERVIEW

We are an established pharmaceutical distributor originated from Zhejiang province and headquartered in Hangzhou, Zhejiang province. We are principally engaged in pharmaceutical distribution business in the PRC with a focus in Zhejiang province. We mainly serve as a provincial pharmaceutical distributor, and also a national pharmaceutical distributor for some of our products. We start involving our pharmaceutical distribution business from the stage of acquisition of distribution rights of pharmaceutical products from our suppliers, conducting market research and market development of our new products, providing assistance and co-ordination in the provincial collective tendering process for our suppliers, procurement, sourcing, sales and marketing, warehousing and delivery to our Distributor Customers. We source and procure our products from 47 suppliers which are pharmaceutical manufacturers and pharmaceutical companies throughout different provinces in the PRC by obtaining national, provincial or regional distribution rights, and then distribute pharmaceutical products to our Distributor Customers. A majority of our products will in turn be distributed through our Distributor Customers to the ultimate customers which mainly comprise hospitals and medical institutions in the PRC in accordance with the geographical exclusivity of our products. All of the pharmaceutical products distributed by our Group are generic pharmaceutical products.

Our success relies on identifying and procuring pharmaceutical products nationwide in the PRC and the establishment of an efficient distribution network. As at the Latest Practicable Date, we sourced and procured our pharmaceutical products through our network of 47 suppliers which comprised 46 small to medium pharmaceutical manufacturers and pharmaceutical companies and one large pharmaceutical manufacturer in the PRC, and sold all of our pharmaceutical products through our distribution network of 117 Distributor Customers in 19 regions throughout the PRC. As at the Latest Practicable Date, 42 out of 117 Distributor Customers were located in Zhejiang province while the remaining 75 Distributor Customers were spread over 18 regions in the PRC including Shanghai, Chonging, Anhui province, Sichuan province, Hebei province and Guangdong province. For the details of the geographical distribution of our Distributor Customers, please refer to the sub-section headed "Phase 4 – Management of distribution network" of the section headed "Business" of this prospectus. Our major Distributor Customers include Zhejiang Zheda Yuanzheng Medicine Co., Ltd. (浙江浙大圓正醫藥有限公司) ("**Zheda Yuanzheng**"), Huadong Medicine Co., Ltd (Pharmaceutical sub-branch) (華東醫藥股份有限公司藥品分公司) ("**Huadong Medicine Pharma**"), Ningbo Pharmaceutical Co., Ltd (寧波醫藥股份有限公司) ("**Ningbo Pharma**"), and Zhejiang Intec Medicine Co., Ltd (浙江英特藥業有限責任公司) ("**Zhejiang Intec**") during the Track Record Period. For the details of our major Distributor Customers, please refer to the paragraph headed "Our major Distributor Customers during the Track Record Period" under the sub-section headed "Phase 3 – Sales and distributions of products to our Distributor Customers" under the "Business" section in this prospectus. For each of the two years ended 31 December 2011 and 2012 and for the six months ended 30 June 2013, the revenue generated from our top five Distributor Customers amounted to approximately HK$93.2 million, HK$121.4 million and HK$59.3 million, respectively, representing approximately 58.4%, 69.4% and 70.9% of our total revenue during the corresponding years.

As at the Latest Practicable Date, we had a selected portfolio of 55 pharmaceutical products, 42 of which were included in the Medical Insurance Drugs Catalogs. We consider that the inclusion of our products in the Medical Insurance Drugs Catalogs enables our products to be exposed to a wider coverage of ultimate customers mainly comprising hospitals and medical institutions in the PRC which are the main drive of our revenue. During the Track Record Period and as at the Latest Practicable Date, our revenue derived from our products included in the Medical Insurance Drugs Catalogs accounted for approximately 85.0%, 93.7% and 93.0%, respectively, of our total revenue in the corresponding periods.

As at the Latest Practicable Date, our product portfolio comprised 37 injection drugs, which are mainly prescription drugs with efficacies on anti-infective and curing cardiovascular illnesses. 9 major types (including 13 specifications) out of our 11 major types of products (including injection drugs, namely Levocarnitine Injection (左卡尼汀注射液), Ozagrel Sodium for Injection (注射用奥紮格雷鈉), Cefoxitin Sodium for Injection (注射用頭孢西丁鈉), Cefodizime Sodium for Injection (注射用頭孢地嗪鈉), Thymosin α1 for Injection (注射用胸腺法新), Isepamicin Sulfate Injection (硫酸異帕米星注射液), Alanyl Glutamine for Injection (注射用丙氨酰谷氨酰胺), Ceftizoxime Sodium for Injection (注射用頭孢唑肟鈉) and Sulbenicillin Sodium for Injection (注射用磺苄西林鈉). This particular segment generated a revenue of approximately HK$137.7 million, HK$151.2 million and HK$70.6 million for each of the two years ended 31 December 2011 and 2012 and for the six months ended 30 June 2013, respectively, representing approximately 86.2%, 86.4% and 84.4% of our total revenue during the corresponding years.

The table below sets out the revenue of our Group (by form of products) for the year ended 31 December 2011 and 2012 and for the six months ended 30 June 2012 and 2013, respectively:

	Year ended 31 December				Six months ended 30 June			
	2011		2012		2012		2013	
	HK$'000	*%*	*HK$'000*	*%*	*HK$'000* (Unaudited)	*%*	*HK$'000*	*%*
Revenue contributed from:								
Injection drugs	137,691	86.2	151,242	86.4	77,929	86.8	70,586	84.4
Tablet drugs	10,243	6.4	14,501	8.3	7,733	8.6	6,256	7.5
Capsule drugs	10,032	6.3	6,636	3.8	2,380	2.6	4,355	5.2
Other drugs	1,720	1.1	2,663	1.5	1,786	2.0	2,475	2.9
Total	**159,686**	**100.0**	**175,042**	**100.0**	**89,828**	**100.0**	**83,672**	**100.0**

For a detailed analysis of our operating results, please refer to the sub-section headed "Description of principal items of results of operations" under the "Financial information" section of this prospectus.

During the Track Record Period and as at the Latest Practicable Date, we identified and acquired 1 new product with exclusive national distribution right and 6 new types of products (including 8 specifications) with exclusive provincial distribution rights. Our Group also has 1 product with exclusive provincial distribution right for which a legally binding contract has been made. For the details of our new products, please refer to the paragraph headed "Reduction of the reliance on our major suppliers" under the sub-section headed "Phase 1 – Acquisition of distribution rights of pharmaceutical products from our suppliers" under "Business" section in this prospectus.

We anticipate that the pharmaceutical market in the PRC still has great room for growth, and we will expand our product portfolio by identifying and sourcing products with higher profit margin and by identifying new products according to what the market needs in order to complement our existing product portfolio.

OUR COMPETITIVE STRENGTHS

We believe that the following competitive strengths contribute to our success and distinguish us from our competitors:

We are able to identify and acquire distribution rights of certain products with market potential from our suppliers with a focus on prescription drugs

We are able to identify and acquire distribution rights of certain products with market potential from our suppliers. Based on the PICO Report, for each of the two years ended 31 December 2011 and 2012 and for the three months ended 31 March 2013, 5 of our 11 major types of products, which were all prescription drugs, ranked first on each individual product category in Zhejiang province in terms of sales and market share. We are the only provincial distributor of all those major products in Zhejiang province with exclusive distribution agreements with the suppliers of those products. This reflects our Group's distinguishing distribution and sales capability among our peers in Zhejiang province. This will further facilitate our Group in attracting potential suppliers or distributor customers. For details of the ranking and the market share of our major products supplied by our suppliers under exclusive distribution agreements in the relevant PRC region during the Track Record Period and as at the Latest Practicable Date, please refer to the sub-section headed "Major products" under the section headed "Business" of this prospectus.

In the future, our Group will continue to identify and acquire distribution rights of products in the PRC which would be complementary to our existing product portfolio. For further details of our major products, please refer to sub-section headed "Major products" under the section headed "Business" in this prospectus.

According to Zhejiang Provincial Healthcare Department, there were 782 public hospitals in Zhejiang province as at 31 December 2012. Most of our products which are subject to the provincial collective tendering process are sold through such public hospitals in Zhejiang province. In view of the vast number of hospitals to which our products are ultimately distributed, our Group relies on our Distributor Customers which mainly provide logistics function for distribution of our products to those public hospitals directly in an efficient and cost-effective way. The logistics functions provided by such Distributor Customers usually comprise storage, warehousing and long distance, regional and local transportation and delivery services to those hospitals and medical institutions. According to the PICO Report, a comprehensive and sizable logistics infrastructure such as a transportation fleet with a significant number of vehicles and a large warehouse with temperature controlled facilities is necessary for the distribution of a vast amount of products to a large number of public hospitals and medical institutions in an efficient and cost effective way. The investment in such logistic infrastructure and solution is capital intensive. In addition, we can mitigate our credit risk from the hospitals as the payment period from the hospitals to the distributors is generally longer than the payment period from the distributors to the manufacturers.

We have co-operated with a number of reputable suppliers and Distributor Customers in the PRC pharmaceutical industry

The pharmaceutical industry of the PRC is undergoing a rapid growth. According to the PICO Report, the total output value of the PRC pharmaceutical industry measured in terms of sales at the level of ultimate users expanded from approximately RMB178.2 billion in 2001 to approximately RMB1,071.7 billion in 2012 at a CAGR of approximately 17.7%. According to our Directors, due to the continuing and rapid growth of the pharmaceutical industry in the PRC, more small to medium pharmaceutical companies in the PRC may seek to co-operate with the national or provincial distributors by leveraging on their expertise, knowledge and the distribution network in the respective provincial markets in order to effectively distribute their products nationwide. Further, as set out in the PICO Report, it has been an industry norm for the pharmaceutical companies to seek assistance from the distributors in order to improve their effectiveness and efficiency in the supply chain to serve the customers and to reduce the relevant cost by capitalising on the distributors' functions of (i) formulating marketing and promotion strategies tailored for local markets; (ii) applying their expertise in distribution network, product delivery to and payment collection from the customers nationwide; (iii) reducing transaction costs and improving efficiencies of retailers and hospitals by allowing retailers and hospitals to keep fewer inventories on hand and ensuring that inventory can be replenished in time.

Moreover, the roles of manufacturers, companies and distributors in the PRC pharmaceutical industry are complementary to each other. Through co-operating with the pharmaceutical manufacturers and companies, the pharmaceutical distributors in the PRC are able to source a variety of pharmaceutical products for distribution. Our Group does not have a comparatively stronger or weaker bargaining power in dealing with our suppliers. 46 of our suppliers are small to medium pharmaceutical manufacturers and pharmaceutical companies in the PRC which focus on the market at the national level and have limited knowledge in provincial markets. Therefore, it is not feasible for them to manage the provincial supply chain and marketing strategy on their own and they tend to seek provincial distributors, such as our Group, to improve their effectiveness and efficiency in the supply chain to distributor customers and marketing strategy and to reduce their cost. In particular, leveraging on our established distribution network, as well as our knowledge and experience in Zhejiang province, we are able to source and procure products with market potential from our suppliers throughout the PRC and to distribute those products to our Distributor Customers. Our Group has been cooperating with some reputable pharmaceutical companies and Distributor Customers in the PRC, including Zhongcheng Huida, Huadong Medicine Pharma, Ningbo Pharma and Zhejiang Intec. Four of our top five Distributor Customers during the Track Record Period and four of our top ten suppliers during the Track Record Period have been with our Group for more than four years. As at the Latest Practicable Date, we procured our pharmaceutical products from 47 suppliers and sold all of our pharmaceutical products through our network of 117 Distributor Customers in the PRC.

We have an experienced sales and marketing team

Our sales and marketing team directly interacts with our suppliers, Distributor Customers and the medical institutions and practitioners in the PRC to ensure that our products are recognised in the pharmaceutical industry throughout the PRC, especially in Zhejiang province. In this connection, our sales and marketing team, with the network of the medical institutions and medical practitioners in Zhejiang province, will (i) organise or participate in different marketing activities in collaboration with or with assistance from our suppliers, which include interactions between our suppliers, medical institutions and practitioners as well as our Distributor Customers in order to allow them to understand our

products, and (ii) organise various medical seminars sponsored by our suppliers, product launching events and industry exhibitions. In order to ensure that our products are effectively marketed and recognised in the pharmaceutical industry throughout the PRC, especially in Zhejiang province, our sales and marketing team have taken the following marketing approaches, including (i) self initiated market researches of new potential products; and (ii) tailor-made marketing strategies and activities for our suppliers. For details of the implementation of our marketing strategies, please refer to the paragraph headed "Formulation of marketing strategies and marketing activities" under the sub-section headed "Facilitation of sales of products" under the section headed "Business" of the Prospectus.

As at the Latest Practicable Date, our sales and marketing team has been led by Mr. Dai and Mr. He. Each of Mr. Dai and Mr. He has more than 10 years of experience in the PRC pharmaceutical industry. Five of our sales and marketing professionals have received pharmaceutical education and all of our sales and marketing professionals possess knowledge of our products. During the Track Record Period, our sales and marketing team successfully implemented our marketing strategy, where five of our major types of products supplied by our suppliers under exclusive distribution agreements ranked first on each individual product category in Zhejiang province in terms of sales and market share, according to the PICO Report.

We aim to build up and maintain a long term relationship with our suppliers, Distributor Customers, medical institutions and practitioners in order to allow our products to penetrate more effectively at the level of ultimate customers. We believe that such relationship will assist our sales and marketing team and provide our Group with a competitive advantage over our peers in the pharmaceutical industry.

Our management team has extensive experience and knowledge in the pharmaceutical industry despite our limited track record

While our Group only commenced pharmaceutical distribution business in 2008, our management team has accumulated extensive experience in the PRC pharmaceutical industry. In particular, three of our executive Directors and our senior management namely Mr. Zhou, Mr. Dai, Ms. Yang and Mr. He, all have over 10 years of experience in the pharmaceutical industry. Please refer to the section headed "Directors, senior management and staff" for their respective biographical details. In addition, although we operate within a small team of staff, our key staff in the PRC have the relevant academic qualifications and experience in the pharmaceutical industry in the PRC. We believe that with our industry expertise, professional management skills and strong execution capability, our management team will be able to successfully implement our strategies in the rapidly growing pharmaceutical distribution industry in the PRC.

Despite the fragmentation of the PRC pharmaceutical distribution market, our Directors consider that we are well-positioned and connected in Zhejiang province to capture the market growth and handle the fierce market competition. As a result, our Directors are of the view that our business is and will remain to be sustainable.

OUR BUSINESS OBJECTIVES AND STRATEGIES

Our objectives are to consolidate and strengthen our position so as to become one of the leading distributors of pharmaceutical products in Zhejiang province. To further develop and to continue our growth, we plan to pursue the following strategies:

To continue expanding through obtaining new exclusive distribution rights

We manage and develop our product portfolio based on a comprehensive assessment of market, demand, growth potential and government policies.

During the Track Record Period and as at the Latest Practicable Date, we identified and acquired 1 new product with exclusive national distribution right and 6 new types of products (including 8 specifications) with exclusive provincial distribution rights in relation to antibiotics, medicines applied in treatment of cardiovascular diseases, digestive system illness, rheumatism, urinary system illness, antiplatelet agents and anti-viral infection. In addition, we also identified 1 market potential product with exclusive provincial distribution right in relation to medicine applied in the treatment of cerebral related diseases, where we have entered into a legally binding contract before entering into a exclusive distribution agreement with the relevant supplier subject to approval of the grant of a pharmaceutical production permit (藥品生產許可證) of the product acquired by the relevant pharmaceutical manufacturer. All of the aforementioned products, which are all prescription drugs, are able to complement our existing product portfolio and our growth strategy. For further details in the new distribution rights that our Group has acquired during the Track Record Period, please refer to the paragraph headed "Step 1 – Identifying and acquiring new products in the market" under sub-section headed "Phase 1 – Acquisition of distribution rights of pharmaceutical products from our suppliers" under the "Business" section of this prospectus. In long term, we will continue to identify and obtain exclusive distribution rights of pharmaceutical products with a focus on prescription drugs, which are complementary to our existing product portfolio. We also intend to focus on products with substantial clinical evidence of safety, efficacy and competitiveness that can be effectively marketed and distributed through our existing distribution network.

We have set out certain criteria in selecting and assessing the new products, the potential and existing suppliers. Please refer to sub-section headed "Phase 1 – Acquisition of distribution rights of pharmaceutical products from our suppliers" and "Phase 2 – Procurement of products from our suppliers" under the section headed "Business" of the Prospectus, respectively, for details.

We cannot ascertain the number of new exclusive distribution rights that we will obtain in the future. However, we will continue to identify and obtain new exclusive distribution rights of the prescription drugs should appropriate potential products and chances arise.

To continue enhancing and expanding our market share, distribution network and marketing efforts

We will maintain the market share of our existing products by identifying and sourcing new products complementary to our existing product portfolio in order to gain a leading position in the prescription drug segment of the pharmaceutical distribution industry through:

- expanding our product offerings to second and third tier cities and to new markets in Zhejiang province and the other Eastern China regions which we have not yet explored;

- offering our products to more district hospitals and other medical institutions within the geographical areas covered by our distribution network in the PRC; and

- obtaining new product distribution rights with commercial potential.

We will work closely with our suppliers and our Distributor Customers throughout the PRC to expand the sales and marketing of our products to those regions and cities, in which our distribution network currently has limited or no presence. We also intend to hire additional sales and marketing personnel to expand our existing sales and marketing team, to support the expansion of our distribution network. We believe that establishing a good, strong and long-term relationship with our suppliers and Distributor Customers on how to market and sell our products is crucial to our success. With a view to maintaining good relationship with, and enhancing our reputation in the pharmaceutical distribution industry among hospitals, medical institutions and medical practitioners, we will actively organise, participate and sponsor medical seminars, conferences and product launch events to share views and clinical application results of our products sold through our Distributor Customers. We consider our roles in such marketing activities to be crucial, particularly in assisting our Distributor Customers to provide sub-distributors and/or ultimate customers with accurate and consistent information on our products. For further details in relation to the marketing activities, please refer to paragraph headed "Formulation of marketing strategies and marketing activities" under the sub-section headed "Facilitation of sales of products" under the "Business" section of this prospectus.

OUR BUSINESS MODEL

We are an established pharmaceutical distributor originated from Zhejiang province and headquartered in Hangzhou, Zhejiang province. We are principally engaged in pharmaceutical distribution business in the PRC with a focus in Zhejiang province. We mainly serve as a provincial pharmaceutical distributor, and also a national pharmaceutical distributor for some of our products. We start involving our pharmaceutical distribution business from the stage of acquisition of the distribution rights of products from our suppliers, market research and market development of our new products, providing assistance and co-ordination in the provincial collective tendering process for our suppliers, procurement, sourcing, sales and marketing, warehousing and delivery to our Distributor Customers. We source and procure our products mainly from 47 suppliers which are pharmaceutical manufacturers and pharmaceutical companies throughout different provinces in the PRC and distribute pharmaceutical products to our Distributor Customers. The majority of our products will in turn be distributed through our Distributor Customers to the ultimate customers which mainly comprise hospitals and medical institutions in the PRC in accordance with the geographical exclusivity of our products. As at the Latest Practicable Date, our Distributor Customers were

mainly located in Zhejiang province. During the Track Record Period, we were not involved in the production process of any of our products. All of the pharmaceutical products distributed by our Group are generic pharmaceutical products.

Our products are sourced from our network of 47 suppliers mainly comprising 46 small to medium pharmaceutical manufacturers and pharmaceutical companies and one large pharmaceutical manufacturer throughout the PRC. Our products are then distributed through our distribution network of 117 Distributor Customers and then to our sub-distributor customers in our distribution network and, finally, to ultimate customers. Our major suppliers and Distributor Customers include pharmaceutical companies and distribution operation providers in the PRC such as Zhongcheng Huida, Zheda Yuanzheng, Huadong Medicine Pharma, Ningbo Pharma and Zhejiang Intec.

The purchase from our top five suppliers in each of the two years ended 31 December 2011 and 2012 and for the six months ended 30 June 2013 amounted to approximately HK$111.7 million, HK$125.9 million and HK$60.3 million, respectively, representing approximately 85.9%, 91.8% and 92.9% of our total purchase during the corresponding periods. In addition, purchases from our single largest supplier for each of the two years ended 31 December 2011 and 2012 and the second largest supplier for the six months ended 30 June 2013, namely, Baoding Huida Pharmaceutical Company Limited (保定匯達醫藥有限公司) (whose business relationship with our Group has been replaced by Baoding Zhongcheng Huida Pharmaceutical Trading Company Limited (保定中誠匯達醫藥貿易有限公司) since March 2012), amounted to approximately HK$51.8 million, HK$69.3 million and HK$21.9 million, respectively, representing approximately 39.9%, 50.5% and 33.7% of our total purchases during the corresponding periods.

The revenue generated from our top five Distributor Customers in each of the two years ended 31 December 2011 and 2012 and for the six months ended 30 June 2013 amounted to approximately HK$93.2 million, HK$121.4 million and HK$59.3 million, respectively, representing approximately 58.4%, 69.4% and 70.9%, respectively, of our total revenue during the corresponding periods. In addition, sales to our single largest Distributor Customer, namely Huadong Medicine Pharma for the year ended 31 December 2011 and Zheda Yuanzheng for the year ended 31 December 2012 and for the six months ended 30 June 2013 accounted for approximately 24.9%, 23.0% and 25.8% of our total revenue in the corresponding periods.

We distinguish ourselves as a pharmaceutical distributor in part through our provision of value-added services for both of our suppliers and Distributor Customers elaborated as follows:

(i) Value added services to our suppliers

As at the Latest Practicable Date, our Group has 47 suppliers, 46 out of 47 of our suppliers are small to medium pharmaceutical manufacturers and companies which do not have the resources to establish sales and/or marketing network in every province of the PRC. According to the PICO Report, a majority of the small to medium pharmaceutical manufacturers and pharmaceutical companies in the PRC have limited financial resources, market knowledge and distribution network. Accordingly, it is difficult for those pharmaceutical manufacturers and pharmaceutical companies to explore and expand their footsteps to every single province in the PRC with their limited resources. Rather, these pharmaceutical manufacturers and companies in the PRC will rely on the market expertise and network of the provincial distributors to

distribute their products efficiently. Our senior management members, namely Mr. Zhou, Mr. Dai, Ms. Yang and Mr. He, have more than 10 years of experience in the pharmaceutical industry. As a result, our Group, as an established pharmaceutical distributor with a focus in Zhejiang province, can leverage on the market knowledge, experience and network in Zhejiang province of our senior management and provide the following value added services to our suppliers.

(i) **Conducting market research** – for each new potential product we plan to acquire from our potential suppliers, our Group will conduct relevant market research and provide our potential suppliers with market information, statistics of the potential products at national or provincial levels. For further details, please refer to the paragraph headed "Step 2 – Conducting market research of the new products for our suppliers" under the sub-section headed "Phase 1 – Acquisition of distribution rights of pharmaceutical products from our suppliers" under the "Business" section;

(ii) **Assistance and co-ordination in provincial collective tendering process** – our Group assists and coordinates our suppliers during the provincial collective tendering process by leveraging on our resources and network in Zhejiang province as well as the experience and expertise of our senior management; and by providing our suppliers with (i) industry and market expertise; (ii) market intelligence; and (iii) competitive price suggestions of the product. For further details, please refer to paragraph headed "Step 3 – Assistance and co-ordination in provincial collective tendering process of the new products for our suppliers" under the sub-section headed "Phase 1 – Acquisition of distribution rights of pharmaceutical products from our suppliers" under the "Business" section of this prospectus; and

(iii) **Formulation of marketing strategies and marketing activities** – our Group will formulate marketing strategies and marketing activities for the products we acquired from our suppliers. Our Group will, based on the usages and characteristics of each product, formulate the strategies and activities to the Distributor Customers. For further details, please refer to sub-section headed "Facilitation of sales of products" under the "Business" section.

(ii) Value added services to our Distributor Customers

Our Distributor Customers play a different role compared to our Group, despite the fact that both possess GSP certificates. Our Group, as a pharmaceutical distributor in the PRC, has been making use of our financial resources and expertise in exploring and sourcing the distribution rights of products which involves a high level of capital investment, instead of building up and maintaining a comprehensive logistics infrastructure which is what our Distributor Customers do. In turn, those Distributor Customers would choose to source a vast amount of pharmaceutical products with reasonable price and satisfactory quality from different provincial distributors in the PRC such as our Group in order to accommodate the rapid change in the demand of those hospitals and medical institutions. Our Group would provide a platform for such Distributor Customers to source different products without bearing any purchase

commitments, which also enhance flexibility in the inventory management of those Distributor Customers. Moreover, with reference to the PICO Report, hospitals and medical institutions in the PRC usually select distributors with a diversified product portfolio, a sizable and stable supply of product through the centralised procurement platform in order to minimise the procurement cost and enhance the procurement and distribution efficiency. We, having a good relationship with the medical practitioners, medical scholars and medical institutions, will collaborate with our suppliers to organise marketing activities such as product launching events as well as seminars and trainings to raise the awareness and familiarity of our products to the targeted medical institutions and practitioners at provincial level. As such Distributor Customers bear a higher credit risk for collection of payments from hospitals, they prefer to rely on the marketing resources and expertise provided by our Group for the market developments of the products instead of utilizing their own resources for marketing activities.

As an established pharmaceutical distributor, our pharmaceutical distribution business ranges from acquiring the distribution rights of products from our suppliers, conducting market researches of new products, assisting and co-ordinating the provincial collective tendering process for our suppliers, sourcing and procurement from our suppliers to delivery of products to our Distributor Customers.

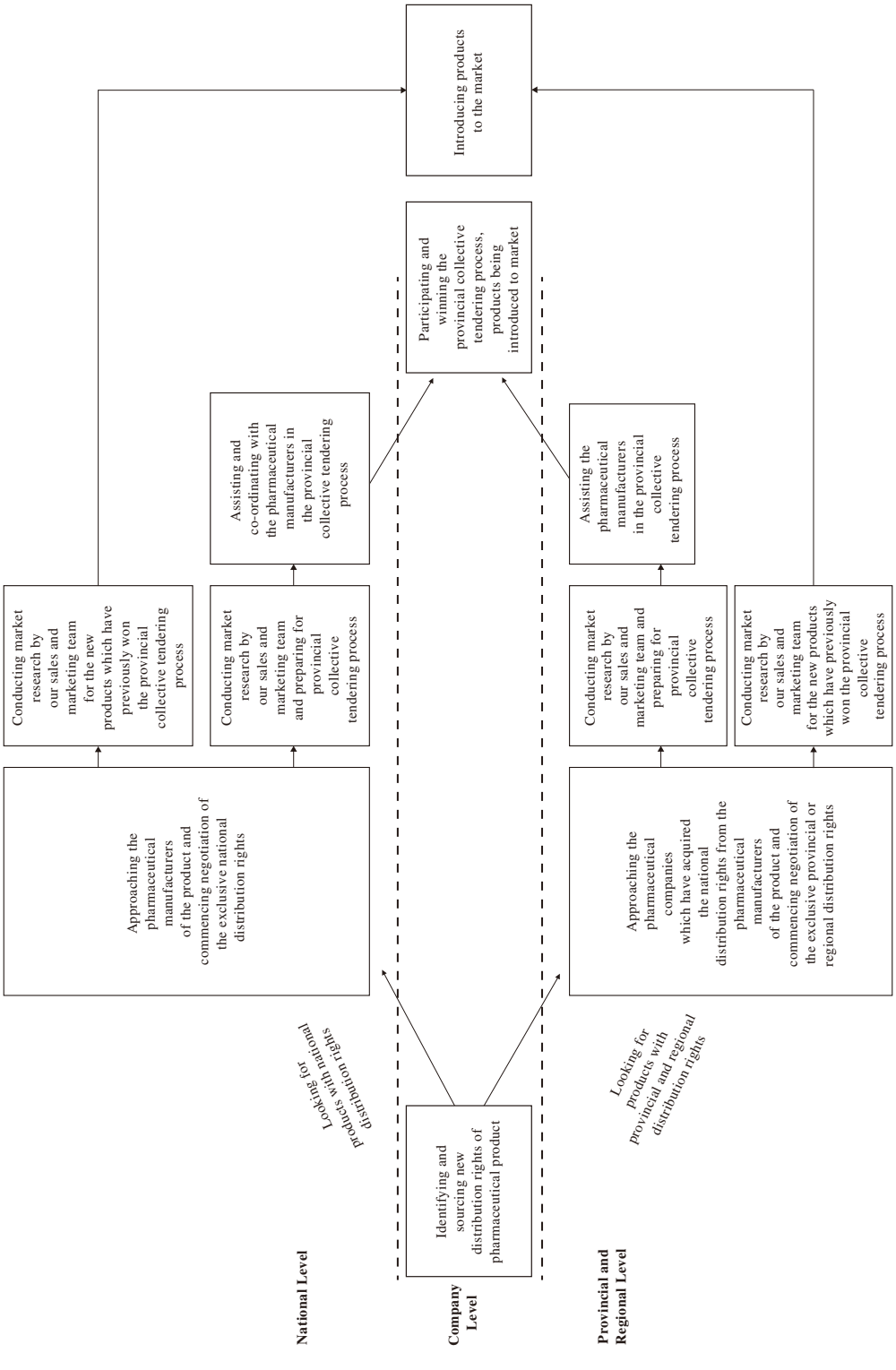
Phase 1 – Acquisition of distribution rights of pharmaceutical products from our suppliers

Our pharmaceutical distribution business starts from acquisition of distribution rights of pharmaceutical products from our suppliers in the PRC. The distribution rights granted by our suppliers to us are divided into:

(i) *Exclusive national distribution rights* – an exclusive distribution right of pharmaceutical products on national level which is granted by the pharmaceutical manufacturers in the PRC; and

(ii) *Exclusive provincial or regional distribution rights* – an exclusive distribution right of pharmaceutical products on provincial or regional level is granted by the pharmaceutical companies in the PRC, where such companies are holding the exclusive national distribution rights granted by the pharmaceutical manufacturers in the PRC.

The following diagram illustrates the core process of acquisition of distribution rights of pharmaceutical products from our suppliers:



Step 1 – Identifying and acquiring new products in the market

Our Group acquires new distribution rights by means of (i) identifying potential products from the PRC market, which are complementary to our existing product portfolio, by our senior management team or through recommendations from our existing suppliers; and (ii) being approached by the pharmaceutical manufacturers or companies to replace those national or provincial or regional distributors that did not perform well. We identify and select potential products according to the following criteria:

(i) the potential products should be complementary to our existing product portfolio;

(ii) our Group only selects those potential product with no more than three eligible pharmaceutical manufacturers in Zhejiang province or the other respective provinces at the time of our proposed acquisition in order to raise the chance of winning the provincial collective tendering process. According to the Rules of Collective Tendering Process in Zhejiang province (浙江省藥品集中採購評審細則), if a product has no more than three pharmaceutical manufacturers in each product category within Zhejiang province, those products will directly enter the online price bidding process (網上議價程序), which implies a better chance to win the provincial collective tendering process. During the latest provincial collective tendering process held in 2009 and 2010, all of our major products involved in those provincial collective tendering process had no more than three manufacturers at the time when we identified and acquired the exclusive distribution rights.

(iii) the potential product should demonstrate satisfactory performance in clinical applications;

(iv) our Group prefers the products which have already been included in the Medical Insurance Drugs Catalogs. During the Track Record Period, the sales of our products which have involved in the Medical Insurance Drugs Catalogs accounted for approximately 85.0%, 93.7% and 93.0% of our total revenue during each corresponding period; and

(v) the suppliers of the potential products should fulfill the criteria set out in paragraph headed "Selection of our suppliers" under the sub-section headed "Phase 1 – Acquisition of distribution rights of pharmaceutical products from our suppliers" under the "Business" section of this prospectus for our Group assessment of potential and existing suppliers.

In view that some products having great market potential may not have obtained the pharmaceutical production permit (藥品生產許可證) by the pharmaceutical manufacturers of the products or certain approvals from the government at the time when we identified them, our Group will negotiate with those suppliers of such products the possibility of entering into a legally binding contract before entering into an exclusive distribution agreement. During the Track Record Period and as at the Latest Practicable Date, our Group has entered into a legally binding contract for 1 product, namely Fasudil Hydrochloride Injection (鹽酸法舒地爾氯化鈉注射液), with exclusive provincial distribution right which has not obtained the pharmaceutical production permit. Our Directors are of the view that the arrangement of obtaining the distribution rights of the products from the relevant pharmaceutical manufacturers before they obtain the pharmaceutical production permit is more cost-efficient for the following reasons: (i) our Group can bargain for a lower amount for the payment of

deposits as the product has not been released in the market yet; and (ii) the deposits we paid for such products will be returned to us in full if approvals cannot be obtained at the prescribed time as set out in the legally binding contract entered into with such suppliers. Our Directors further emphasised that (i) such arrangement is solely a commercial decision between our Group and such suppliers; (ii) our management has taken necessary measures in the supplier selection and assessment process, product selection and the deposit and prepayment to mitigate the relevant risks and; (iii) it allows our Group to obtain a product with market potential at a lower cost. Our Group will keep monitoring the status of obtaining the pharmaceutical production permit for Fasudil Hydrochoride Injection (鹽酸法舒地爾氯化鈉注射液).

For those products we have already obtained the distribution rights and with the relevant required pharmaceutical licenses and approvals, our Group will check the validity period of the pharmaceutical registration approval (藥品註冊批件) of each individual product, and the pharmaceutical production permit (藥品生產許可證) and the certificate of GMP for pharmaceutical products (藥品生產質量管理規範認證證書) of the suppliers of those products.

During the Track Record Period and as at the Latest Practicable Date, we identified and acquired 1 new product with exclusive national distribution right and 6 new types of products (including 8 specifications) with exclusive provincial distribution rights. Our Group has also identified 1 product with exclusive provincial distribution right for which the legally binding contract we have entered. For details of our new products and its relevant sales performance, please refer to the paragraph headed "Reduction of the reliance on our major suppliers" under the sub-section headed "Phase 2 – Procurement of products from our suppliers" under the section headed "Business" of this prospectus.

Step 2 – Conducting market research of the new products for our suppliers

Upon identification of a potential product and prior to acquisition of the distribution right of such potential products, our senior management team, together with our sales and marketing team, will conduct market researches of the potential products in national or provincial levels, which depends on the nature of the distribution right of the new product that we intend to acquire. Our sales and marketing team led by Mr. Dai and Mr. He will then collect our own market intelligence of the potential products at national or provincial level through (i) interviewing the medical practitioners, medical experts and industry players (such as our existing Distributor Customers and our suppliers) within our domestic network regarding the efficacies and their views on clinical application of the potential products; and (ii) collecting the market data through our own database. Our project group will conduct a SWOT analysis in order to identify if the potential products can be introduced to the national or provincial markets, with an aim to diversify our existing product portfolio.

All those market intelligence which our suppliers are not able to obtain by themselves, together with our marketing and promotion strategy, will be compiled and contained in a market research report. The market research report will be shared with our suppliers of the potential products, which in turn assists those suppliers to get market information and competitive landscape of the potential product in Zhejiang province.

Upon completion of the market research of the new products, our Group will commence to negotiate with our suppliers on the terms of the distribution rights as set out in the distribution agreements with our suppliers. For the major provisions of the distribution agreements entered into between our Group and our suppliers, please refer to the paragraph headed "Distribution agreements on our major products with our major suppliers" under the sub-section headed "Phase 2 – Procurement of products from our suppliers" under the section headed "Business" of this prospectus.

Step 3 – Assistance and co-ordination in provincial collective tendering process of the new products for our suppliers

After entering into the distribution agreement with our suppliers for the products which have not previously won the provincial collective tendering process, our Group will assist our suppliers in provincial collective tendering processes of the new products in accordance with the type of distribution rights that we are granted by our suppliers. Substantially all pharmaceutical products procured by public hospitals and medical institutions in the PRC are subject to provincial collective tendering processes that involve bidding by the pharmaceutical manufacturers of these products. The provincial collective tendering process is organised by the provincial governments of the PRC and is normally held approximately once per two years. A duly organised bid-evaluation committee, which is composed of pharmaceutical experts and clinical medical experts randomly selected from a database of experts established by the relevant government authority, is responsible for bid evaluations. The selection is based on a number of criteria, including bid price, quality, clinical effectiveness, and manufacturer's reputation and service quality.

Our Group, as an established pharmaceutical distributor, assists our suppliers to participate in provincial collective tendering processes for the potential products that we have identified by way of the following means:

(i) **Industry and market expertise** – leveraging on our Group's establishment in Zhejiang province and expertises and experiences of our Directors and senior management, namely, Mr. Zhou, Mr. Dai, Ms. Yang and Mr. He, who have more than 10 years of experience in the pharmaceutical industry, especially in Zhejiang province, together with their expertise, knowledge, network and sensitivity of the pharmaceutical industry and the Zhejiang provincial market, we are able to assist our suppliers to make decisions during the provincial collective tendering processes;

(ii) **Market intelligence** – our Group compiles market research report of the potential products involved in the provincial collective tendering process, and provides such report to our suppliers for reference. The market research report contains market data, future trend, views on efficacies and clinical application of such products and our recommendation on promotion and marketing strategy of the products. For further details, please refer to the paragraph headed "Step 2 – Conducting market research of the new products for our suppliers" under the sub-section headed "Phase 1 – Acquisition of distribution rights of pharmaceutical products from our suppliers" under the section headed "Business" of this prospectus; and

(iii) **Competitive price suggestions** – our senior management, after taking into consideration (i) the sales and marketing statistics and the market intelligence of the products; (ii) the rules of the provincial collective tendering process; (iii) the evaluation method of the provincial collective tendering process; (iv) the historical price of similar products; (v) the scale of the suppliers and the statistics on the quality of products; and (vi) the historical record of the provincial collective tendering process of similar products, determines a competitive price for our suppliers to consider for the purpose of the provincial collective tendering process application. Our Directors confirm that the final bidding price of the product is considered to be one of the core elements to win the provincial collective tendering process. Apart from taking the abovementioned factors into consideration when determining the competitive price for our suppliers, our Group has also taken into account the estimated overall profit margin of such product as one of the factors to evaluate whether such product will be profitable to our Group. In any event, the competitive bidding price suggested by our Group is finally determined at our supplier's own discretion.

For further details on pricing of our product, please refer to the sub-section headed "Pricing policy" under the section headed "Business" in this prospectus.

Our Group also provides additional documentation and other administrative support in order to improve the overall bidding positions of our suppliers. According to Zhejiang Provincial Price Bureau, there were approximately 14,300 medicines which had participated and won the provincial collective tendering process held in 2009 and 2010, respectively, and were eligible to be sold in the public hospitals and medical institutions. There was no provincial collective tendering process being held in Zhejiang province during the Track Record Period. During the latest provincial collective tendering process held in 2009 and 2010, 35 out of 41 products involved in the provincial collective tendering processes in Zhejiang province that we had participated and won, representing a success rate of approximately 85.4%.

During the Track Record Period, the sales contributed from our products which have won the provincial collective tendering process accounted for approximately 97.7%, 98.2%, and 96.8% of our total revenue for the corresponding periods and those products are subject to the upcoming provincial collective tendering anticipated to be held in 2013. Our Directors are of the view that, despite that a majority of our sales are generated from products which won the provincial collective tendering process, the products which did not win the provincial collective tendering process or those new products we just acquired which are pending to participate in the upcoming provincial collective tendering process can still be sold in the private hospitals and medical institutions in the PRC.

As at the Latest Practicable Date, our Directors cannot confirm the exact date of the upcoming provincial collective tendering process that was initially anticipated to be held in 2013, which shall be subject to further PRC government announcement.

Deposits and Prepayments

A majority of our Type 1 Suppliers and Type 2 Suppliers require us to pay a certain amount of deposits and prepayments as a condition of acquiring the distribution rights of specific products. The purpose of the deposits is for the suppliers to ensure the commitment to the sales targets by the national or provincial or regional distributors; and it is also a measure to prevent cannibalisation, among the distributors. The amounts of deposits and prepayments are based on (i) the popularity of the products in the PRC; (ii) the historical sales performance of similar products in the PRC; and (iii) the mutual negotiations between our Group and our suppliers.

As at 31 December 2012, 30 June 2013 and the Latest Practicable Date, the total deposits paid to all of our suppliers was amounted to approximately RMB28,784,000 (equivalent to approximately HK$35,778,000), RMB26,488,000 (equivalent to approximately HK$33,456,000) and RMB27,663,000 (equivalent to approximately HK$35,083,000), respectively. During the corresponding periods, the deposits paid in accordance with the exclusive distribution agreements made with our existing Type 1 and Type 2 Suppliers amounted to approximately RMB27,434,000, RMB25,488,000 and RMB26,663,000, respectively. Most of the exclusive distribution agreements our Group entered into with our suppliers have stated the major terms on deposits set out as below:

(i) the prescribed amount of deposits to be paid to our suppliers in relation to the products that our Group has purchased and distributed; and

(ii) the deposits paid to our supplies shall be returned to our Group within the prescribed period after termination of the distribution agreements.

The following table sets forth the details and amount of the deposits we paid to our suppliers subject to deduction, forfeiture or return (as the case may be) in accordance with the relevant terms and conditions set out in distribution agreements (i) as at 31 December 2012; (ii) as at 30 June 2013 and (iii) as at the Latest Practicable Date:

	Relevant terms and conditions of the distribution agreements entered with our existing Type 1 Suppliers and Type 2 Suppliers	**Amount of deposits as at 31 December 2012** *RMB'000*	**Amount of deposits as at 30 June 2013** *RMB'000*	**Amount of deposits as at the Latest Practicable Date** *RMB'000*
1.	Deposits shall be subject to deduction in proportion to the amount of the products which (i) did not meet the sales target; and/or (ii) cannibalise the market in the other provinces of our suppliers and is subject to commercial negotiation *(Note)*	25,204	22,658	23,833
2.	Deposit shall be subject to forfeiture in a fixed amount if our Group is to cannibalise the market in the other provinces of our suppliers	30	180	180
3.	Deposit shall be subject to forfeiture in a fixed amount if our Group has not won in the provincial collective tendering process for our suppliers	2,000	2,600	2,600
4.	Deposit shall be subject to forfeiture in a fixed amount if our Group has not succeeded in developing the hospital network by a certain period of time	–	50	50
5.	Deposit shall be subject to forfeiture in a fixed amount if the product does not enter into the Medical Insurance Catalogs	200	–	–
Sub-total		**27,434**	**25,488**	**26,663**

Note: If our product cannot win in the upcoming provincial collective tendering process, our procurement team, together with our management team, will then re-negotiate with our suppliers to revise the sales target through commercial negotiations without prejudice to the signed distribution agreement between the suppliers and our Group.

For those deposits which shall be subject to deduction in proportion to the amount of the products which did not meet the sales targets, our Group will re-negotiate the sales targets with our suppliers in the event that those products cannot win in the upcoming provincial collective tendering process.

As at 31 December 2012, 30 June 2013 and as at the Latest Practicable Date, the deposits paid in accordance with our legally binding contract with the suppliers amounted to approximately RMB1,350,000, RMB1,000,000 and RMB1,000,000, respectively.

The following table sets forth the details and amount of the deposits we paid to our suppliers subject to return of deposits to our Group in full in accordance with the relevant terms and conditions set out in the legally binding contract (i) as at 31 December 2012; (ii) as at 30 June 2013 and (iii) as at the Latest Practicable Date:

	Relevant terms and conditions for the legally binding contracts before entering into the exclusive distribution agreement with the suppliers	**Amount of deposits as at 31 December 2012** *RMB'000*	**Amount of deposits as at 30 June 2013** *RMB'000*	**Amount of deposits as at the Latest Practicable Date** *RMB'000*
1.	Deposit will be returned to our Group in full if the approval cannot be granted from the government in relation to separate pricing status of the products as prescribed under the legally binding contract	1,350	–	–
2.	Deposit will be returned to our Group in full if the production permit cannot be granted by a certain period of time as prescribed under the legally binding contract	–	1,000	1,000
Sub-total		**1,350**	**1,000**	**1,000**
Total		**28,784**	**26,488**	**27,663**
		(equivalent to approximately HK$35,778,000)	(equivalent to approximately HK$33,456,000)	(equivalent to approximately HK$35,083,000)

For details of fluctuation of deposits during the year ended 31 December 2012 and as at the Latest Practicable Date, please refer to sub-section headed "Deposits and prepayments" under the section headed "Financial information" of this prospectus.

On 3 July 2013, Zhongcheng Huida and Kaihongxin has confirmed to return the deposits of approximately RMB8 million and RMB7 million, respectively upon the Listing of our Group. In July 2013, our Group has entered into an exclusive provincial distribution agreement with Jiangsu Baichang in relation to a product, namely Kangfuxin Ye (康复新液), Jiangsu Baichang has also confirmed to return the deposits of approximately RMB1 million upon the Listing of our Group. Our Company will procure Hong Rui Bio-medical or any other subsidiary of the Company as the guarantor for Zhongcheng Huida, Kaihongxin and Jiangsu Baichang and Hong Rui Bio-medical has to maintain a minimum cash balance of RMB3 million, RMB2 million for each of Zhongcheng Huida and Kaihongxin, respectively during the guarantee period.

Our Company will disclose in our interim and annual reports after Listing regarding the progress of the foregoing corporate guarantee arrangement and any subsequent return of deposits as and when appropriate.

During the Track Record Period, our Group did not meet the sales targets set by four of our suppliers. However, each of such suppliers has confirmed in writing that they will not forfeit the deposits paid by our Group, which amounted to RMB70,000 in aggregate, representing approximately 0.3% of the total deposit paid to the suppliers as at the Latest Practicable Date. For further details, please refer to the paragraph headed "Sales target from our suppliers" under the sub-section headed "Phase 2 – Procurement of products from our suppliers" under the "Business" section.

The Directors confirmed that our Group did not experience (i) any confiscation or deduction of deposits from our suppliers; (ii) any set off of the deposits against our Group's procurements; or (iii) any escrow arrangement for the deposits during the Track Record Period.

The purpose of the prepayment is to secure the purchase of products with market potential from the distributors. After interviewing various listed and private pharmaceutical distributors and agents, it is concluded in the PICO Report that it is a common practice in the PRC for the pharmaceutical distributors to pay deposits to guarantee performance of the contracts such as preventing cannibalisation and ensuring commitment to the sales targets and/or prepayments to suppliers to secure a steady supply of products especially those with market potential. However, the pharmaceutical distributors with logistic services only, such as our Type 1 Distributor Customers are generally not required to pay deposits since they generally will not be involved in the cannibalisation issues.

The amounts of deposits and prepayments are based on the (i) popularity of the products in the PRC; (ii) the historical sales performance of similar products in the PRC; and (iii) mutual negotiations between our Group and the suppliers. According to the PICO Report, a larger amount of deposits would be demanded for the pharmaceutical products with a wider usage or higher quality or with the separate pricing status and that will be sold in a more economically developed areas and more mature markets. Nevertheless, the deposits for the distribution rights of some of the pharmaceutical products of well established brands may be less than the deposits for the distribution rights of the generic pharmaceutical products which require substantial sales and marketing efforts since the suppliers might require more deposits in order to ensure the commitment to the sales targets of the distributors. As a pharmaceutical distributor with a focus in Zhejiang province, which ranked the sixth largest provincial pharmaceutical distribution market in terms of sales in the PRC in 2012, distributing generic pharmaceutical products, our Group has been required to pay a larger amount of deposits when compared with other pharmaceutical companies.

In addition to the selection and assessment of our suppliers in relation to minimise the risk associated with the receivables of deposits and/or prepayments in the event that our Group ceases business with certain of our suppliers, our Group has established the following procedures regarding payment of deposits and prepayment to our supplier:

(i) assessing the suppliers of the potential products to determine its financial health and reputation to mitigate the financial risk of our paid deposits and prepayments;

(ii) assessing the potential products by conducting market research of the potential products in order to determine the market potential and popularity of such products to negotiate the amount of the deposits and prepayments with our suppliers;

(iii) negotiating the deposits and prepayments with our suppliers based on the assessment of the financial health and the cash position of our Group; and

(iv) monitoring and assessing our sales performance, inventory level and financial performance, as well as our suppliers' financial performance to avoid any disruption to our Group's daily operation which may arise from our payment of deposits and/or prepayments.

During the Track Record Period and as at the Latest Practicable Date, a majority of our suppliers required us to pay prepayments in advance. Despite the fact that our suppliers required our Group to make prepayment for procurement of products, our Directors confirmed there was no requirement to maintain a minimum balance of prepayments imposed by any of our suppliers. For further details of the amount of deposits and prepayments during the Track Record Period, please refer to the paragraph headed "Other receivables" under the sub-section headed: "Trade, bills and other receivables" under the "Financial information" section in this prospectus.

Phase 2 – Procurement of products from our suppliers

Once the new products have been successfully introduced into the market, our procurement team will start sourcing products and also the purchasing work which includes placing purchase orders, following up the orders and liaising with the warehouse of our inventory. Our management team and procurement team work with our sales and marketing team to understand the market demand in Zhejiang province in order to acquire further market information for identifying new product(s) of the market. We have obtained the pharmaceutical operation permit (藥品經營許可證) and the certificate of GSP for pharmaceutical products (藥品經營質量管理規範認證證書) from SFDA in order to carry out our distribution business in the PRC.

Our Suppliers

During the Track Record Period, we had mainly three different types of suppliers as follows:

(i) suppliers which are pharmaceutical manufacturers grant us the exclusive national distribution rights, thereby allowing us to distribute the products nationwide or in multi-provinces ("**Type 1 Suppliers**");

(ii) suppliers which are pharmaceutical companies obtain the exclusive national distribution rights from the pharmaceutical manufacturers that grant us the exclusive provincial distribution rights, thereby allowing us to distribute the products within the designated geographical areas ("**Type 2 Suppliers**"); and

(iii) suppliers which mainly comprised local distributors, independent retail pharmacies, ("**Type 3 Suppliers**").

To the best of knowledge of the Directors, all of our suppliers are Independent Third Parties.

The following table sets out the major differences between the three types of our suppliers:

	Type 1 Suppliers	Type 2 Suppliers	Type 3 Suppliers
Nature of the suppliers	Suppliers which comprise pharmaceutical manufacturers in the PRC	Suppliers which comprise pharmaceutical trading companies are generally not involved in manufacturing or production and obtain exclusive national distribution rights from the ultimate suppliers	Suppliers which have no exclusive distribution rights and are mainly local distributors, independent retail pharmacies, hospitals and healthcare institutions
Nature of distribution rights obtained by our Group	Exclusive national distribution rights *(Note 1)*	Exclusive provincial or regional distribution rights	No distribution rights
Product exclusivity	Yes	Yes	No
Deposits and Prepayments	Yes	Yes	No
Major Products (as at the Latest Practicable Date)	Cefixime Dispersible Tablet (頭孢克肟分散片), Sulbenicillin Sodium for Injection (注射用磺苄西林鈉)	Levocarnitine Injection (左卡尼汀注射液), Isepamicin Sulfate Injection (硫酸異帕米星注射液) Cefodizime Sodium for Injection (注射用頭孢地嗪鈉) Thymosin α 1 for Injection (注射用胸腺法新), Ceftizoxime Sodium for Injection (注射用頭孢唑肟鈉), Alanyl Glutamine for Injection (注射用丙氨酰谷氨酰胺)	Ozagrel Sodium for Injection (注射用奧扎格雷鈉) Cefixime (頭孢克肟), Sulbenicillin Sodium (磺苄西林鈉)
Major Suppliers	Type 1 Supplier A/ Type 1 Supplier B	Zhongcheng Huida/Kaihongxin	Guangzhou Baiyunshan Chemical Pharmaceutical Factory (廣州白雲山化學醫藥廠)
Ultimate suppliers	No ultimate suppliers as Type 1 Suppliers are pharmaceutical manufacturers	Pharmaceutical manufacturers	Pharmaceutical manufacturers or pharmaceutical companies
Geographical coverage	Nationwide	Various provinces throughout the PRC	No limitations

Note:

1. The exclusive national distribution rights allow our Group to distribute the products national-wide or, in some instances, multiple provinces in the PRC.

Selection of our suppliers

We have adopted an approach on selection and continuous assessment of the potential suppliers prior to acquisition of new distribution rights of products and on our existing suppliers, and set out the following criteria for the assessment of both the potential and the existing suppliers:

(i) potential Type 1 Suppliers that are pharmaceutical manufacturers are required to submit the pharmaceutical production permit (藥品生產許可證), the pharmaceutical registration approval (藥品註冊批件) and the certificate of GMP for pharmaceutical products (藥品生產質量管理規範認證證書) of the new distribution rights of product that we propose to acquire in order to prove that the quality control standard of our Type 1 Suppliers is in compliance with the GMP standard;

(ii) potential Type 2 Suppliers that are pharmaceutical companies and the national distributors of the product are required to submit the pharmaceutical operation permit (藥品經營許可證) and certificate of GSP for pharmaceutical products (藥品經營質量管理規範認證證書) in order to prove that the quality control standard for our Type 2 Suppliers is in compliance with the GSP standards;

(iii) the management of our Group assess the suppliers with reference to the operation scale, the reputation, the manufacturing capacity and capabilities, the quality of the products, the price and the financial performance of the suppliers through the meetings with the potential suppliers, the site visits of the production facilities of the suppliers and the discussions with the industry peers as the reputation of potential suppliers and assess the quality and the safety of their products and see if there are any previous quality problem that those potential suppliers have experienced of;

(iv) the management of our Group assess the historical quality control records of our potential and existing suppliers. For the potential suppliers or our existing suppliers that has historical records of products with inferior quality, our Group take into consideration the possibility whether such quality control incident will happen in the future. If the quality incident relating to product of inferior quality has persistently occurred, we will terminate our contractual relationship with such suppliers immediately;

(v) the management of our Group review the historical financial performance of potential major suppliers and our exiting major suppliers;

(vi) our Group appoints an independent search agency to conduct a background search of potential suppliers with estimated annual transaction amount of more than RMB2,000,000 prior to the engagement, and to conduct background search on our top 10 suppliers every year afterwards to identify if those suppliers have been subject to any administrative penalty imposed by any relevant regulatory bodies in the PRC in relation to the quality issues of their product; and

(vii) our Group conducts an annual appraisal of the suppliers in order to review (i) the performance of our suppliers; and (ii) the financial performance of our suppliers, during the preceding year. If our suppliers have not performed satisfactorily over the preceding year or the financial performance of any supplier appears to be deteriorating, our Group has the discretion to reduce the business transactions or even terminate the business relationships with such suppliers.

The Directors are of the view that the criteria set out above are able to minimise the risks associated with the recoverability of deposits and/or prepayments in the event that our Group ceases business with certain of our suppliers due to the deterioration of their financial condition, license requirements and product quality issues.

The table below sets out our purchases from each type of suppliers for the year ended 31 December 2011 and 2012 and for the six months ended 30 June 2013:

	Year ended 31 December				**Six months ended 30 June**			
	2011		**2012**		**2012**		**2013**	
	HK$'000	*% of purchases*	*HK$'000*	*% of purchases*	*HK$'000*	*% of purchases*	*HK$'000*	*% of purchases*
					(Unaudited)			
Type 1 Suppliers	6,809	5.2	9,042	6.6	419	0.6	609	0.9
Type 2 Suppliers	120,462	92.7	121,493	88.6	62,408	95.7	58,664	90.3
Type 3 Suppliers	2,698	2.1	6,615	4.8	2,357	3.7	5,732	8.8
Total	**129,969**	**100.0**	**137,150**	**100.0**	**65,184**	**100.0**	**65,005**	**100.0**

(i) Type 1 Suppliers

For each of the two years ended 31 December 2011, 2012 and for the six months ended 30 June 2013, the purchase derived from Type 1 Suppliers was approximately 5.2%, 6.6% and 0.9%, respectively, of our Group's total purchases. Our Group has not acquired any inventory of Sulbenicillin Sodium for Injection (注射用磺苄西林鈉) from Type 1 Supplier A, since the year ended 31 December 2012 and up to the Latest Practicable Date. Our Type 1 Suppliers comprise small to medium pharmaceutical manufacturers and pharmaceutical companies in the PRC, which grant us exclusive national distribution rights of products, thereby allowing us to distribute the products in the national-wide or in various provinces in the PRC at the same time. The products we acquired from Type 1 Suppliers will be sold to our Type 1 Distributor Customers and Type 2 Distributor Customers under exclusive provincial or regional distribution rights.

(ii) Type 2 Suppliers

For each of the two years ended 31 December 2011 and 2012 and for the six months ended 30 June 2013, the purchases derived from Type 2 Suppliers were approximately 92.7%, 88.6% and 90.3%, respectively, of our Group's total purchases. Our Directors considered that our Type 2 Suppliers recorded the largest proportion of purchases from our Group since those major products such as Levocarnitine Injection (左卡尼汀注射液), Cefodizime Sodium for Injection (注射用頭孢地嗪鈉), Isepamicin Sulfate Injection (硫酸異怕米星注射液), Thymosin α1 for Injection (注射用胸腺法新), Alanyl Glutamine for Injection (注射用丙氨酰谷氨酰胺) and Ceftizoxime Sodium for Injection (注射用頭孢唑肟鈉) were supplied by our Type 2 Suppliers.

Our Type 2 Suppliers comprise the pharmaceutical companies in the PRC, which generally do not have any manufacturing or production facilities. They obtain the exclusive national distribution rights of those products supplied to us from their suppliers which are pharmaceutical manufacturers. Our Type 2 Suppliers grant us exclusive provincial or regional distribution rights of products, thereby allowing us to distribute the products in the designated provinces or regions in the PRC. Some of them were our major suppliers during the Track Record Period, such as Zhongcheng Huida and Kaihongxin. The products we acquired from our Type 2 Suppliers will only be sold to our Type 1 Distributor Customers and Type 2 Distributor Customers under exclusive provincial or regional distribution rights.

(iii) Type 3 Suppliers

For each of the two years ended 31 December 2011 and 2012 and for the six months ended 30 June 2013, the purchases derived from Type 3 Suppliers were approximately 2.1%, 4.8% and 8.8%, respectively, of our Group's total purchases. Our Type 3 Suppliers mainly comprised local distributors, independent retail pharmacies, hospitals and healthcare institutions. We do not enter into any distribution agreement with and were not granted with any distribution rights by our Type 3 Suppliers.

During the Track Record Period we sourced two types of raw materials, namely (i) Cefixime (頭孢克肟); and (ii) Sulbenicillin Sodium (磺苄西林鈉) from two of our Type 3 Suppliers, respectively. The purchases derived from Cefixime (頭孢克肟) amounted to HK$1.6 million, HK$1.9 million and HK$0.4 million for the two years ended 31 December 2012 and for the six months ended 30 June 2013. The purchases derived from Sulbenicillin Sodium (磺苄西林鈉) amounted to approximately HK$63,000 and HK$2.0 million for the year ended 31 December 2012 and for the six months ended 30 June 2013. The raw materials, namely (i) Cefixime (頭孢克肟); and (ii) Sulbenicillin Sodium (磺苄西林鈉) were sold to two of our suppliers, Type 1 Supplier B and Type 1 Supplier A, respectively, which was also our supplier of two of our products, namely Cefixime Deospersible Tablet (頭孢克肟分散片) and Sulbenicillin Sodium for Injection (注射用磺苄西林鈉). This is because (i) the manufacturer of Sulbenicillin Sodium (磺苄西林鈉) only sell the raw material to our Group directly; and (ii) our Group is able to source Cefixime (頭孢克肟) from the manufacturer of the raw materials at a relatively lower cost than Type 1 Supplier B does, which in turn enables us to earn a higher gross profit margin for those two products.

Movement of our suppliers

Particulars relating to the movement of our suppliers during the Track Record Period are stated in the table below:

	Commencement of the financial year	Number of new engagements (including renew of engagements)	Number of terminations	End of the financial year
As at 31 December 2011				
– Type 1 Suppliers	6	1	2	5
– Type 2 Suppliers	10	4	0	14
– Type 3 Suppliers	57	10	40	27
As at 31 December 2012				
– Type 1 Suppliers	5	1	1	5
– Type 2 Suppliers	14	5	9	10
– Type 3 Suppliers	27	3	0	30
As at 30 June 2013				
– Type 1 Suppliers	5	0	0	5
– Type 2 Suppliers	10	2	1	11
– Type 3 Suppliers	30	0	0	30

During the Track Record Period, our Group had an aggregate of 7 new engagements and 6 renewed engagements of pharmaceutical products sourced from our Type 1 Suppliers and Type 2 Suppliers. For details of the newly acquired distribution rights of product, please refer to the table set out in the paragraph headed "Step 1 – Identifying and acquiring new products in the market" under the sub-section headed "Phase 1 – Acquisition of distribution rights of products from our suppliers" under the section headed "Business" in this prospectus.

In addition, there was an aggregate of 13 terminations of Type 1 Suppliers and Type 2 Suppliers during the Track Record Period: (i) 1 out of 13 terminations was due to the cessation of supply of Sulbenicillin Sodium for Injection (注射用磺苄西林鈉) during the period from February 2011 to August 2012. For further details, please refer to the paragraph headed "Selection of our suppliers" under the sub-section headed "Phase 1 – Acquisition of distribution rights of products from our suppliers" under the section headed "Business" of this prospectus; (ii) 1 out of 13 terminations was due to the changes in the ultimate suppliers and the shareholdings of Baoding Huida and Zhongcheng Huida. For further details, please refer to the paragraph headed "Major suppliers" under the sub-section headed "Phase 2 – Procurement of products from our suppliers" under the section headed "Business" in this prospectus; (iii) 1 out of 13 terminations was due to a change of our supplier's ultimate shareholders; and (iv) the remaining 10 out of 13 terminations were due to the expiry of distribution agreements with our suppliers.

We had not renewed distribution agreements with those remaining 10 suppliers mainly due to (i) the change of distribution relationship between our suppliers and ultimate suppliers; (ii) the failure of our suppliers in supplying the products to us as a result of the temporary suspension of their production facilities in order to meet the revised GMP standards; and (iii) the decrease in demand of Cefoxitin Sodium for Injection (注射用頭孢西丁鈉) was due to that such product fell within the category of limited use under the Administrative Catalogue of the Clinical Use of Antibiotics of Zhejiang Province (2012 version) (浙江省抗菌藥物臨床應用分級管理目錄(2012版)) issued by Zhejiang Provincial Health Bureau on 19 July 2012 which led to a substantial decrease in the sales of the product. Therefore, we have not renewed the distribution agreement with the supplier of such product after expiration of the distribution agreement on 30 December 2012.

Our Group has substantially reduced our Type 3 Suppliers since 2011 due to our intention to focus our financial resources on identifying and acquiring the exclusive national or provincial distribution rights which are able to provide us with a longer term and more stable supply of products, thereby attracting more Distributor Customers for distribution. Our Directors are also of the view that most of the products with good quality, reputation and market potential require a longer term of distribution rights, and that acquiring such products will therefore make our Group gain more opportunities and exposure in the pharmaceutical distribution industry.

During the Track Record Period, to the knowledge of our Directors, our suppliers did not suffer any kind of financial difficulty nor did the suppliers confiscate the deposits or prepayments paid by us due to their financial difficulties. Our Directors confirm that during the Track Record Period, we did not cease business with any of our suppliers due to product quality, disputes or the financial issues of our suppliers.

Our major suppliers during the Track Record Period

The following table sets forth our purchase from our major suppliers for the year ended 31 December 2011 and 2012 and for the six months ended 30 June 2012 and 2013:

		For the year ended 31 December				Six months ended 30 June			
		2011		2012		2012		2013	
		HK$'000	*% of purchases*	*HK$'000*	*% of purchases*	*HK$'000* (Unaudited)	*% of purchases*	*HK$'000*	*% of purchases*
1.	Zhongcheng Huida	51,845	39.9	69,300	50.5	39,551	60.7	21,899	33.7
2.	Kaihongxin	34,356	26.4	37,594	27.4	14,275	21.9	32,160	49.5
3.	Type 1 Supplier A	–	–	7,934	5.8	–	–	–	–
4.	Type 1 Supplier B	5,333	4.1	6,250	4.6	3,181	4.9	2,267	3.5
5.	Type 2 Supplier E	2,043	1.5	2,148	1.5	1,027	1.6	629	1.0
Sub-total		**93,577**	**71.9**	**123,226**	**89.8**	**58,034**	**89.1**	**56,955**	**87.7**

1. Baoding Zhongcheng Huida Pharmaceutical Company Limited (保定中誠匯達醫藥有限公司) ("Zhongcheng Huida")

Zhongcheng Huida is a pharmaceutical trading company established in early 2012. Zhongcheng Huida is not involved in pharmaceutical manufacturing or production. The major shareholder of Zhongcheng Huida is a state-owned pharmaceutical company in the PRC. Zhongcheng Huida is principally engaged in pharmaceutical trading and distribution in the PRC. Zhongcheng Huida's headquarter is located in Hebei province, the PRC. Our Group has commenced the business relationship with Baoding Huida Pharmaceutical Company Limited (保定匯達醫藥有限公司) since 2009. Our Group had active business relationship with Zhongcheng Huida (together with Baoding Huida) since 2009. In so far as our Directors are aware, with the strategic arrangement of Baoding Huida, the relevant business with our Group was transferred to Zhongcheng Huida since January 2012. Our business with Baoding Huida had ceased since March 2012. Our Group has started the business relationship with Zhongcheng Huida since 2009. Zhongcheng Huida was our Type 2 Supplier during the Track Record Period. Our Group has recently renewed the distribution agreement with Zhongcheng Huida for a further term of 3 years up to 31 December 2015.

2. Beijing Kaihongxin Pharmaceutical Company Limited (北京凱宏鑫醫藥有限責任公司) ("Kaihongxin")

Kaihongxin is a pharmaceutical trading company established in 2003. Kaihongxin is not involved in pharmaceutical manufacturing or production. It has two individual shareholders. Kaihongxin is principally engaged in wholesale, retail and distribution of pharmaceutical products. Kaihongxin's headquarter is located in Yanqing County, Beijing, the PRC. Our Group started the business relationship with Kaihongxin since 2008. Our Group had active business relationship with Kaihongxin since 2008. Kaihongxin was our Type 2 supplier during the Track Record Period. Our Group has recently renewed the distribution agreement with Kaihongxin for a further term of 3 years up to 31 December 2015.

3. Type 1 Supplier A

Type 1 Supplier A is a pharmaceutical manufacturer with its production base in Liaoning, the PRC. Type 1 Supplier A acquired 45% interest in Shenyang Meiluo from our Group in January 2011. Type 1 Supplier A acquired the GMP certificates in July 2012 and was able to commence the production of Sulbenicillin Sodium for Injection (注射用磺苄西林鈉) since August 2012 and the subsequent supply to our Group since October 2012. Type 1 Supplier A is the manufacturer of one of our major products, namely, Sulbenicillin Sodium for Injection (注射用磺苄西林鈉). Our Group has started the business relationship with Type 1 Supplier A since 2012 and has not discontinued since Type 1 Supplier A was also a customer of one of our raw material products, namely, Sulbenicillin Sodium (磺苄西林鈉), during the Track Record Period. For further details, please refer to paragraph headed "Our suppliers" under the sub-section headed "Phase 2 – Procurement of products from our suppliers" under the section headed "Business" of this prospectus. Our Group has recently entered the supplemental distribution agreement with Type 1 Supplier A for a future term of one year up to 30 June 2014.

4. Type 1 Supplier B

Type 1 Supplier B is a comprehensive pharmaceutical enterprise principally engaged in manufacturing, production, trading and distribution of pharmaceutical products. Type 1 Supplier B is a subsidiary of a state-owned enterprise which is based in Shanghai, which is principally engaged in pharmaceutical industry. Type 1 Supplier B's headquarters is located in Shanghai, the PRC. Our Group has started the business relationship with Type 1 Supplier B since 2008. Our Group has recently renewed the distribution agreement with Type 1 Supplier B for a further term of 1 year up to 31 December 2013. At the same time, Type 1 Supplier B is also a customer of one of our raw material products, namely, Cefixime (頭孢甲肟), during the Track Record Period. For further details, please refer to paragraph headed "Our suppliers" under the sub-section headed "Phase 2 – Procurement of products from our suppliers" under the section headed "Business" of this prospectus.

5. Type 2 Supplier E

Type 2 Supplier E is a comprehensive pharmaceutical enterprise principally engaged in sales and distribution of pharmaceutical products. Type 2 Supplier E's headquarter is located in Hainan province, the PRC. Our Group has started the business relationship with Type 2 Supplier E since 2011. Such supplier is our Type 2 Supplier during the Track Record Period.

For details of distribution agreements on our major products with our major suppliers, please refer to paragraph headed "Distribution agreements on our major products with our major suppliers" under the sub-section headed "Phase 2 – Procurement of products from our suppliers" under the "Business" section of this prospectus.

None of the Directors, their respective associates, or, to the knowledge of the Directors, Shareholders who will own more than 5% of the issued share capital of the Company immediately following the Placing had any interest in any of our major suppliers of the Group during the Track Record Period and they are all Independent Third Parties.

Distribution Agreements between our Group and our suppliers

We normally enter into distribution agreements with our Type 1 Suppliers and Type 2 Suppliers for a term ranging from 1 year to 3 years, which may depend on the collective tendering period for the relevant pharmaceutical product(s). We have not entered into any distribution agreement with our Type 3 Suppliers as we only directly purchase the products without any exclusive distribution rights from the Type 3 Suppliers.

The major provisions of the distribution agreements between our Group and our suppliers, which include geographical exclusivity, sales targets, marketing promotion, prices of the products, purchase returns of the products and duration of the distribution agreements. The distribution agreements may be renewed by mutual agreements between our suppliers and us with reference to the prices, sales targets, deposits and prepayments of the products. For details of the distribution agreements with our suppliers during the Track Record Period, please refer to the paragraph headed "Distribution agreements on our major products with our major suppliers" under the sub-section headed "Procurement of products from our suppliers" under the section headed "Business" of this prospectus.

All the distribution agreements entered into between our suppliers and us are legally binding contracts in accordance with the relevant laws under the jurisdiction of the PRC.

Sales target from our suppliers

During two years ended 31 December 2012, our Group did not meet the sales target set by four of our suppliers, particulars of which are listed below:

	Name/Nature of the relevant supplier	Product name	2011		2012		Deposits paid to the relevant supplier
			HK$'000	*% of total revenue*	*HK$'000*	*% of total revenue*	
1.	Type 2 Supplier A	Roxithromycin Dispersible Tablets (羅紅霉素分散片) *(Note 1)*	35	0.02	1,033	0.6	RMB20,000
2.	Type 2 Supplier B	Dingkun Pill (二十七味定坤丸) *(Note 2)*	2,677	1.7	2,425	1.4	no deposits required
3.	Type 2 Supplier C	Cefoxitin Sodium for Injection 0.5g (注射用頭孢西丁鈉0.5g)	6,590	4.1	6,378	3.6	no deposits required
4.	Type 2 Supplier D	Mezlocillin Sodium and Sulbactam Sodium for Injection (注射用美洛西林鈉舒巴坦鈉) *(Note 3)*	1,338	0.8	4,223	2.4	RMB50,000
Total			**10,640**	**6.6**	**14,059**	**8.0**	

Notes:

1. Our Group has re-negotiated the sales target of Roxithromycin Dispersible Tablets (羅紅霉素分散片) with our supplier, the sales target has been reduced from 432,000 units to 48,000 units per year.

2. Our Group has re-negotiated the sales target of Dingkun Pills (二十七味定坤丸) with our supplier, the sales target has been slightly increased from 1,200 units to 1,440 units per year due to our Group will continue to strengthen the marketing strategy of the product, which may in turn drive the growth of sales of the product; and

3. Our Group has re-negotiated the sales target of Mezlocillin Sodium and Sulbactam Sodium for Injection (注射用美洛西林鈉舒巴坦鈉) with our supplier, the sales target has been reduced from 20,000 units to 8,000 units per month.

As at the Latest Practicable Date, we have received written confirmations from all the abovementioned suppliers which have confirmed that they will not (i) forfeit the deposits or prepayment (as the case may be) paid by our Group; and (ii) file any legal claim against us for not being able to achieve the prescribed sales targets as stated in the distribution agreements entered with such suppliers. According to our PRC legal adviser, Commerce & Finance Law Offices, our Group will not be liable for any legal claim against us due to the non-fulfilment of the prescribed sales targets as set out in each of the confirmations.

As at the Latest Practicable Date, the Cefoxitin Sodium for Injection 0.5g (注射用頭孢西丁鈉0.5g) has fallen within the category of limited use under the Administrative Catalogue of the Clinical Use of Antibiotics of Zhejiang Province (2012 version) (浙江省抗菌藥物臨床應用分級管理目錄(2012版)) issued by Zhejiang Provincial Health Bureau on 19 July 2012 which led to the substantial decrease in sales of the product. Therefore, we have not renewed the distribution agreement with the supplier of such product after the expiration of the distribution agreement on 30 December 2012.

Our Directors confirmed that the other 3 suppliers have revised the sales targets based on mutual negotiations and commercial decisions. Our Directors further confirmed that, save as disclosed above, all the other 3 suppliers have not made any material change to the terms of the distribution agreements (including geographical regions, unit price, contract period) as a result of our failure to meet the relevant sales targets. As at the Latest Practicable Date, we are not able to evaluate whether the sales target imposed by those 3 suppliers will be reached as the sales target is considered as a full year basis as a whole.

Reduction of the reliance on our major suppliers

Our Directors have noticed the reliance on certain of our major suppliers during the Track Record Period. Our purchases from our top five suppliers for each of two years ended 31 December 2011 and 2012 and for the six months ended 30 June 2013 amounted to approximately HK$111.7 million, HK$125.9 million and HK$60.3 million, representing approximately 85.9%, 91.8% and 92.9%, respectively, of our total purchase during the corresponding years. Our Group has therefore intended to diversify our product portfolio and suppliers network in order to reduce the reliance on our major suppliers in the future. During the Track Record Period and as at the Latest Practicable Date, we identified and acquired 1 new product with exclusive national distribution right and 6 new types of products (including 8 specifications) with exclusive provincial distribution rights.

The following table sets forth details of the new distribution rights of products that our Group acquired during the Track Record Period and up to the Latest Practicable Date. All the products below are subject to the upcoming provincial collective tendering process:

	Name/ Nature of the relevant suppliers	Product name	Nature/ Purpose of usage	Prescription Drugs/ OTC drugs	Date of acquisition	Deposit as at the Latest Practicable Date	Contract expiry date	Distribution coverage	Type of exclusive distribution rights	Grade A/ Grade B under Medical Insurance Drugs Catalogs
1.	Lodays Pharmaceutical (Hubei) Co., Ltd (朗天藥業(湖北)有限公司)	Milrinone Lactate Injection (乳酸米力農注射液)	Treatment of cardiovascular illness	Prescription Drugs	6 January 2012	RMB1,000,000 *(Note 1)*	End of the next tender period	Zhejiang province	Exclusive provincial	Grade B
2.	Type 1 Supplier A	Sulbenicillin Sodium for Injection (注射用磺苄西林鈉)	Treatment of various infection arised from bacteria and virus	Prescription Drugs	1 July 2012	RMB8,000,000 *(Note 2)*	1 July 2013	National	Exclusive national	Grade B
3.	Guizhou Jingfeng Pharmaceutical Co., Ltd (貴州景峰醫藥有限公司)	Salviae Miltiorrhizae Liguspyragine Hydrochloride and Glucose Injection (參芎葡萄糖注射液)	Antiplatelet agents	Prescription Drugs	2 July 2012	RMB2,000,000 *(Note 3)*	31 December 2013	Zhejiang province	Exclusive provincial	Not entered yet
4.	Wuhan Lv Xue Pharmaceutical Development Co., Ltd (武漢綠雪醫藥發展有限公司)	Clostridium Butyricum Capsule 0.2g x 24 pcs 0.2g x 36 pcs (酪酸梭菌活菌膠囊)	Treatment of digestive system illness	Prescription and OTC Drugs	25 September 2012	No deposit is needed	End of the next tender period	Zhejiang province	Exclusive provincial	Grade B
5.	Beijing Haoyafangda Medicine Co., Ltd (北京浩雅方大醫藥有限公司)	Cervus and Cucumis Polypeptide for Injection (骨瓜提取物注射液)	Treatment of rheumatism	Prescription Drugs	21 January 2013	RMB500,000 *(Note 4)*	End of the next tender period	Zhejiang province	Exclusive provincial	Grade B
6.	Beijing Haoyafangda Medicine Co., Ltd (北京浩雅方大醫藥有限公司)	Desmopressin Acetate for Injection (醋酸去氨加壓素注射液)	Treatment of illness arise from urinary system	Prescription Drugs	28 April 2013	RMB500,000 *(Note 4)*	30 April 2014	Zhejiang province	Exclusive provincial	Grade B
7.	Jiangsu Baichang Pharmaceutical Co., Ltd (江蘇百暢醫藥有限公司) ("**Jiangsu Baichang**")	Kangfuxin Ye 30ml x 2 pcs 30ml x 4 pcs (康复新液)	Treatment of anti-viral infection	Prescription Drugs	In July 2013	RMB1,000,000 *(Note 5)*	30 June 2016	Zhejiang province	Exclusive provincial	Grade B

Notes:

1. All deposits shall be subject to deduction in proportion to the amount of the products which (i) did not meet the sales targets; and/or (ii) cannibalised the markets in other provinces. If our Group did not violate any terms as set out in the distribution agreements, deposits will be returned to us within one month upon the end of the distribution agreements.

2. All deposits shall be subject to deduction in proportion to the amount of the products which cannibalised the market in the other provinces. If our Group did not violate any terms as set out in the distribution agreement, deposits will be returned to us within the prescribed period of time.

3. The deposits of the amount of RMB1 million is for the commitment to the sales target, another RMB1 million is for guaranteeing to win in the up-coming provincial collective tendering process. If the product does not win in the up-coming provincial collective tendering process, the full amount of the deposits of an amount of RMB2 million will be confiscated.

4. (i) For the product, namely Cervus and Cucumis Polypeptide for Injection (骨瓜提取物注射液), the deposits of the amount of RMB300,000 is for guaranteeing to win in the up-coming provincial collective tendering process, another RMB100,000 is for the commitment to the sales target, another RMB50,000 is to prevent our Group to cannibalise the market in other provinces and the remaining of RMB50,000 is for developing the hospital network by a certain period of time. If the product does not win in the up-coming provincial collective tendering process or not succeed in developing the hospital network by a certain period of time, the amount of RMB300,000 and RMB50,000 will be confiscated, respectively. (ii) For another product, namely Desmopressin Acetate for Injection (醋酸去氨加壓素注射液), the deposits of the amount of RMB300,000 is for guaranteeing to win the up-coming provincial collective tendering process, another RMB100,000 is for the commitment of sales target and another RMB100,000 is to prevent our Group to cannibalise the market in other provinces. If the product does not win in the up-coming provincial collective tendering process and cannot meet the prescribed sales target, the amount of RMB300,000 and RMB100,000 will be confiscated, respectively.

5. The deposits of the amount of RMB1 million is for the commitment of the sales target. If our Group cannot meet the 60% of the sales target in three consecutive months, the full amount of deposits of an amount of RMB1 million will be confiscated.

Production and supply of the 1 new product with exclusive national distribution rights, namely, Sulbenicillin Sodium for Injection (注射用磺苄西林鈉) and 3 new types of products (including 4 specifications) with exclusive provincial distribution rights, namely, Milrinone Lactate Injection (乳酸米力農注射液) Salviae Miltiorrhizae Liguspyragine Hydrochloride and Glucose Injection (參芎葡萄糖注射液) and Clostridium butyricum Capsule 0.2g x 24 pieces and 0.2g x 36 pieces (酪酸梭菌活菌膠囊), only commenced in the late 2012, the sales of which have not been fully reflected on the financial performance of our Group. The supply and the distribution of the 3 new types of products (including 4 specifications) with exclusive provincial distribution rights, namely, Cervus and Cucumis Polypeptide for Injection (骨瓜提取物注射液), Desmopressin Accetate Injection (醋酸去氨加壓素注射液) and Kangfuxin Ye 30ml x 2 pieces and 30ml x 4 pieces (康复新液) have not commenced yet since the products were merely acquired in January, April and July 2013, respectively. Our Group anticipates that the supply and distribution will only commence after the up-coming provincial collective tendering process. The following table sets out the sales amount of the products under the newly acquired distribution rights described above for the year ended 31 December 2012, for the six months ended 30 June 2013 and for the period from 1 January 2013 to the Latest Practicable Date, respectively:

		Sales for the year ended 31 December 2012		Sales for the six months ended 30 June 2013		Sales for the period from 1 January 2013 to the Latest Practicable Date	
		HK$'000	*% of total revenue*	*HK$'000*	*% of total revenue*	*HK$'000*	*% of total revenue*
Product name							
1.	Milrinone Lactate Injection (乳酸米力農注射液)	46	0.03	167	0.2	323	0.3
2.	Sulbenicillin Sodium For Injection (注射用磺苄西林鈉)	642	0.37	4,012	4.8	6,722	5.3
3.	Salviae Miltiorrhizae Liguspyragine Hydrochloride and Glucose Injection (參芎葡萄糖注射液)	18	0.01	80	0.1	92	0.07
4.	Clostridium Butyricum Capsule 0.2g x 24 pcs 0.2g x 36 pcs (酪酸梭菌活菌膠囊)	1,679	0.96	2,860	3.4	4,378	3.5
Total:		**2,385**	**1.37**	**7,119**	**8.50**	**11,515**	**9.17**

As at the Latest Practicable Date, the sales of 2 of our 4 new products (including 3 specifications), namely, Sulbenicillin Sodium for Injection (注射用磺苄西林鈉) and Clostridium butyricum Capsule 0.2g x 24 pieces and 0.2g x 36 pieces (酪酸梭菌活菌膠囊), have increased significantly as the marketing activities and strategies for these new products have been successfully implemented. Since the commencement of the distribution of those new products, we have held certain marketing seminars to promote these new products to the targeted medical institutions and practitioners in collaboration with our suppliers.

As at the Latest Practicable Date, all of the 7 newly acquired distribution rights of products (including 9 specifications) are pending to participate in the upcoming provincial collective tendering process. As at the Latest Practicable Date, our Directors cannot confirm the exact date of the up-coming provincial collective tendering process that may be held in 2013 subject to further PRC government announcement. In addition, one of our 7 newly acquired distribution rights of products, namely, Salviae Miltiorrhizae Liguspyragine Hydchloride and Glucose Injection (參芎葡萄糖注射液), has not been included in the Medical Insurance Drug Catalogs yet. Therefore, such product is currently not entitled to any subsidy from the PRC government. Our Directors are of the view that once all of the 7 newly acquired products (including 9 specifications) have participated and won in the provincial collective tendering process and have been included in the Medical Insurance Drug Catalogs the sales of those products will be improved. During the Track Record Period, the sales generated from products which have won the provincial collective tendering process and included in the Medical Insurance Drugs Catalogs accounted for approximately 83.7%, 93.5% and 93.0% of our total revenue, respectively.

In addition, during the Track Record Period and as at the Latest Practicable Date, our Group has identified 1 product with exclusive provincial distribution right under the legally binding contract, of which we have not commenced any sales yet. The following table sets forth details of the legally binding contract that our Group made during the Track Record Period:

	Product Name	Nature/Purpose of usage	Date of entering into the legally binding contract with the suppliers	Distribution coverage	Deposit as at the Latest Practicable Date	Type of exclusive distribution rights (after obtain approvals)	Terms and current status
1.	Fasudil Hydrochloride Injection (鹽酸法舒地爾氯化鈉注射液)	Applied in treatment of cerebral related illness	16 August 2012	Zhejiang province	RMB 1,000,000	Exclusive provincial	Terms: Deposits will be returned to our Group in full if the pharmaceutical production permit (藥品生產許可證) cannot be obtained by 1 July 2014. Current status: Pending the grant of the pharmaceutical production permit

The abovementioned products which have been identified by our Group, namely Fasudil Hydrochloride Injection (鹽酸法舒地爾氯化鈉注射液), is currently pending the grant of the pharmaceutical production permit (藥品生產許可證) of the product acquired by the pharmaceutical manufacturer of the product. If such permit cannot be granted by 1 July 2014, all deposits shall be returned to our Group and such legally binding contract will be terminated immediately.

Our Directors are of the view that even though our Group fails to obtain pharmaceutical registration approval of the abovementioned product, it will not pose any adverse impact on the operation or financial performance of our Group as those deposits we have paid will be fully returned to our Group.

In the future, our Group will continue to diversify and strengthen our product portfolio and revenue stream through identifying and acquiring new distribution rights of products, which will hence allow our Group to reduce the reliance on our major suppliers.

Distribution agreements on our major products with our major suppliers

The following table sets forth details of the agreements with our Group's major suppliers by reference to its major products as at the Latest Practicable Date:

Name and Nature of Supplier	Major Products	Contract expiry date	Sales Target	Prepayment and deposit as at the Latest Practicable Date	Key terms
1. Zhongcheng Huida (Type 2 Supplier)	1. Cefodizime Sodium for Injection (注射用頭孢地嗪鈉) 2. Thoymosin α 1 for Injection (注射用胸腺法新) 3. Isepamicin Sulfate Injection (硫酸異帕米星注射液) 4. Alanyl Glutamine for Injection (注射用丙氨酰谷氨酰胺) 5. Ceftizoxime Sodium for Injection (注射用頭孢唑肟鈉)	31 December 2015	RMB50,000,000 per year	RMB7,020,000 of deposit and RMB5,002,000 of prepayment for purchase of product	– Credit period: No – Termination Clause: mutual agreement – Sales return: Allowed for quality issue – Product liability: Manufacturer – Distribution region: Zhejiang province and/or Shanghai
2. Kaihongxin (Type 2 Supplier)	Levocarnitine Injection (左卡尼汀注射液)	31 December 2015	1st year: RMB40,000,000 2nd year: RMB42,000,000 3rd year: RMB44,000,000	RMB6,143,000 of deposit and RMB15,430,000 of prepayment for purchase of product	– Credit period: No – Termination Clause: mutual agreement – Sales return: Allowed for quality issue – Product liability: Manufacturer – Distribution region: Zhejiang province
3. Type 1 Supplier A (Type 1 Supplier)	Sulbenicillin Sodium for Injection (注射用磺苄西林鈉)	30 June 2014	8,000,000 units	RMB8,000,000 of deposit and RMB19,000 of prepayment for purchase of product	– Credit period: 90 days – Termination Clause: mutual agreement – Sales return: Allowed for quality issue – Product liability: Manufacturer – Distribution region: National (except Liaoning province, Beijing, Fujian province, Guangxi province and Tibet)

Name and Nature of Supplier	Major Products	Contract expiry date	Sales Target	Prepayment and deposit as at the Latest Practicable Date	Key terms
4. Type 1 Supplier B (Type 1 Supplier)	Cefixime Dispersible Tablets (頭孢克肟分散片)	31 December 2013	1,380,000 units	RMB250,000 of deposit	– Credit period: No – Termination Clause: the agreement will be terminated if the Company cannot meet the sales target – Sales return: Allowed for quality issue – Product liability: Manufacturer – Distribution region: Zhejiang, Jiangxi, Anhui, Henan, Guangdong, Hebei, and Hubei provinces
5. Type 2 Supplier E (Type 2 Supplier)	Cefmenoxime Hydrochloride for Injection (注射用鹽酸頭孢甲肟)	30 August 2015	1st year: RMB2,506,500 2nd year: RMB5,200,000 3rd year: RMB6,240,000	RMB200,000 of deposit	– Credit period: No – Termination Clause: mutual agreement – Sales return: Allowed for quality issue within 15 days – Product liability: Manufacturer – Distribution region: Hebei, Jiangsu, Henan, Chongqing, Shaanxi, Liaoning, Heilongjiang, Hubei

Relationship with our suppliers

We believe that establishing a good relationship with our suppliers is one of the most critical elements to the success of our Group's pharmaceutical distribution business. We have built up good relationships with our suppliers over the years. Our senior management has been actively looking for new suppliers to strengthen our network of suppliers through referrals from the industry players and our existing suppliers, and participation in the industry exhibitions and conventions in the PRC. Our management team and our sales and marketing team liaise with the existing and potential suppliers to maintain the existing business and to explore further business opportunities.

It is difficult and not cost efficient for the pharmaceutical manufacturers and pharmaceutical companies in the PRC to set up distribution network on their own in every province of the PRC. As 46 of our suppliers are small to medium pharmaceutical manufacturers and pharmaceutical companies in the PRC and in order to enhance the value to such suppliers, our Group provides various value added services to our suppliers. For further details, please refer to the paragraph headed " (i) Value added services to our suppliers" under the sub-section headed "Our business model" under the section headed "Business" of this prospectus.

Product shortage from our suppliers during Track Record Period

(i) product shortage from Shenyang Meiluo

During the Track Record Period, one of our former suppliers, namely Shenyang Meiluo, which was the manufacturer of a product known as Sulbenicillin Sodium for Injection (注射用磺苄西林鈉) temporarily ceased to supply the aforesaid product to our Group in early 2011 due to its lack of financial resources to meet the then revised GMP standards of the PRC issued by the SFDA in January 2011. The original GMP certificate of Shenyang Meiluo expired on February 2011. Since the commencement of the supply of Sulbenicillin Sodium for Injection (注射用磺苄西林鈉) to our Group in 2010, the revenue contribution from the product to our Group had decreased from approximately 6.5% of our total revenue for the year ended 31 December 2011 to approximately 0.4% of our total revenue for the year ended 31 December 2012. The revenue contribution from the product has increased to approximately 4.8% of our total revenue for the six months ended 30 June 2013. Although Shenyang Meiluo ceased supplying such product in early 2011, the revenue of our Group was able to record an increase of approximately 0.4% and 9.6% during each of the years ended 31 December 2011 and 2012, respectively due to the diversification of our product portfolio.

In view that (a) the investment in the upgrade of the production facilities of Shenyang Meiluo in order to meet the revised GMP standard by SFDA in January 2011 was more than the amount our Group originally anticipated, which amounted to approximately RMB30,000,000 with reference to the upgrade of the production facilities conducted by Type 1 Supplier A in order to meet the revised GMP standards, and (b) the other 45% shareholder of Shenyang Meiluo has repeatedly refused making any such further investment in Shenyang Meiluo in order to meet the revised GMP standards, due to its lack of capital, the investment for the revised GMP standard in Shenyang Meiluo would be solely borne by our Group, our Directors considered that this would impose an immediate adverse impact on the financial position of our Group, and hence decided to sell the 45% shareholdings in Shenyang Miluo to Type 1 Supplier A which is a supplier located in Liaoning province, the PRC. In this relation, the Directors confirmed that our Group did not experience any quality issue concerning Sulbenicillin Sodium for Injection (注射用磺苄西林鈉) produced by Shenyang Meiluo that had caused it to be unable to meet the GMP standards during the Track Record Period and we did not receive any claim from our Distributor Customers or administrative penalty imposed by the government arisen from the quality issues concerning Sulbenicillin Sodium for Injection (注射用磺苄西林鈉).

Type 1 Supplier A has then become the controlling shareholder of Shenyang Meiluo after a further acquisition of 45% of its shares from our Group in January 2011. The consideration for disposal of 45% interest in Shenyang Meiluo was determined based on the previous investment cost of approximately RMB11,250,000 for the acquisition of 45% of Shenyang Meiluo as paid by our Group in 2010 and retained the national distribution right of Sulbenicillin Sodium for Injection (注射用磺苄西林鈉). Subsequent to the acquisition and the expiry of Shenyang Meiluo's GMP license, Type 1 Supplier A had acquired the GMP certificates in July 2012 and was able to commence the production of Sulbenicillin Sodium for Injection (注射用磺苄西林鈉). Pursuant to the tri-partite agreement entered into between Shenyang Meiluo, Type 1 Supplier A and our Group dated 1 July 2012, Type 1 Supplier A agreed that the exclusive national distribution rights of Sulbenicillin Sodium for Injection (注射用磺苄西林鈉) are retained by our Group; and all parties agreed that the deposits and prepayments originally paid to Shenyang Meiluo from our Group shall be transferred to Type 1 Supplier A as the deposits for supply of Sulbenicillin Sodium for Injection (注射用磺苄西林鈉). Type 1 Supplier A has resumed the production of the product in August 2012 and subsequently supply of the product since October 2012.

Given that (i) our Group, as the exclusive national distributor of Sulbenicillin Sodium for Injection (注射用磺苄西林鈉), has undertaken to purchase a certain amount of such product in accordance with the distribution agreement in order to secure the immediate supply to our Distributor Customers; and (ii) the supply of such product has just been resumed in October 2012, where the demand of such product from various provinces are still picking up after a long period of cessation of supply and various provincial collective tendering processes are still pending, our Group only purchased inventories below the prescribed minimum purchase target of 8,000,000 units per year by 30 June 2013, where our supplier has undertaken not to file any legal claim against us or confiscate our deposits paid to Type 1 Supplier A if the aforementioned minimum purchase target cannot be met. For the details on the subsequent sales of Sulbenicillin Sodium for injection (注射用磺苄西林鈉), please refer to sub-section headed "Inventories" under "Financial information" section.

Our Group has not claimed any relevant loss from Shenyang Meiluo in relation to the cessation of supply of the product due to (i) that the cessation of supply from Shenyang Meiluo was caused by its lack of financial resources to meet the then revised GMP standards of the PRC issued by the SFDA in January 2011; and (ii) the fact that Shenyang Meiluo had been one of our Group's associates and it was an understanding between our Group and Type 1 Supplier A that our Group would not make any claim against Shenyang Meiluo in relation to the cessation of supply of the product. During the Track Record Period, our Group, as the exclusive national distributor of Injection of Sulbenicillin Sodium (注射用磺苄西林鈉), terminated the business relationship with 4 of our Type 2 Distributor Customers before the expiration of the contract period due to the cessation of supply of the product. All of the 4 Type 2 Distributor Customers have undertaken to our Group that they will not file any legal claim against us in relation to the cessation of supply of the product. As confirmed by our Directors, our Group had not received any legal claim or complaint from our Distributor Customers nor received any administrative penalty in relation to the cessation of supply of the product during the Track Record Period and as at the Latest Practicable Date.

Sulbenicillin Sodium for Injection is pending to participate in the up-coming provincial collective tendering process in various provinces in the PRC. According to the Circular on Relevant Issues regarding the Acceleration of Implementing the Revised GMP to Promote the Upgrade of the Pharmaceutical Industry (關於加快實施新修訂藥品生產質量管理規範促進醫藥產業升級有關問題的通知) jointly issued by CFDA, NDRC, the Ministry of Industry and Information Technology of the PRC and NHFPC on 21 December 2012, during the up-coming provincial collective tendering process, the products which are manufactured by the pharmaceutical manufacturer which have complied and passed the revised GMP standards will have a relatively better chance to win as compared to the similar products which are manufactured by the manufacturer which have not satisfied the GMP standards yet. As the supplier of Sulbenicillin Sodium for Injection, namely Type 1 Supplier A has already satisfied the revised GMP standards, our Directors consider that such product will have a good chance to win in the up-coming provincial collective tendering process in multiple provinces in the PRC. In additions, the sales performance of such product has been substantially improved as at the Latest Practicable Date as described in the sub-section headed "Inventories" under the "Financial information" section as compared to the sales performance as at 31 December 2012. Our Directors are of the view that once the product has participated and won in the up-coming provincial collective tendering process in various provinces in the PRC, the sales performance of the product will be substantially boasted.

On 1 July 2013, we have entered into the supplemental distribution agreement with Type 1 Supplier A and the supplemental distribution agreement will expire on 30 June 2014 without a minimum purchase commitment.

(ii) product shortage from Kaihongxin

In February 2012, Kaihongxin informed our Group that since the manufacturer of a product, namely, Cefotaxime Sodium and Sulbactam Sodium for Injection 2.25g (注射用頭孢噻肟鈉舒巴坦鈉2.25g), was undergoing the upgrade process of its production facilities in order to meet the revised GMP standards of the PRC issued by the SFDA in January 2011, part of the operation of the manufacturer had been closed from February 2012 and it could not meet the original production schedule. The upgrade was initially targeted to be completed by February 2013 but the completion of such upgrade was subsequently delayed to April 2013. On 3 May 2013, Kaihongxin informed our Group that the production and the supply of the product would be gradually resumed by the end of May 2013. On 3 May 2013, Kaihongxin also undertook to our Group that we have an option to use the prepayment made for such product to pay off the prepayment of other products supplied by Kaihongxin for the equivalent amount. Our Group did not use the prepayment for such product to pay off the prepayment of other product supplied by Kaihongxin as our Directors have confidence in the future sales of the product and maintain its current distribution network of such product. On 24 May 2013, Kaihongxin has fully resumed the supply of the product and the first batch of the product arrived at our warehouse on the same day. Since the resumption of the supply of the product on 24 May 2013, the revenue contributed from the product has increased to approximately 0.9% of our total revenue for the six months ended 30 June 2013.

During the Track Record Period, the revenue contributed from Cefotaxime Sodium and Sulbactam Sodium for Injection 2.25g (注射用頭孢噻肟鈉舒巴坦鈉2.25g) had decreased from approximately 6.4% of our total revenue for the year ended 31 December 2011 to approximately 0.2% of our total revenue for the year ended 31 December 2012 and increased to approximately 0.9% of our total revenue for the six months ended 30 June 2013.

As at the Latest Practicable Date, production facilities of our suppliers and ultimate suppliers of certain of our major products had subject to the upgrade process in accordance with the GMP standards. As confirmed by those affected ultimate suppliers, the following table sets forth (i) the details for the affected major products and affected suppliers and ultimate suppliers; (ii) the revenue generated from such affected major products during the Track Record Period; and (iii) the status of the upgrade process of those affected ultimate suppliers and affected suppliers in accordance with the revised GMP standards.

Product Name	Name of Suppliers	For the year ended 31 December 2011		2012		For the six months ended 30 June 2013		Expiry date of the original GMP certificates	The deadline to meet the revised GMP standards	Status of the upgrade process in accordance with the revised GMP standards	Supply continuity
		HK$'000	*% of total revenue*	*HK$'000*	*% of total revenue*	*HK$'000*	*% of total revenue*				
1. Levocarnitine Injection (左卡尼汀注射液)	Kaihongxin (Type 2 supplier)	20,072	12.6	52,227	29.8	28,271	33.8	30 March 2013 *(Note 1)*	31 December 2013	upgrade process in accordance with the revised GMP standards has completed and has obtained the new GMP Certificate	The supply of the product will be continued
2. Cefodizime Sodium for Injection (注射用頭孢地嗪鈉)	Zhongcheng Huida (Type 2 Supplier)	12,760	8.0	18,287	10.4	6,854	8.2	19 January 2015 *(Note 2)*	31 December 2013	Passed the revised GMP standards and has obtained the new GMP Certificate	The supply of the product will be continued
3. Isepamicin Sulfate Injection (硫酸異帕米星注射液)	Zhongcheng Huida (Type 2 supplier)	13,136	8.2	10,015	5.7	5,698	6.8	31 December 2013	31 December 2013	Estimated to pass the revised GMP standards in December 2013	The supply of the product will be continued
4. Thoymosin α 1 for Injection (注射用胸腺法新)	Zhongcheng Huida (Type 2 supplier)	9,410	5.9	12,872	7.4	8,173	9.8	29 November 2014 *(Note 3)*	31 December 2013	Passed the revised GMP standards and has obtained the new GMP Certificate	The supply of the product will be continued
5. Alanyl Glutamine for Injection (注射用丙氨酰谷氨酰胺)	Zhongcheng Huida (Type 2 supplier)	4,580	2.9	9,217	5.3	4,319	5.2	11 July 2015	31 December 2013	Estimated to pass the revised GMP standards in October 2013	The supply of the product will be continued
6. Cefixime Dispersibkle Tablet (頭孢克肟分散片)	Type 1 Supplier B (Type 1 Supplier)	7,848	4.9	6,808	3.9	2,212	2.6	31 December 2015	31 December 2015	Production facilities are upgrading in accordance with the revised GMP standards	The supply of the product will be continued
Total		67,806	42.5	109,426	62.5	55,527	66.4				

Notes:

1. The new GMP Certificate for Levocarnitine Injection was issued on 3 September 2013 and is valid until 2 September 2018.

2. The new GMP Certificate for Cefodizime Sodium for Injection was issued on 7 May 2012 and is valid until 6 May 2017.

3. The new GMP Certificate for Thoymosin α 1 for Injection was issued on 28 June 2013 and is valid until 27 June 2018.

As advised by our PRC legal adviser, under the relevant PRC laws and regulations, the existing pharmaceutical manufacturers will have a certain transitional period, which requires manufacturing sterile pharmaceuticals such as blood/vaccine/injection products to comply with the revised GMP standards before 31 December 2013, and others before 31 December 2015. The enterprises which fail to meet the requirements under the revised GMP standards after the aforesaid transitional period will be prohibited from carrying out pharmaceutical manufacturing operations. In other words, the pharmaceutical manufacturers can conduct pharmaceutical manufacturing operations within the aforesaid transitional period, and therefore, it will not be illegal for the Group to sell products which have been manufactured within the transitional period by the pharmaceutical manufacturers. As the manufacturers of all of our affected major products have confirmed to us that they have satisfied the revised GMP standards or pending satisfaction of the revised GMP standards before 31 December 2013 (as the case may be) and our suppliers have confirmed to us that the supply of those affected major products will not be disrupted, our Directors are therefore of the view that the revised GMP standards will not pose an adverse impact on the business of our Group.

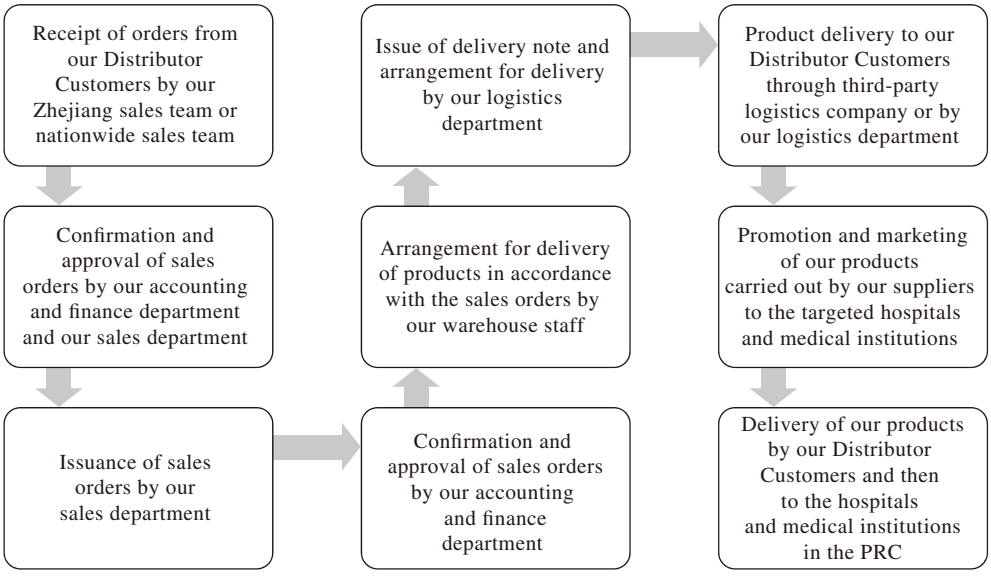
Our Directors are of the view that in order to mitigate the impact arisen from the change in the regulations governing the manufacturing of pharmaceutical products distributed by us, our Group has taken certain measures to mitigate the risks and to maintain our standard of inventory management. In this relation, our senior management of the Group will liaise with our suppliers regarding the impact brought by the change in the regulations on their operation of production facilities (or their ultimate suppliers' operation of production facilities), and our Group will request production and delivery schedule from the affected suppliers. With reference to our sales forecast of those affected products, we will then determine the purchase level to see if our Group needs to increase the inventory level after having taken into consideration such various factors, as the demand from our Distributor Customers, our prepayment and deposit paid to those affected suppliers. For further details, please refer to paragraph headed "Our inventory management" under the sub-section headed "Management of inventory procurement" under the section headed "Business".

Save as disclosed above, our Group had not experienced any material default and/or delay in receiving the supply from our major suppliers during the Track Record Period.

Phase 3 – Sales and distributions of products to our Distributor Customers

Upon acquisition of distribution rights of products and completion of the procurement process of our products, we sell all our pharmaceutical products through our Distributor Customers in the PRC. As at the Latest Practicable Date, our Group had a network of 117 Distributor Customers in the PRC and none of these Distributor Customers has been granted with any distribution rights of the products we distribute from suppliers and any of such Distributor Customers which is interested in distributing the relevant product(s) is required to acquire the relevant distribution rights from our Group. Once our Distributor Customers have acquired the distribution rights of our products, our Distributor Customers will then distribute and on-sell our products to their sub-distributors and/or ultimate customers, which mainly comprise hospitals and medical institutions in the PRC in accordance with the geographical exclusivity of our products. We are not a party to the contracts entered into between our Distributor Customers and such hospitals or medical institutions in relation to the onward sale of our products. It is a common practice in the PRC among domestic pharmaceutical companies to sell pharmaceutical and healthcare products to distributors, who then on-sell such products to the hospitals and medical institutions in the PRC in accordance with the geographical exclusivity of the products.

The following flowchart sets out the main procedures of a whole distribution process from our warehouse to the ultimate customers through our Distributor Customers:



Our Distributor Customers

We have established good relationship with our Distributor Customers, and have built up our business relationship with 3 of our top five Distributor Customers since the commencement of our pharmaceutical distribution business. Our Distributor Customers are principally responsible for procuring the product from us and assisting us in overseeing the operations of our distribution network. We distribute products only to our Distributor Customers, which, in turn, distribute and on-sell to the sub-distributor customers and/or ultimate customers. We select our Distributor Customers based on their reputation, financial ability, credit record, market coverage and the scale of their distribution network. To the best of knowledge of our Directors, our Distributor Customers are Independent Third Parties. The relationship between our Distributor Customers and us is a buyer-seller relationship.

During the Track Record Period, we had three main types of Distributor Customers as follows:

(i) Distributor Customers which obtained exclusive provincial distribution rights from us and mainly provided logistics functions for us, to distribute our pharmaceutical products to the ultimate customers directly in the designated geographical areas ("**Type 1 Distributor Customers**");

(ii) Distributor Customers which obtained exclusive provincial or regional distribution rights from us and then distributed the products to the ultimate customers through their sub-distributor customers in the designated geographical areas ("**Type 2 Distributor Customers**"); and

(iii) Distributor Customers (including direct sales customers) which mainly comprised local distributors, independent retail pharmacies, hospitals and healthcare institutions ("**Type 3 Distributor Customers**").

To the knowledge of our Directors, our Distributor Customers are Independent Third Parties.

The following table sets out the major differences between three types of our Distributor Customers:

	Type 1 Distributor Customers	Type 2 Distributor Customers	Type 3 Distributor Customers
Nature of the Distributor Customers	Distributor Customers which mainly provide logistics functions and distribute our products to the ultimate customers directly in the designated geographical regions	Distributor Customers which do not provide any logistics function and only on-sell the products to sub-distributor customers in the designated geographical regions	Distributor Customers which have no exclusive distribution rights and are mainly local distributors, independent retail pharmacies, hospitals and healthcare institutions
Nature of distribution rights granted by our Group	Exclusive provincial or regional distribution rights (which mainly provide logistics services)	Exclusive provincial or regional distribution rights (which do not provide any logistics services)	No distribution rights
Product exclusivity from our Group	Yes	Yes	No
Region exclusivity from our Group	Yes	Yes	No
Deposits and Prepayments	No	Yes	No
Major Products (as at the Latest Practicable Date)	Levocarnitine Injection (左卡尼汀注射液)	Sulbenicillin Sodium for Injection (注射用磺苄西林鈉)	Thymosin α1 for Injection (注射用胸腺法新)
	Cefodizime Sodium for Injection (注射用頭孢地嗪鈉)	Mezlocillin Sodium and Sulbactam Sodium for Injection (注射用美洛西林鈉舒巴坦鈉)	
	Isepamicin Sulfate Injection (硫酸異帕米星注射液)	Cefprozil Capsules (頭孢丙烯膠囊)	
	Alanyl Glutamine for Injection (注射用丙氨酰谷氨酰胺)	Cefixime Dispersible Tablet (頭孢克肟分散片)	
Major Distributor Customers	Zheda Yuanzheng/ Huadong Medicine Pharma/Ningbo Pharma/Zhejiang Intec	Guangdong Nuobang Pharmaceutical Co. Ltd. (廣東諾邦藥業有限公司)	Type 3 Distributor Customer A
Type of Sub-distributor Customers	Not applicable, with distribution to ultimate customers directly	Multi-layer sub-distributor customers in the designated geographical region	Not applicable, with distribution to ultimate customers directly

	Type 1 Distributor Customers	Type 2 Distributor Customers	Type 3 Distributor Customers
Type of ultimate customers	Public and private hospitals and medical institutions in Shanghai and Zhejiang province of the PRC	Public and private hospitals in various provinces and regions in the PRC	Consumers of pharmaceutical products in the PRC
Geographical coverage (As at the latest Practicable Date)	Designated hospitals in Zhejiang province and Shanghai	Various provinces in the PRC depending on the geographical coverage under the distribution agreements	No limitations
Credit period	30-90 days	30-90 days	30-90 days
Provide marketing strategies and activities in the product distributed by this type of Distributor Customers	Yes	No	No

Selection of our Distributor Customers

We have adopted an approach on the selection and assessment of our potential Distributor Customers prior to granting new distribution rights of products to them, and we continue to assess our existing Distributor Customers annually. We have set out certain criteria for the assessment of the potential and existing Distributor Customers as follows:

(i) the potential Type 1 Distributor Customers and Type 2 Distributor Customers are required to submit pharmaceutical operation permit (藥品經營許可證) and certificate of GSP for pharmaceutical products (藥品經營質量管理規範認證證書) for our review;

(ii) the management of our Group will assess the potential Distributor Customers with reference to their operation scale, reputation, distribution network, coverage, logistical capabilities, location of the warehouse, quality standard and financial performance;

(iii) the management of our Group review the historical financial performance of the potential major Distributor Customers and our existing major Distributor Customers;

(iv) our Group appoints an independent search agency to conduct a background search on the potential Distributor Customers (with their previous annual revenue of more than RMB2,000,000) prior to the engagement, and to conduct background search on our top 10 Distributor Customers every year afterwards; and

(v) our Group will conduct an annual appraisal of our Distributor Customers in order to review (a) the performance of the Distributor Customers; and (b) the financial performance of the Distributor Customers during the preceding year. If the

Distributor Customers have not performed satisfactorily over the preceding year or the financial performance of such Distributor Customers appears to be deteriorating, our Group has the discretion to reduce the transaction volume or even terminate the business relationship with the Distributor Customers.

The table below sets out our revenue generated from each type of our Distributor Customers for each of the two years ended 31 December 2011 and 2012 and for the six months ended 30 June 2012 and 2013:

	Year ended 31 December				Six months ended 30 June			
	2011		2012		2012		2013	
	HK$'000	*% of revenue*	*HK$'000*	*% of revenue*	*HK$'000* (Unaudited)	*% of revenue*	*HK$'000*	*% of revenue*
Type 1 Distributor Customers	117,532	73.6	153,134	87.5	78,648	87.5	76,139	91.0
Type 2 Distributor Customers	26,462	16.6	8,408	4.8	4,186	4.7	2,066	2.5
Type 3 Distributor Customers	15,692	9.8	13,500	7.7	6,994	7.8	5,467	6.5
Total	**159,686**	**100.0**	**175,042**	**100.0**	**89,828**	**100.0**	**83,672**	**100.0**

(i) Type 1 Distributor Customers

For each of the two years ended 31 December 2011 and 2012 and the six months ended 30 June 2013, the revenue generated from our Type 1 Distributor Customers was approximately 73.6%, 87.5% and 91.0%, respectively, of our Group's total revenue. Our Directors consider that our Type 1 Distributor Customers generated the largest proportion of our Group's total revenue due to the increase in sales of certain of our major products such as Levocarnitine Injection (左卡尼汀注射液), Cefodizime Sodium for Injection (注射用頭孢地嗪鈉), Isepamicin Sulfate Injection (硫酸異帕米星注射液) and Alanyl Glutamine for Injection (注射用丙氨酰谷氨酰胺).

Our Type 1 Distributor Customers comprise national, provincial and regional distribution operation providers and only distribute our products directly to the hospitals and other medical institutions, which are the ultimate customers in the designated geographical region(s). Some of them were our major Distributor Customers during the Track Record Period such as Zheda Yuanzheng, Huadong Medicine Pharma, Ningbo Pharma and Zhejiang Intec. All the products under the distribution agreements we entered into with the Type 1 Distributor Customers are on a regional and product exclusive basis. Our Type 1 Distributor Customers are responsible for distributing our products directly to the hospitals and medical institutions in regions including but not limited to Sichuan province, Shanghai and Zhejiang province of the PRC. These were all ultimate customers of our products during the Track Record Period.

We allow our Type 1 Distributor Customers in the designated geographical region to distribute the same product to different public hospitals and other medical institutions in accordance with the procurement process for those public hospitals and other medical institutions. The public hospitals and other medical institutions will not procure any of the same products from different Type 1 Distributor Customers at the same time.

(ii) Type 2 Distributor Customers

For each of the two years ended 31 December 2011 and 2012 and for the six months ended 30 June 2013, the revenue generated from our Type 2 Distributor Customers was approximately 16.6%, 4.8% and 2.5%, respectively, of our Group's total revenue. Such a substantial decrease in the revenue generated from the Type 2 Distributor Customers for the two years ended 31 December 2012 and for the six months ended 30 June 2013 was due to the following issues:

(i) the cessation of supply of a product, namely, Sulbenicillin Sodium (注射用磺苄西林鈉), from February 2011 to August 2012 with details of the decrease in the sales of Injection for Sulbenicillin Sodium (注射用磺苄西林鈉) due to the cessation of supply set out in the sub-paragraph headed "Product shortage from Shenyang Meiluo" under the paragraph headed "Product shortage from our suppliers during Track Record Period" under the "Business" section;

(ii) one of our products, namely, Mezlocillin Sodium and Sulbactam Sodium for Injection (注射用美洛西林鈉舒巴坦鈉), was sold at a higher price with larger sale volume to the Type 1 Distributor Customers, instead of selling such product to the Type 2 Distributor Customers within Zhejiang province during the year ended 31 December 2012;

(iii) the cessation of supply of one of our products, namely Cefotaxime Sodium and Sulbactam Sodium for Injection 2.25g (注射用頭孢噻肟舒巴坦鈉2.25 g) since February 2012, with details of the decrease in the sales of Cefotaxime Sodium and Sulbactam Sodium for Injection 2.25g (注射用頭孢噻肟鈉舒巴坦鈉2.25g) in 2012 set out in the sub-paragraph headed "Product shortage from Kaihongxin" under the paragraph headed "Product shortage from our suppliers during Track Record Period" under the "Business" section;

(iv) the cessation of one of our products, namely, Cefotaxime Sodium and Sulbactam Sodium for Injection 1.5g (注射用頭孢噻肟鈉舒巴坦鈉1.5g) during 2012 since we could not renew the contract with the supplier due to the changes in the shareholding of that supplier; and

(v) the decrease in the sales of two of our products, namely, Ozagrel Sodium for Injection (注射用奥扎格雷鈉) of 80mg, 40mg and 20mg specifications as the profitability of the products was limited after several price controls, and Cefoxitin Sodium for Injection (注射用頭孢西丁鈉) has fallen within the category of limited use under the Administrative Catalogue of the Clinical Use of Antibiotics of Zhejiang Province (2012 version) (浙江省抗菌藥物臨床應用分級管理目錄(2012版)) issued by Zhejiang Provincial Health Bureau on 19 July 2012, which has in fact affected the sales performance of both products for the six months ended 30 June 2013.

All the products under the distribution agreements we entered into with our Type 2 Distributor Customers are on the basis of provincial and product exclusivity. Our Group, as the national distributor of the products, grants the exclusive provincial distribution rights to our Type 2 Distributor Customers.

(iii) Type 3 Distributor Customers

For each of the two years ended 31 December 2011 and 2012 and for the six months ended 30 June 2013, the revenue generated from our Type 3 Distributor Customers was approximately 9.8%, 7.7% and 6.5%, respectively, of our Group's total revenue. Our Type 3 Distributor Customers mainly comprised local distributors, independent retail pharmacies, hospitals and healthcare institutions. We do not enter into any distribution agreement with or grant any distribution rights to our Type 3 Distributor Customers. We generally do not have any control over our Type 3 Distributor Customers.

Prevention of competition and cannibalisation among our Distributor Customers

We have adopted the following measures to prevent competition and cannibalisation among our Distributor Customers:

(i) we generally evaluate the demand for our pharmaceutical products in the target market, the market coverage and the distribution network of our Distributor Customers in the target market during the selection process of our Distributor Customers before we enter into distribution agreements with them. We only enter into a distribution agreement of a product with a Distributor Customer in a region where such product is not currently distributed by any of our Distributor Customers. It is our practice not to allow a product to be distributed by more than one Distributor Customer in the same region;

(ii) we will terminate our relationship with our Type 1 Distributor Customers and Type 2 Distributor Customers if they have been found cannibalising any of the designated market to which other distributors are located;

(iii) we have been maintaining communications with our Distributor Customers regarding the cannibalisation issue. In this connection, we will, from time to time, communicate with our Type 1 Distributor Customers and Type 2 Distributor Customers in order to exchange information regarding the cannibalisation issue in our sales and distribution network; and

(iv) we are entitled to request our Type 1 Distributor Customers and Type 2 Distributor Customers to indemnify our loss as a result of any cannibalisation, where each of our products is attached with a tracking code which enables our Group and our Distributor Customers to trace the origination and the designated regions of our products. If we find out, or our Distributor Customers report to us, that our products has been sold in region(s) other than its designated region, our Group will identify such Distributor Customers who cannibalise the other Distributor Customers' market(s) and will request such Distributor Customers to indemnify our loss as a result of such cannibalisation.

During the Track Record Period, we did not experience any act of cannibalisation committed by our Distributor Customers in our sales and distribution network.

Movement of our Distributor Customers

Particulars relating to the change of our Distributor Customers during the Track Record Period are stated in the table below:

	Commencement of the financial year	Number of new engagements	Number of terminations	End of the financial year
As at 31 December 2011				
– Type 1 Distributor Customers	25	5	5	25
– Type 2 Distributor Customers	24	3	11	16
– Type 3 Distributor Customers	213	44	92	165
As at 31 December 2012				
– Type 1 Distributor Customers	25	14	5	34
– Type 2 Distributor Customers	16	5	4	17
– Type 3 Distributor Customers	165	32	70	127
As at 30 June 2013				
– Type 1 Distributor Customers	34	2	2	34
– Type 2 Distributor Customers	17	1	6	12
– Type 3 Distributor Customers	127	10	69	68

Our Directors consider that the terminations with our Distributor Customers as indicated in the table above do not pose any adverse impact on our business and operations of our Group due to the following reasons:

- The number of Type 1 Distributor Customers was 25, 34 and 34, respectively, for each of the two years ended 31 December 2011 and 2012 and for the six months ended 30 June 2013. Despite the fact that there were 12 terminations of Type 1 Distributor Customers during the Track Record Period due to the expiry of the distribution agreements with those Type 1 Distributor Customers without renewal, it was followed by 21 new engagements during the same period;

- The number of Type 2 Distributor Customers was 16, 17 and 12, respectively, for each of the two years ended 31 December 2011 and 2012 and for the six months ended 30 June 2013. We subsequently obtained 9 new engagements during the same period as a result of obtaining new exclusive distribution rights of pharmaceutical products. There were 21 terminations of Type 2 Distributor Customers during the Track Record Period: (i) 4 out of 21 terminations were due to the cessation of supply of the Injection for Sulbenicillin Sodium (注射用磺苄西林鈉) by Sheyang Meiluo from the early 2011 to August 2012 as the production facilities did not meet the revised GMP standards, which led to expiration of its GMP certificate, (ii) 1 out of 21 terminations was due to the unsatisfactory sales of Sulbenicillin Sodium for Injection (注射用磺苄西林鈉) after the resumption of sales in October 2012 which led to termination of distribution agreement by such Type 2 Distributor Customer; (iii) 2 out of 21 terminations were due to the withdrawal of winning bid of Cefmenoxime Hydrochloride for Injection (注射用鹽酸頭孢甲肟) due to the price of successful tender in some provinces being lower than the production cost of the product; (iv) 2 out of 21 terminations were due to one of our products, namely Cefmenoxime Hydrochloride for Injection (注射用鹽酸頭孢甲肟) having fallen within the category of limited use

under the Administrative Catalogue of the Clinical Use of Antibiotics of Zhejiang Province (2012 version) (浙江省抗菌藥物臨床應用分級管理目錄(2012版)) issued by Zhejiang Provincial Health Bureau on 19 July 2012, which has led to a substantial decrease in the sales attributed to those Type 2 Distributor Customers; and (v) 12 out of 21 terminations were due to the expiration of the distribution agreements with those Type 2 Distributor Customers without renewal. As confirmed by our Directors, our Group did not renew with those Distributor Customers in view of their unsatisfactory performance during the contract period and the disagreement on the terms with certain of our Distributor Customers and hence has decided not to renew the distribution agreements with those Distributor Customers, the revenue generated from those Type 2 Distributor Customers did not form a substantial portion of the Group's total revenue and only accounted for approximately 16.6%, 4.8% and 2.5%, respectively, for the corresponding periods; and

- The number of Type 3 Distributor Customers was 165, 127 and 68, respectively, for each of the two years ended 31 December 2011 and 2012 and for the six months ended 30 June 2013. There were 231 terminations of Type 3 Distributor Customers during the Track Record Period. The main reason is that Type 3 Distributor Customers are the direct purchase customers of our products and that our Group does not grant exclusive distribution rights to our Type 3 Distributor Customers, whose all purchases of our products from those Type 3 Distributor Customers are only on an one-off basis. Our Group cannot guarantee or secure those Type 3 Distributor Customers to procure our products in a longer term.

  In view that (i) the revenue generated from the Type 3 Distributor Customers was not stable during the Track Record Period; (ii) the revenue generated from the Type 3 Distributor Customers was less than those from Type 1 Distributor Customers; and (iii) it is difficult for our Group to manage and monitor the sales performance of those Type 3 Distributor Customers due to their smaller scale of operation, we intend to concentrate on strengthening the business relationships with our Type 1 Distributor Customers and Type 2 Distributor Customers and will gradually reduce the number of Type 3 Distributor Customers in the future.

Our Directors believe that it is more cost effective to concentrate our Group's resources on Type 1 Distributor Customers and Type 2 Distributor Customers. Revenue generated from Type 3 Distributor Customers accounted for approximately 9.8%, 7.7% and 6.5% of the total revenue of the Group for each of two years ended 31 December 2011 and 2012 and for the six months ended 30 June 2013, respectively. Our Directors are of the view that the proposed decline in business transactions with Type 3 Distributor Customers will not affect (i) our Group's business and operations, nor (ii) increase our Group's reliance on our top five Distributor Customers as the Group intends to diversify the customer base of Type 1 Distributor Customers and Type 2 Distributor Customers.

Our major Distributor Customers during the Track Record Period

The following table sets forth our sales from our major Distributor Customers for each of the two years ended 31 December 2011 and 2012 and for the six months ended 30 June 2012 and 2013:

	For the year ended 31 December				Six months ended 30 June			
	2011		2012		2012		2013	
	HK$'000	*% of sales*	*HK$'000*	*% of sales*	*HK$'000* (Unaudited)	*% of sales*	*HK$'000*	*% of sales*
1. Zheda Yuanzheng	12,983	8.1	40,289	23.0	21,434	23.9	21,594	25.8
2. Huadong Medicine Pharma	39,793	24.9	37,478	21.4	21,123	23.5	13,336	15.9
3. Ningbo Pharma	16,190	10.1	19,001	10.9	9,166	10.2	8,905	10.6
4. Type 3 Distributor Customer A	2,992	1.9	13,547	7.7	5,989	6.7	9,255	11.1
5. Zhejiang Intec	11,964	7.5	11,102	6.3	5,556	6.2	6,214	7.5
Sub-total	**83,922**	**52.5**	**121,417**	**69.3**	**63,268**	**70.5**	**59,304**	**70.9**

1. Zhejiang Zheda Yuanzheng Medicine Co., Ltd (浙江浙大圓正醫藥有限公司) ("Zheda Yuanzheng")

Zheda Yuanzheng is a pharmaceutical distribution operation provider, formerly known as Zhejiang University Medical Technology Enterprise (浙江大學醫學科技實驗公司), which was established in 2005. The major shareholders of Zheda Yuanzheng comprise three individual shareholders. Zheda Yuanzheng is principally engaged in distribution and trading of pharmaceutical products. Zheda Yuanzheng is located in Hanzghou, Zhejiang province, the PRC. Our Group started the business relationship with Zheda Yuanzheng since 2011. Zheda Yuanzheng was our Type 1 Distributor Customer during the Track Record Period.

2. Huadong Medicine Co., Ltd (Pharmaceutical sub-branch) (華東醫藥股份有限公司藥品分公司) ("Huadong Medicine Pharma")

Huadong Medicine Pharma is a subsidiary of a state-owned enterprise which is a comprehensive pharmaceutical enterprise which is involved in developing, manufacture, trading and distribution of pharmaceutical products. Our Group started the business relationship with Huadong Medicine Pharma since 2008. Huadong Medicine Pharma was our Type 1 Distributor Customer during the Track Record Period.

3. Ningbo Pharmaceutical Co., Ltd. (寧波醫藥股份有限公司) ("Ningbo Pharma")

Ningbo Pharma is a subsidiary of a pharmaceutical enterprise which is listed on both the Shanghai Stock Exchange and the Stock Exchange, Ningbo Pharma was incorporated in 1994, and is principally engaged in sales of pharmaceutical products including chemical formulations and preparations, antibiotics, biochemical drugs, Chinese patent medicine and dosage forms. Ningbo Pharma is headquartered in Ningbo, Zhejiang province, the PRC. Our Group started the business relationship with Ningbo Pharma since 2009. Ningbo Pharma was our Type 1 Distributor Customer during the Track Record Period.

4. Type 3 Distributor Customer A

Type 3 Distributor Customer A is a state-owned H-share company listed on the Stock Exchange. Type 3 Distributor Customer A is a provider of supply chain services for pharmaceutical and healthcare products and operates the national pharmaceutical distribution network in China. Our Group started the business relationship with Type 3 Distributor Customer A since 2008. Type 3 Distributor Customer A was our Type 3 Distributor Customer during the Track Record Period.

5. Zhejiang Intec Medicine Co., Ltd. (浙江英特藥業有限責任公司) ("Zhejiang Intec")

Zhejiang Intec is a subsidiary of a state-owned company listed on the Shenzhen Stock Exchange. The three main businesses of Zhejiang Intec consist of drugs distribution, manufacture of Chinese medicine and trading of bio-medical devices. Our Group started the business relationship with Zhejiang Intec since 2008. Zhejiang Intec was our Type 1 Distributor Customer during the Track Record Period.

For detailed terms of distribution agreements on our major products with the abovementioned major Distributor Customers, please refer to the paragraph headed "Distribution agreements on our major products with our major Distributor Customers" under the sub-section headed "Phase 3 – Sales and distribution of products to our Distributor Customers" under the "Business" section of this prospectus.

None of the Directors, their respective associates, or, to the knowledge of the Directors, Shareholders who will own more than 5% of the issued share capital of the Company immediately following the Placing had any interests in any of the abovementioned major Distributor Customers of our Group during the Track Record Period and they are all Independent Third Parties to the Company.

During the Track Record Period and as at the Latest Practicable Date, our Group was not involved in any dispute, legal claim and litigation with our major Distributor Customers.

Distribution Agreements on our major products with our major Distributor Customers

The following table sets forth details of the agreements with out Group's major Distributor Customers with reference to its major products as at the Latest Practicable Date:

Distributor Customers	Major Products	Contract Expiry Date	Credit terms	Key terms
1. Zheda Yuanzheng (Type 1 Distributor Customer)	Levocarnitine Injection (左卡尼汀注射液)	Until the commencement of the next provincial collective tendering process of the product which will be announced by the government of the PRC	60 days upon delivery of product	– Termination Clause: mutual agreement – Sales return: Allowed for quality issue during the 3-days inspection period – Product liability: Manufacturer – Distribution Region: Zhejiang province

Distributor Customers	Major Products	Contract Expiry Date	Credit terms	Key terms
2. Huadong Medicine Pharma (Type 1 Distributor Customer)	1. Levocarnitine Injection (左卡尼汀注射液) 2. Ozagrel of Sodium for Injection (注射用奥紮格雷鈉) 3. Cefodizime Sodium for Injection (注射用頭孢地嗪鈉) 4. Isepamicin Sulfate Injection (硫酸異帕米星注射液)	Until the commencement of the next provincial collective tendering process of the product which will be announced by the government of the PRC	45 days upon delivery of product	– Termination Clause: mutual agreement – Sales return: Allowed for quality issue during the 3-days inspection period – Product liability: Manufacturer – Distribution Region: Zhejiang province
3. Ningbo Pharma (Type 1 Distributor Customer)	1. Ozagrel of Sodium for Injection (注射用奥紮格雷鈉) 2. Alanyl Glutamine for Injection (注射用丙氨酰谷氨酰胺) 3. Levocarnitine Injection (左卡尼汀注射液)	Until the commencement of the next provincial collective tendering process of the product which will be announced by the government of the PRC	45 days upon delivery of product	– Termination Clause: mutual agreement – Sales return: Allowed for quality issue during the 3-days inspection period – Product liability: Manufacturer – Distribution Region: Ningbo city
4. Type 3 Distributor Customer A (Type 3 Distributor Customer)	Thymosin α1 for Injection (注射用胸腺法新)	No expiry period it is only our Type 3 Distributor Customers	90 days upon delivery of product	– Payment method: Bank acceptance bills – Delivery method: Road – Delivery expenses: Paid by our Group
5. Zhejiang Intec (Type 1 Distributor Customer)	1. Levocarnitine Injection (左卡尼汀注射液) 2. Isepamicin Sulfate Injection (硫酸異帕米星注射液)	Until the commencement of the next provincial collective tendering process of the product which will be announced by the government of the PRC	45 days upon delivery of product	– Termination Clause: mutual agreement – Sales return: Allowed for quality issue during the 3-days inspection period – Product liability: Manufacturer – Distribution Region: Zhejiang province

Sales and Distribution Agreements

Whereas we do not enter into any distribution agreement with Type 3 Distributor Customers, we normally enter into distribution agreements with our Type 1 Distributor Customers and Type 2 Distributor Customers for a term ranging from one year to two years, which may depend on the tender period of the relevant pharmaceutical product(s).

The major provisions of the distribution agreements entered into between our Group and such Distributor Customers are set out as below:

(a) Geographical exclusivity

We authorise our Type 1 and Type 2 Distributor Customers to sell our products only within the designated geographical area(s) or specified distribution channel(s).

(b) Sales target

Our Type 1 and Type 2 Distributor Customers usually undertake a prescribed sales target based on their capabilities. We do not impose any sales target on our Type 3 Distributor Customers.

(c) Price

The price of the products supplied to our Distributor Customers as prescribed in the distribution agreements is determinate based on mutual commercial negotiations between our Group and our Distributor Customers. For further details, please refer to the sub-section headed "Pricing policy" under the "Business" section in this prospectus.

(d) Obligations

The respective obligations of our Group and our Distributor Customers were set out in the distribution agreements. For further details, please refer to the sub-section headed "Principal obligations of our Group and our Distributor Customers" under the "Business" section in this prospectus.

(e) Payment and credit terms

We request our Distributor Customers to settle the payment through telegraphic transfer or bank acceptance bill. For further details, please refer to the paragraph headed "Credit policy" under the sub-section headed "Credit policy and sales returns" under the "Business" section in this prospectus.

(f) Sales returns

We accept sales returns from our Distributor Customers under certain circumstances prescribed in the distribution agreements. For further details, please refer to the paragraph headed "Sales returns" under sub-section headed "Credit policy and sales returns" under the "Business" section in this prospectus.

(g) Duration

The terms of the agreements range from one year to two years, which may depend on the tender period of the relevant pharmaceutical product(s). Either party may terminate the distribution agreements as a result of any material breach by the other party.

(h) Sales and inventory information and estimates

We are entitled to request our Type 1 Distributor Customers and Type 2 Distributor Customers, and such Distributor Customers are obligated to report to us the information in relation to the sales performance, the inventory level and the sales estimation on a monthly basis. However we cannot request our Type 3 Distributor Customers to provide their sales performance and inventory level as no distribution agreements were signed and, accordingly, we have no control over our Type 3 Distributor Customers.

According to the distribution agreements, our Distributor Customers are liable for any breach of the relevant distribution agreements and are responsible for indemnifying our Group for damages as a result of such breach. The standard distribution agreements set out the rights of our Group to terminate the distribution right with the Distributor Customers and to seek indemnity from them if they are found to be in breach of certain terms of the agreements, such as cannibalisation or violation of any laws and regulations.

Our Directors confirm that our Group was not aware of any material breaches of distribution agreements by any of its Distributor Customers during the Track Record Period. The distribution agreements do not contain any automatic renewal clause. However, the distribution agreement may be renewed by mutual agreements between our Group and our Distributor Customers with reference to the sales price, credit terms, delivery or even sales target and logistics details for the delivery of the products of the Group.

All those distribution agreements entered into between our Group and our Distributor Customers are legally-binding in accordance with the relevant laws under the jurisdiction of the PRC.

Principal obligations of our Group and our Distributor Customers

The respective duties and obligations of the Group and each Distributor Customer pursuant to the distribution agreement include the following:

(i) the Group is required to (i) supply the products to the Distributor Customer in accordance with the schedules and guarantee the quality standards of the products distributed to the Distributor Customers; (ii) monitor the sales performance of the Distributor Customers constantly; (iii) supply all the necessary marketing or promotional materials to the Distributor Customers provided by our suppliers; and/or (iv) handle all matters in relation to the quality of the products and settle any miscellaneous costs so incurred.

(ii) the Distributor Customer is required to (i) conduct all the sales activities in the designated geographical area(s); (ii) oversee the sales performance of the sub-distributor customers (for Type 2 Distributor Customers); (iii) cooperate with the Group to conduct the marketing and promotional activities; and (iv) cooperate with the Group on administration, quality controlling, pricing and provincial collective tendering in the designated geographical area(s) for which the Distributor Customers are responsible.

Relationship with Distributor Customers

We believe that establishing a good relationship with our Distributor Customers is equally as important as establishing a good relationship with our suppliers. We have built up our distribution network through maintaining a good relationship with our Distributor Customers over the years. Our senior management has been actively looking for new and appropriate Distributor Customers which fit our Group's strategy to broaden our distribution network in the PRC.

Our Directors are of the view that our Group and our Distributor Customers are complementary to each other rather than being involved in any sort of competition. By utilising our expertise and ability to identify, source and acquire products with market potential from small to medium pharmaceutical manufacturers or pharmaceutical companies throughout the PRC, our Group will be able to provide a platform for our Distributor Customers to source different products without bearing any sales or purchase commitments. Also, our Group, leveraging on the management's experience in sales and marketing strategy, can provide marketing resources to our Distributor Customers. In turn, as most of our Distributor Customers are distributors mainly providing logistics services, our Group will be benefited from the comprehensive logistics infrastructure and solutions that they provide. For further details, please refer to the paragraph headed "We are able to provide different value added services to our suppliers and Distributor Customers with our market knowledge and network in Zhejiang province" under the sub-section headed "Our competitive strengths" under the section headed "Business" of this prospectus.

Our management team and our sales team communicate with our Distributor Customers to improve our sales performance. We will exchange updates, information about the market trend, the sales performance, the inventory level and other information with our Distributor Customers. Our director of Zhejiang and national sales team, Mr. He, together with the sales team conducts a sales forecast in every quarter based on the historical sales performance, the market feedbacks and the current market condition of our products. The sales forecast will be reviewed and approved by our Directors and they will check whether there is any material variation between the sales forecast and our actual sales results. During the Track Record Period, our Directors did not note any such material variation.

We believe that the successful prevention of conflicts of interest among our Distributor Customers is essential for the healthy growth of our sales and distribution network. We do not sell any of our products which are currently distributed by our Type 1 Distributor Customers or Type 2 Distributor Customers to our Type 3 Distributor Customers. As a result, our Type 3 Distributor Customers are not able to compete with Type 1 or Type 2 Distributor Customers. In addition, we have established a supervision mechanism managed by our sales department to monitor and update the list of products that we distribute. Our Type 1 Distributor Customers and Type 2 Distributor Customers are obligated to report the sales and inventory information on a monthly basis to us. We can also monitor the inventory flow of our Type 1 Distributor Customers and Type 2 Distributor Customers through various channels. For example, some of our Type 1 Distributor Customers grant us the access to their real-time online inventory management systems, which enables us to supervise and monitor the inventory levels and the whereabouts of our products. Some of our Type 2 Distributor Customers send us reports on their inventory levels and the whereabouts of our products by fax periodically.

Relationship with the sub-distributor customers

We enter into contractual distribution agreements with our Type 1 Distributor Customers and Type 2 Distributor Customers only, and hence do not have any control over the sub-distributor customers since we do not have any contractual relationship with the sub-distributor customers. Pursuant to the distribution agreements, our Type 1 Distributor Customers and Type 2 Distributor Customers are required to provide us, on a monthly basis, sales figures and data relating to sales made to the ultimate customers and Distributor Customers. As at the Latest Practicable Date, 5 of our Type 1 Distributor Customers who were our top 10 Distributor Customers during the Track Record Period have granted us access to their real-time online inventory management systems, which allows us to monitor and obtain the updated information on their inventory flows and levels of our products. The revenue contribution by 5 of those major Type 1 Distributor Customers for each of the two years ended 31 December 2012 and for the six months ended 30 June 2013 amounted to approximately 50.0%, 46.6% and 39.0% of our total revenue during the corresponding period, respectively.

According to the PICO Report, it is an industry norm that distributors do not have any right to control or monitor their sub-distributor customers in the PRC pharmaceutical industry. However, they may be obligated to report the sales performance and inventory flow to our Distributor Customers. This may enable us to retrieve such information indirectly. During the Track Record Period, we did not have any contractual relationship with any sub-distributor customers, and hence did not have the rights to request or retrieve any sales information from them directly. On the other hand, those sub-distributor customers did not have the obligation to provide us with the sales figures and the data relating to the sales made to the other sub-distributor customers or ultimate customers due to the issue of confidentiality.

Phase 4 – Management of Distribution Network

As at the Latest Practicable Date, 42 out of 117 Distributor Customers were located in Zhejiang province while the remaining 75 Distributor Customers were spread over 18 regions in the PRC including Shanghai, Hainan province, Jiangxi province and Guangdong province. We do not have any control over sub-distributor customers as there is no contractual relationship between those sub-distributor customers and our Group.

We would assess with assistance from our Distributor Customers on the market demand for the products which our Group distributes before agreeing on the sales forecast and the sales targets that we impose on our Type 1 Distributor Customers and Type 2 Distributor Customers as set out in the distribution agreements between them. In the event that the prescribed sales targets set out in the distribution agreements are not achieved, the Company will normally grant a period not exceeding six months for those Distributor Customers to meet the prescribed sales targets before taking any further action (such as reducing the size of the designated geographical area(s) that they are responsible for, deducting the guarantee payment and terminating the distribution agreement with them) against those Distributor Customers. Also, the purchase of products by the Distributor Customers from the Group is totally at the discretion of the Distributor Customers and under no circumstances does our Group have any right to mandatorily require the Distributor Customers to make purchases from our Group. As a result, the sales targets set out in the distribution agreements will not cause any issue related to excessive inventories issue at the Distributor Customers' level.

For ease of management and implementation of marketing policies, we have two experienced sales teams which are key to the success of our distribution network. We have a Zhejiang sales team and a nationwide sales team for the overall management of our sales. Our Zhejiang sales team is primarily responsible for the overall management of our sales generated from Zhejiang province, the PRC. Whereas our nationwide sales team is responsible for the overall management of our sales generated from all other provinces in the PRC.

The following table sets out the revenue of our Group by geographical regions during the Track Record Period:

Regions	Provinces	Year ended 31 December 2011		2012		Six months ended 30 June 2012		2013	
		HK$'000	*% of revenue*	*HK$'000*	*% of revenue*	*HK$'000* (Unaudited)	*% of revenue*	*HK$'000*	*% of revenue*
Region managed by our Zhejiang Sales Team									
Eastern China Region (華東地區)	Zhejiang	119,329	74.7	140,729	80.4	71,957	80.1	66,183	79.1
Regions managed by our Nationwide Sales Team									
Eastern China Region (華東地區)	Anhui, Hubei, Jiangsu, Shanghai,	18,322	11.5	21,153	12.1	9,496	10.6	11,645	13.9
Southeast China Region (華南地區)	Fujian, Guangdong, Hunan, Hainan, Jiangxi	11,820	7.3	9,191	5.3	6,332	7.0	2,301	2.8
Northern China Region (華北地區)	Beijing, Henan, Hebei, Liaoning, Shandong, Shanxi, Tianjin	6,952	4.4	3,356	1.9	1,815	2.0	3,263	3.9
Southwest China Region (西南地區)	Chongqing, Guizhou, Sichuan, Yunnan	2,959	1.9	415	0.2	132	0.2	181	0.2
Northwest China Region (西北地區)	Shaanxi, Gansu, Inner Mongolia, Qinghai, Tibet, Xinjiang	304	0.2	198	0.1	96	0.1	99	0.1
Total		**159,686**	**100.0**	**175,042**	**100.0**	**89,828**	**100.0**	**83,672**	**100.0**

FACILITATION OF SALES OF PRODUCTS

Formulation of marketing strategies and marketing activities

As an established pharmaceutical distributor in Zhejiang province, we actively participate in planning and designing the marketing strategy of our products that are distributed in Zhejiang province during the Track Record Period by collaborating with our suppliers which provide academic expertise in the products and the financial resources for implementing the marketing strategies which our Group plans and designs.

During the Track Record Period, for the products we were granted with exclusive provincial distribution rights and sold to our Type 1 Distributor Customers, our sales and marketing team tailor-made the marketing strategy and activities for the products that were sold to our suppliers as our Type 1 Distributor Customers do not plan and execute any marketing activities and are only responsible for distributing our products to the ultimate customers directly in the PRC. They rely on the marketing resources provided by the suppliers or the provincial distributors such as our Group. Those marketing activities such as organising product launching events and seminars in order to promote and raise the awareness of and familiarity with our products to the targeted medical institutions and practitioners at the provincial level. Whereas for the product that we sell to our Type 2 and Type 3 Distributor Customers, we do not provide any marketing strategy or activities.

As part of our major future plan and in order to raise the awareness of our pharmaceutical products in the market, particularly those products associated with the new distribution rights that we will obtain in the future, we intend to increase our effort and investment in the marketing activities in order to provide a more comprehensive marketing and promotion strategy that will provide enhanced marketing activities for our Distributor Customers. Those activities are set out as below:

(i) leveraging on our strong sales and distribution network in Zhejiang Province, we will continue to actively seek opportunities to co-ordinate and link-up with our suppliers, Distributor Customers, medical scholars and medical practitioners, to consolidate the marketing platform in order to allow our products to achieve a greater penetration to the ultimate customers;

(ii) we, in collaboration with our suppliers, will actively organise seminars, product launching events for our products. We will continue to invite medical practitioners of the targeted medical institutions throughout the PRC to share their views on clinical application and evidence, and also to promote the efficacies of our products to our Distributor Customers through various seminars, which will eventually help them effectively market and promote the products to the ultimate customers;

(iii) for the new exclusive distribution rights of products that we acquired from 2012 onwards, instead of relying on the financial resources from our suppliers, we will gradually take up the responsibility from planning to executing the marketing strategies and activities at our own expenses. Our Directors are of the view that this will allow our Group to have more flexibility and freedom while planning and designing the marketing strategies and activities. This will allow our products to gain a wider exposure and penetration in the PRC market;

(iv) with the assistance of our suppliers, we will organise and provide training programmes to medical practitioners, which will in turn assist those medical practitioners to effectively educate and promote the efficacies of our products to their respective medical institutions throughout the PRC; and

(v) we will organise and provide training programmes periodically and prepare marketing materials for our Distributor Customers on the clinical application and efficacies of our products and our Distributor Customers will in turn promote such products to our ultimate customers.

Our Directors believe that the foregoing marketing strategy will not only be able to establish a strong and long-term relationship with our suppliers and Distributor Customers, but will also be able to build up a good relationship with the medical practitioners, medical scholars and medical institutions that are critical to our sales capabilities. In addition, the enhanced marketing activities will (i) give us a competitive edge against the other competitors in a market characterised by intensive competition and enable us to compete for new distribution rights of products with high gross profit margin; and (ii) be favourable to boost up the sales volume of certain targeted products with growth potential.

In addition, our Directors believe that the Listing on GEM itself will be conducive to further enhancement of our Group's profile, brand recognition and also the future business development of our Group. The Listing will (i) provide our Group additional avenues to raise capital for the future business expansion which may generate further business opportunities to our Group and attract more potential suppliers and Distributor Customers; (ii) expand and diversify the shareholders base in order to reach out the institutional funds and retail investors in Hong Kong; and (iii) strengthen our Group's financial position with the net proceeds raised from the Placing.

CREDIT POLICY AND SALES RETURNS

Credit Policy

We do not grant or enter into any credit terms with the majority of our Type 2 Distributor Customers as we require a majority of our Type 2 Distributor Customers to settle the payment prior to the delivery of products.

We grant a uniform credit term to all of our Type 1 Distributor Customers and Type 3 Distributor Customers. As at the Latest Practicable Date, the actual credit period of each of such Distributor Customers may vary from 30 to 90 days.

During the Track Record Period, our Group granted a credit period of 180 days to Hainan Xinmei Medicine Company Limited (海南新美醫藥有限公司), an Independent Third Party owned by the spouse of our finance manager, Ms. Zhang Qiao (張俏女士), which mainly distributed our products to smaller medical institutions in the PRC with a longer debt collections period. On 1 August 2012, a supplemental agreement was entered into between our Group and Hainan Xinmei to shorten the credit period from 180 days to 90 days. For details, please refer to paragraph "Trade, bills and receivables" under the sub-section headed "Liquidity and capital resources" under the "Financial information" section.

Save as the disclosed above, we did not grant any Distributor Customer with a credit period over 90 days during the Track Record Period.

We have carried out various measures on credit control and collection of the receivables including (i) review of debtor's balance by our accounting department; and (ii) frequent telephone call for following up by our sales team on any outstanding debts. It is our policy to monitor the credit risk on recoverability of the receivables from our Distributor Customers. We assess the credit-worthiness of each of our Distributor Customers by taking into consideration various factors, including but not limited to, the length of the business relationship, previous payment record, order volume, reputation and market share of each of our Distributor Customers. During the Track Record Period, we were not aware that our Distributor Customers had experienced any material financial difficulty which resulted in bad debts.

For each of the two years ended 31 December 2011 and 2012 and for the six months ended 30 June 2013, our Group's receivables turnover days were 107 days, 94 days and 95 days, respectively. We do not have a general provision policy on trade debtors based on aging analysis. During the Track Record Period, we did not experience any cancellation of orders (other than in the ordinary course of business and which had no impact on us), or any bankruptcy or default on the part of any of our Distributor Customers.

Sales Returns

Under our existing sales return policy, our Distributor Customers may return products that are polluted, damaged, incompletely packaged or inconsistent with the specifications as set out in the delivery note (other than those resulted from the default of the Distributor Customers). Once the products have been delivered to our Distributor Customers' warehouse, they are deemed to accept the products, subject to inspection by our Distributor Customers on its quality and specification for a 3-day inspection period. If our Distributor Customers have not reported or returned product to us during the 3-day inspection period, they are not allowed to make any sales return.

In addition, according to the agreement between our Group and the logistics services provider that we have engaged, any damage to the products during the delivery process from our warehouse to our Distributor Customers' warehouses will be compensated by the logistics services provider. Therefore, we are not financially responsible for any return or exchange of products damaged during the delivery process.

During the Track Record Period, our monthly sales returns were stable and did not have a material amount of sales returns from the Distributor Customers. The Group's sales returns from the Distributor Customers amounted to approximately HK$23,281, HK$11,785 and HK$258, representing approximately 0.01%, 0.01% and 0.0003%, respectively, of our total revenue during the Track Record Period. As a result, our Directors considered that our sales returns only had an insignificant impact on the Group's financial result and hence no provisions for sales returns were made during the Track Record Period.

The treatment on the amount of any aforesaid sales returns is deducted from the gross sales revenue for the relevant periods. Our Group has transferred significant risks and rewards of ownership of the goods to the Distributor Customers upon delivery to the warehouses of the Distributor Customers or the designated pick-up area as instructed by the Distributor Customers. The Distributor Customers have assumed all of the significant rewards of ownership of the goods because they are entitled to resell the goods once they receive the goods. Therefore, revenue is recognised on initial delivery of the goods at an amount that reflects a reduction for returns.

PRICING POLICY

a. Price of our products

A majority of the pharmaceutical products that we distribute to our Type 1 Distributor Customers and Type 2 Distributor Customers are listed in the Medical Insurance Drugs Catalogs. The prices of these products are dependent on the retail prices determined by the PRC government in its provincial collective tendering process at the provincial level, through which a group of public hospitals solicits public bids from pharmaceutical manufacturers as part of its pharmaceutical procurement process. For further details, please refer to the sub-section headed "Collective tendering system for procurement of pharmaceutical products by medical organisations" under the

"Regulatory overview" section of this prospectus. Generally, the provincial collective tendering process takes approximately three to six months to complete. We work with certain of our suppliers, being also the manufacturers of the products, to improve their bidding position and number of successful bids by providing industry expertise, industry insight, market intelligence, competitive bidding price suggestions and other administrative supports. During the process of determining a competitive bidding price and providing competitive price suggestions to our suppliers in the provincial collective tendering process, we have taken into account the estimated overall profit margin of such product to evaluate whether such product will be profitable to our Group. Apart from the overall profit margin, we have also taken various factors into consideration while determining and providing a competitive bidding price to our suppliers during the provincial collective tendering process. For details, please refer to the paragraph headed "Competitive price suggestions" under the sub-section headed "Phase 1 – Acquisition of distribution rights of pharmaceutical products from our suppliers" under the section headed "Business".

For the pharmaceutical products we distribute to our Distributor Customers which are involved in the provincial collective tendering process, the prices are determined based on mutual commercial negotiations on the basis that the price is lower than the hospital purchase price, while the maximum hospital purchase prices are lower than and never exceed the maximum retail prices under the price controls. The prices of the other pharmaceutical products that we distribute to our Distributor Customers are also determined based on mutual commercial negotiations between the parties.

b. Profitability of each layer of distributors in the pharmaceutical distribution chain

Due to the nature of the multi-layer distribution model, our Group cannot evaluate or determine the number of layers within the distribution chain, and hence the profit margin of each distribution layer. In any event, it's our Distributor Customers discretion to determine how many layers of distributors they need to sell through before reaching our ultimate customers. So far as our Directors are aware and according to their experience in the pharmaceutical industry, there is no rule and our Group are not able to determine the number of layers of distributors in the pharmaceutical distribution chain before the products reach our ultimate customers. In addition, we do not have any contractual relationship with sub-distributor customers and therefore do not have any control over such sub-distributor customers. As such, we merely take into account the estimated overall profit margin of a product attributable to our Group, and also the profit margin of such product being acceptable to our immediate lower layer Distributor Customers (that is, our Type 1 Distributor Customers and 2 Distributor Customers).

PRICE CONTROLS

As at the Latest Practicable Date, 42 out of our 55 products were included in the Medical Insurance Drugs Catalogs, and were therefore subject to price controls in the PRC, which involved the imposition of retail price ceilings by the PRC government. During the Track Record Period, sales of these products including one of our major products, Levocarnitine Injection (左卡尼汀注射液), accounted for approximately 85.0%, 93.7% and 93.0% of our total revenue during the respective periods. Those products were included in the Medical Insurance Drugs Catalogs and subject to price controls in the PRC. Please refer to the paragraph headed "Price controls" in the section headed "Regulatory overview" in this prospectus for further details.

Pursuant to the Pharmaceuticals Law, the Implementation Regulation, and the Circular on Issue of Price-controlled Pharmaceutical Products Catalog of the NDRC (國家發展和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) issued by NDRC on 27 June 2005 and effective from 1 August 2005, prices of pharmaceutical products are either determined by the PRC government or by market conditions. The prices of certain pharmaceutical products sold in the PRC, primarily those included in the Medical Insurance Drugs Catalogs, are subject to price controls mainly in the form of fixed prices or price ceilings. Manufacturers and operators are not allowed to set the actual price for any price-controlled product above the price ceiling or deviate from the fixed price imposed by the PRC government. The prices of medicines that are not subject to price controls are determined freely at the discretion of the respective pharmaceutical companies. The prices of medicines that are subject to price controls are administered by NDRC and provincial price control authorities. From time to time, NDRC publishes and updates a list of medicines that are subject to price controls. During the Track Record Period and up to the Latest Practicable Date, none of our products was sold above the price ceilings prescribed by the PRC government, and hence we have been in compliance with the applicable laws and regulations relating to price control over pharmaceutical products in the PRC.

On 9 November 2009, NDRC, the Ministry of Health and the Ministry of Human Resources and Social Security 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 Medical Insurance Drugs Catalogs and certain drugs of which 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 other drugs are determined by the market conditions.

On 5 March 2010, NDRC promulgated the Notice on Relevant Issues Regarding the Revising of the Price-controlled Pharmaceutical Products Catalog (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), which contained the new version of the Price-controlled Pharmaceutical Products Catalog of NDRC (國家發展改革委定價藥品目錄).

On 3 September 2012, NDRC, the Ministry of Health and the Ministry of Human Resources and Social Security jointly issued the Circular on Strengthening the Reform of Pricing for Medicines and Medical Services in County Level Public Hospitals (關於推進縣級公立醫院醫藥價格改革工作的通知). The circular sets out the general objective to further reduce patients' economic burden of medicines by eliminating the difference between purchase costs and sale prices of medicines of the county level public hospitals. The circular further requires that, at the current stage of reform, certain selected pilot hospitals shall eliminate the difference between purchase costs and sale prices of medicines and announce their medicine sales prices to the public. According to the circular, the prices of medicines sold by the selected pilot hospitals shall be reduced by approximately 15% after the reform.

Our Directors noticed that the Circular on Strengthening the Reform of Pricing for Medicines and Medical Services in County Level Public Hospitals (關於推進縣級公立醫院醫藥價格改革工作的通知) may apply to the products of our Group as a majority of our products are distributed through our Distributor Customers to the ultimate customers which are mainly hospitals and medical institutions in the PRC, and this would therefore lead to downward pressure on the price of the products of the Group. However, Our PRC legal adviser is of the view that the reduction target of approximately 15% of the retail prices of medicines sold by the selected hospitals is only an ultimate target set by the PRC government and no deadline has been stipulated in the circular, where any change of the retail price will be made only when the notice is issued by NDRC or Zhejiang Provincial Price Bureau as mentioned below. Our Director is of the view that the reduction of price would be made progressively rather than through a one-off reduction, which will not cause any immediate adverse impact to our Group.

In addition, all of our major products are included in the Medical Insurance Drugs Catalogs and subject to the changes of the retail price ceiling imposed by NDRC in Zhejiang Provincial Price Bureau, below are all of our major products which were subject to the following changes of the retail price ceiling imposed by NDRC or Zhejiang Provincial Price Bureau during the Track Record Period and as at the Latest Practicable Date:

- effective from 25 February 2011, Zhejiang Provincial Price Bureau lowered the maximum retail prices of certain pharmaceutical products, affecting one of our major type of products (including 3 specifications), Ozagrel Sodium for Injection (注射用奧紮格雷鈉) of all 80 mg, 40 mg and 20 mg specifications. During each of the two years ended 31 December 2011 and 2012 and the six months ended 30 June 2013, our revenue generated from Ozagrel of Sodium for Injection (注射用奧紮格雷鈉) accounted for approximately 8.0%, 6.0% and 0.2% of our total revenue, respectively. The following table shows the percentage of change in the retail price and also the change in gross profit margin of each of the affected major products:

Product	Specification	Percentage of the decrease in the retail price in respect of the price control effective from 25 February 2011	Increase/ (Decrease) in the unit gross profit in respect of the price control effective from 25 February 2011 *(RMB)*	Gross profit margin immediately before the price control in 2011	Gross profit margin immediately after the price control in 2011
Ozagrel Sodium for Injection (注射用奧紮格雷鈉) *(Note 1)*	80 mg	13.8%	4.7	6.7%	12.8%
Ozagrel Sodium for Injection (注射用奧紮格雷鈉) *(Note 2)*	40 mg	10.4%	(0.1)	6.5%	7.0%
Ozagrel Sodium for Injection (注射用奧紮格雷鈉) *(Note 3)*	20 mg	19.4%	(0.5)	5.2%	5.0%

Note:

1. We re-negotiated with the relevant suppliers to lower the purchase price by approximately 20.4%. However, the relevant Distributor Customers only lower the selling price by approximately 14.8% to mitigate the impact of price adjustments on the product after the renegotiation with us.

2. We re-negotiated with the relevant suppliers to lower the purchase price by approximately 11.7%. However, the relevant Distributor Customers only lower the selling price by approximately 11.2% to mitigate the impact of price adjustments on the product after the renegotiation with us.

3. We re-negotiated with the relevant suppliers to lower the purchase price by approximately 21.1%. However, the relevant Distributor Customers only lower the selling price by approximately 21.3% to mitigate the impact of price adjustments on the product after the negotiation with us.

- effective from 28 March 2011, NDRC lowered the maximum retail prices of certain pharmaceutical products, affecting 10 of our products, including three of our major types of products (including 4 specifications), Isepamicin Sulfate Injection (硫酸異帕米星注射液), Cefixime Dispersible Tablet (頭孢克肟分散片) of both 50 mg x 10 tablets and 50 mg x 6 tablets specifications and Ceftizoxime Sodium for Injection (注射用頭孢唑肟鈉) 50 mg x 6 tablets specifications. During each of the two years ended 31 December 2011 and 2012 and the six months ended 30 June 2013, our revenue generated from those 4 major products accounted for approximately 15.4%, 13.5% and 13.4% of our total revenue, respectively. The following table shows the percentage of change in the retail price and also the change in gross profit margin of each of the affected major products:

Product	Specification	Percentage of the decrease in the retail price in respect of the price control effective from 28 March 2011	Change in the unit gross profit in respect of the price control effective from 28 March 2011 *(RMB)*	Gross profit margin immediately before the price control in 2011	Gross profit margin immediately after the price control in 2011
Isepamicin Sulfate Injection (硫酸異帕米星注射液) *(Note 1)*	2 ml:0.2 g	9.4%	5.6	6.0%	17.4%
Cefixime Dispersible Tablet (頭孢克肟分散片) *(Note 2)*	50 mg x 10 tablets	33.5%	0.4	25.8%	36.3%
Cefixime Dispersible Tablet (頭孢克肟分散片) *(Note 3)*	50 mg x 6 tablets	33.8%	0.2	4.6%	14.1%
Ceftizoxime Sodium for Injection (注射用頭孢唑肟鈉) *(Note 4)*	0.5g	3.8%	1.8	8.7%	18.5%

Note:

1. We re-negotiated with the relevant suppliers to lower the purchase price by approximately 18.9%. However, the relevant Distributor Customers only lower the selling price by approximately 7.9% to mitigate the impact of price adjustments on our products after the negotiation with us.

2. We re-negotiated with the relevant suppliers to lower the purchase price by approximately 14.1% and the selling price of the product did not change.

3. We re-negotiated with the relevant suppliers to lower the purchase price by approximately 10.0% and the selling price of the product did not change.

4. We re-negotiated with the relevant suppliers to lower the purchase price by approximately 10.7% and the selling price of the product did not change.

- effective from 21 March 2012, Zhejiang Provincial Price Bureau lowered the maximum retail prices of certain pharmaceutical products, affecting one of our major types of products (with 3 specifications), Ozagrel Sodium for Injection (注射用奧紮格雷鈉) of all 80 mg, 40 mg and 20 mg specifications. During the year ended 31 December 2012 and the six months ended 30 June 2013, our revenue generated from Ozagrel of Sodium for Injection (注射用奧紮格雷鈉) accounted for approximately 6.0% and 0.2% of our total revenue, respectively. The following table shows the percentage of change in the retail price and also the change in gross profit margin of each of the affected major products:

Product	Specification	Percentage of the decrease in the retail price in respect of the price control effective from 21 March 2012	Increase/ (Decrease) in the unit gross profit in respect of the price control effective from 21 March 2012 *(RMB)*	Gross profit margin immediately before the price control in 2012	Gross profit margin immediately after the price control in 2012
Ozagrel Sodium for Injection (注射用奧紮格雷鈉) *(Note 1 and 2)*	80 mg	37.7%	(31.4)	85.7%	86.0%
Ozagrel Sodium for Injection (注射用奧紮格雷鈉) *(Note 1 and 3)*	40 mg	37.5%	(2.1)	12.7%	13.8%
Ozagrel Sodium for Injection (注射用奧紮格雷鈉) *(Note 1 and 4)*	20 mg	37.5%	(7.6)	81.0%	82.3%

Note:

1. We were able to obtain such product directly from the manufacturer with lower price without going through the intermediary which was no longer engaged in the business of distributing such product in 2012.

2. We obtained this product from the manufacturer at a price lower than the price from the previous supplier by approximately 40.7%. The relevant Distributor Customers only lowered the selling price by approximately 39.2% to mitigate the impact of price adjustments on the product after the negotiation with us.

3. We obtained this product from the manufacturer at a price lower than the price from the previous supplier by approximately 37.0%. The relevant Distributor Customers only lowered the selling price by approximately 36.2% to mitigate the impact of price adjustments on the product after the negotiation with us.

4. We obtained this product from the manufacturer at a price lower than the price from the previous supplier by approximately 37.5%. The relevant Distributor Customers only lowered the selling price by approximately 32.9% to mitigate the impact of price adjustments on the product after the negotiation with us.

- effective from 8 October 2012, NDRC lowered the maximum retail prices of certain pharmaceutical products, affecting five of our products, including two of our major types of products (including 4 specifications), Thoymosin α 1 for Injection (注射用胸腺法新), Ozagrel Sodium for Injection (注射用奧紮格雷鈉) of all 80 mg, 40 mg and 20 mg specifications. During the year ended 31 December 2012 and the six months ended 30 June 2013, our revenue generated from Ozagrel of Sodium for Injection and Thoymosin α 1 for Injection accounted for approximately 13.4% and 10.0% of our total revenue, respectively. The following table shows the percentage of change in the retail price and also the change in gross profit margin of each of the affected major products:

Product	Specification	Percentage of the decrease in the retail price in respect of the price control effective from 8 October 2012	Change in the unit gross profit in respect of the price control effective from 8 October 2012 *(RMB)*	Gross profit margin immediately before the price control in 2012	Gross profit margin immediately after the price control in 2012
Thoymosin α 1 for Injection (注射用胸腺法新) *(Note 3)*	1.6 mg	7.5%	(1.5)	12.5%	12.3%
Ozagrel Sodium for Injection (注射用奧紮格雷鈉) *(Note 2 and 4 and 6)*	80 mg	60.3%	(30.0)	86.0%	84.6%
Ozagrel Sodium for Injection (注射用奧紮格雷鈉) *(Note 2 and 5 and 6)*	40 mg	60.3%	6.2	13.8%	81.3%
Ozagrel Sodium for Injection (注射用奧紮格雷鈉) *(Note 1)*	20 mg	60.3%	N/A	82.3%	N/A

Note:

1. We ceased the sales of Ozagrel Sodium for Injection 20mg (注射用奧紮格雷鈉20mg) in October 2012 since the unit gross profit amount of this product was limited after several price controls, and it became no longer profitable for us to continue the sales of this product.

2. We were able to obtain such product directly from the manufacturer with lower price without going through the intermediary which was no longer engaged in the business of distributing such product in 2012 and we have not entered into the exclusive distribution agreement with such manufacturer.

3. We re-negotiated with the relevant suppliers to lower the purchase price by approximately 7.2%. The relevant Distributor Customers only lowered the selling price by approximately 7.5% to mitigate the impact of price adjustments on our products after the negotiation with us.

4. We re-negotiated with the relevant suppliers to lower the purchase price by approximately 56.2%. The relevant Distributor Customers only lowered the selling price by approximately 60.3% to mitigate the impact of price adjustments on our products after the negotiation with us.

5. We re-negotiated with the relevant suppliers to lower the purchase price by approximately 91.4%. The relevant Distributor Customers only lowered the selling price by approximately 60.3% to mitigate the impact of price adjustments on our products after the negotiation with us.

6. We ceased the sales of Ozagrel Sodium for Injection 80mg (注射用奥紮格雷鈉80mg) and Ozagrel Sodium for Injection 40mg (注射用奥紮格雷鈉40mg) in June 2013 since the unit gross profit amount of this product was limited after several price controls.

- effective from 6 February 2013, Zhejiang Provincial Price Bureau lowered the maximum retail price of certain pharmaceutical products, affecting one of our major products, Alanyl Glutamine for Injection (注射用丙氨酰谷氨酰胺). During the year ended 31 December 2012 and the six months ended 30 June 2013, our revenue generated from Alanyl Glutamine for Injection (注射用丙氨酰谷氨酰胺) accounted for approximately 2.9%, 5.3% and 5.2% of our total revenue, respectively. The following table shows the percentage of change in the retail price and also the change in gross profit margin of the affected major product:

Product	Specification	Percentage of the decrease in the retail price in respect of the price control effective from 6 February 2013	Change in the unit gross profit in respect of the price control effective from 6 February 2013 *(RMB)*	Gross profit margin immediately before the price control in 2013	Gross profit margin immediately after the price control in 2013
Alanyl Glutamine for Injection (注射用丙氨酰谷氨酰胺)	10 g	5.8%	(0.9)	18.8%	18.7%

Note: We re-negotiated with the relevant suppliers to lower the purchase price by approximately 6.4%. The relevant Distributor Customers only lowered the selling price by approximately 6.3% to mitigate the impact of price adjustment on our products after the negotiation with us.

During the Track Record Period, 6 of our major types of products (including 9 specifications) affected by the abovementioned price adjustments accounted for approximately 32.2%, 31.9% and 28.9% of our total revenue. For the products affected by the abovementioned price adjustments, our relevant suppliers, our Distributor Customers and our Group have to lower the prices to accommodate the effect of the price adjustments. To reduce the impact of price adjustments on our Group, we will evaluate the impact of each price adjustment and try to re-negotiate with the suppliers and Distributor Customers to divert the impact on our affected products from the price adjustments to them. We will re-negotiate with the suppliers on one hand to lower the purchase prices in order to lower our procurement cost and we will re-negotiate with our Distributor Customers on the other hand to reduce the extent of the selling price reduction in order to maintain our profit margin. Our Directors consider that such re-negotiation with the suppliers and Distributor Customers was successful as we have maintained the gross profit margin for most of the products that were affected by the abovementioned price adjustments where we only ceased the sales of 1 of our product, namely Ozagrel Sodium for Injection of 20mg (注射用奥紮格雷鈉20mg) in October 2012 as the product was no longer profitable for us to continue its sales.

The Directors are of the view that our results of operation during the Track Record Period were not materially and adversely affected by any price adjustments imposed by the PRC government in relation to our products included in the Medical Insurance Drugs Catalogs. However, the selling prices of our products may be adversely affected should the PRC government impose any further price control on any other products of our Group.

MANAGEMENT OF INVENTORY PROCUREMENT

(i) Our procurement management

Our Directors are of the view that a good procurement policy is key to a successful pharmaceutical distribution business. It is our practice to purchase our products from the suppliers based on our sales forecast, confirmed purchase orders and the inventory level. Therefore, our Group has adopted the following procurement policy to maintain an appropriate level of inventories so as to meet the purchase targets set out by our suppliers and to meet the demand from our Distributor Customers:

(i) our procurement team compiles a procurement analysis report setting out the type and the quantity of products provided by our Group, the existing level of inventory and the sales forecast from our Distributor Customers in order to anticipate and determine the level of procurement;

(ii) our procurement team, sales team and management team meet weekly to discuss the sales forecast from our Distributor Customers and the delivery schedule of our suppliers, which are to be included in our procurement analysis report, and our procurement team will refer to the procurement analysis report to determine the level of procurement;

(iii) our sales team is entitled to monitor our Distributor Customers' inventory level and assess up-to-date sales performance of our Distributor Customers, through different channels, such as the real time on-line inventory management system provided by certain of our major Distributor Customers; and

(iv) our procurement team and sales team will discuss with our suppliers and Distributor Customers, respectively, on the sales performance and the supply of our products in order to allow us to maintain a satisfactory procurement and inventory flow of our Group.

In addition, in the event that the product has not been previously participated and won in the provincial collective tendering process or entered into the Medical Insurance Drugs Catalogs, we will not reach a sales target with our suppliers and will only procure further inventories according to the demand from our Distributor Customers. In the event that our existing products cannot win in the upcoming provincial collective tendering process, our procurement team, together with our management team, will then re-negotiate with our suppliers to revise the sales targets through commercial negotiations without prejudice to the signed distribution agreements between the suppliers and our Group.

During the Track Record Period, regarding one of our products, namely Sulbenicillin Sodium for Injection (注射用磺苄西林鈉), due to its long cessation of supply and the resumption of its supply taking place only since October 2012, our Directors are of the view that it will take some time to pick up the sales in various provinces. Further, in view of the

up-coming provincial collective tendering process in various provinces, our Group has re-negotiated the sales target with Type 1 Supplier A, and Type 1 Supplier A has subsequently waived the original minimum purchase target that was imposed on our Group.

Save as the disclosed above, our Directors confirm that, during the Track Record Period, we did not re-negotiate with our suppliers for any revision of the minimum purchase target for those products which did not win the provincial collective tendering process or was not to be included in the Medical Insurance Drugs Catalogs.

(ii) Our inventory management

Our inventory primarily comprises finished products.

The following illustrates the main steps of our inventory management process from delivery of products from our suppliers to delivery of products to our Distributor Customers:

Step 1 – Our suppliers deliver products from their designated warehouses in their respective provinces in the PRC, to our warehouse in Xiaoshan District, Hangzhou, PRC. Once the products arrive at our warehouse, the products attached with the quality inspection report issued by our suppliers will be inspected by our quality control inspectors, and the whole quality control inspection procedures are normally completed within one day. Information of such products will be recorded in our SCM Software system.

Step 2 – Upon obtaining an approval from our quality control inspectors, our products will be stored in our temperature-controlled warehouse by product type and batch number to ensure that they are sold on a first-in-first-out basis.

Step 3 – Once our staff in the warehouse has received the sales order from our sales department, our staff in the warehouse will locate the specific products according to the sales order for delivery to our Distributor Customers. Our pre-delivery examiner will conduct a detailed checking on the specifications, quantity, manufacturers, batch number and validity period of the products before making the final confirmation of the sales and delivery order.

Step 4 – Once the sales and delivery order has been confirmed and approved by our pre-delivery examiner, our logistics team starts arranging delivery to our Distributor Customers. Our own logistics team was responsible for delivery within Hangzhou and the cities neighboring Hangzhou, and we engaged logistics companies (which were Independent Third Parties) for delivery to other areas in Zhejiang province (other than Hangzhou and the cities neighboring Hangzhou) and other provinces in the PRC.

Normally, it takes one working day for delivery of our products from our Hangzhou warehouse to our Distributor Customers located within Hangzhou and the cities neighboring Hangzhou while it takes approximately two to three working days for delivery of our products from our Hangzhou warehouse to our Distributor Customers located within Zhejiang province (other than Hangzhou and the cities neighboring Hangzhou). For our Distributor Customers which are located in provinces other than Zhejiang province, it normally takes approximately ten working days.

During the Track Record Period, our Group did not encounter any material delay during the transportation of our products due to traffic and/or weather reasons. In the event that if there is a sudden increase in demand of our Group's product within Zhejiang province, we will give the priority to delivery of the products to our Distributor Customers in Hangzhou cities by our own logistics team and will engage logistics companies for delivery to other areas in Zhejiang province (other than Hangzhou and the cities neighboring Hangzhou).

We have established inventory control procedures to track in-coming and out-going inventories. All of our products are sold on a first-in-first-out basis. We adopt an inventory polling that records inventory movements updated immediately through our SCM Software system. Our Directors are of the view that the increase in sales reflected the genuine change in market demand rather than an accumulation of inventories at our Distributor Customers' and their respective sub-distributors' levels, and are not aware of any material accumulation of stocks at our Distributor Customers' level during the Track Record Period and up to the Latest Practicable Date.

We carry out physical stock counts at the end of each month and conduct a stock assessment each month to verify the number of physical stock at our warehouse against the accounting records, in which we will investigate and reconcile if any discrepancy in the number of stock between warehouse inventory record and accounting records is noted.

Our Group seek to maintain a relatively low level of inventories due to the nature of the pharmaceutical products. We typically maintain 30 to 45 days' worth of inventories at any given time. For each of the two years ended 31 December 2011 and 2012 and for the six months ended 30 June 2013, our inventory turnover day were 47, 42 days and 45 days, respectively.

We have an inventory provisioning method to value our inventories and to write off inventories when they become obsolete or damaged or the slow-moving inventory. We did not have any write-off for obsolete inventories during the Track Record Period.

(iii) Logistics

During the Track Record Period, our own logistics team was responsible for delivery within Zhejiang province and we engaged logistics companies which were Independent Third Parties for delivery to the other provinces in the PRC. We select the logistics companies based on various criteria, including their delivery capacity, scale of operation, network coverage and the fee. During the Track Record Period, we did not enter into long-term service contracts with any logistics companies.

Generally, our products are first delivered from our suppliers' warehouses to our warehouse, which are then delivered directly from our warehouse to our Distributor Customers. We bear all transportation costs for delivery of our products from our warehouse to the locations designated by the Distributor Customers. During the Track Record Period, we had not experienced any material disruption in the delivery of our products and had not suffered any losses or paid any compensation as a result of delay in delivery of our products by the logistics companies engaged by us.

(iv) Warehousing

We currently operate and manage a warehouse leased from an Independent Third Party in Xiaoshan District, Hangzhou, Zhejiang Province, the PRC, where our products to be distributed to the Group's Distributor Customers nationwide are stored. All of our inventories that we procure from our suppliers for delivery to our Distributor Customers are stored in such warehouse. Details of the tenancy agreement of the warehouse are set out below:

Location	**Term**	**Monthly Rent** *(RMB)*	**Area**
Portion of No. 4789, Shidai Road, Wenyan Town, Xiaoshan District, Hangzhou, Zhejiang Province, the PRC	21 October 2011 – 20 October 2016	1st year – RMB19,935 (equivalent to approximately HK$24,033) 2nd year – RMB21,781 (equivalent to approximately HK$26,957) 3rd year – RMB23,627 (equivalent to approximately HK$29,663) 4th year – RMB25,473 (equivalent to approximately HK$31,981) 5th year – RMB27,318 (equivalent to approximately HK$34,297)	2,215 sq.m.

We have obtained the GSP Certificates in compliance with the GSP standards, which comprise a set of quality guidelines for operations (including wholesale and retail) of pharmaceutical products, and regulations of pharmaceutical enterprises to ensure the quality of pharmaceutical products in China. The current applicable GSP standards govern all pharmaceutical products that we distribute, including but not limited to, standards regarding our staff qualifications, our premises, our warehouse, our inspection of equipment and our facilities, our management and our quality control. During the Track Record Period, our warehouse was operated in compliance with GSP standards.

MARKET ADJUSTMENTS

In order to enhance our market and product penetration, our sales team communicates with and monitors the inventory flow and sales performance of our Distributor Customers regularly. If our sales team, through review of the inventory flow reports provided by our Distributor Customers or the real time online inventory management system made available to us by five of our major Distributor Customers, has identified any supply-demand imbalances, such as excessive or insufficient market demand from any of our Distributor Customers, our sales team will assess the level of inventories of such Distributor Customer and will identify and liaise with another Distributor Customer in the same province with excessive inventories to facilitate a sale and purchase our products between those two Distributor Customers provided that there is no encroachment on our rights under the distribution agreements with our respective Distributor Customers.

According to the PICO Report, market adjustment is a common industry norm in the pharmaceutical distribution industry. When a distributor encounters a shortage of certain products, it will request its suppliers to arrange and liaise with another distributor with excessive inventories in the same province. In this connection, the suppliers of the products will not be involved in any sales and purchase relationship between those distributors. Our Directors are of the view that (i) our Group is not involved in any sales and purchase relationship with those Distributor Customers; and (ii) we purely serve as an intermediary between them; and (iii) the market adjustments only take place upon the mutual agreement between the relevant Distributor Customers. Therefore, the market adjustment arrangements are not inconsistent with our sales return policy. In addition, our Directors are of the view that the market adjustment arrangement would help certain Distributor Customers to relocate the excessive inventories to another Distributor Customer with a shortage of such inventories, which would, in turn, prevent the accumulation of excessive inventories at the Distributor Customers' level.

Once the market adjustment arrangement has been successfully completed, our sales team will contact the Distributor Customers involved in such arrangement regarding the exact quantity of the products involved in the market adjustment arrangement for our records. As the market adjustment arrangement is only between the relevant Distributor Customers and we have no right to obtain the sales amount in relation to their transactions, we therefore, only make reference to the sales price that those products were first sold from our inventories when determining the price of market adjustment. The market adjustment arrangement aims to assist the transaction between the Distributor Customers and this amount involved in the market adjustment arrangement will not be booked in our Group's account.

The market adjustment is arranged in accordance with mutual commercial negotiations between our Group and our Distributor Customers on a case by case basis.

For each of the two years ended 31 December 2011 and 2012 and for the six months ended 30 June 2013, respectively, the products involved in the market adjustments are set out as follows:

	Product Name	Type of Product	Type of Distributor Customers involved	Region of the distribution involved	The amount of products involved in the market adjustments for the year ended 31 December		The amount of products involved in the market adjustments for the six months ended 30 June
					2011	2012	2013
					HK$'000	*HK$'000*	*HK$'000*
1	Azlocillin Sodium for Injection (注射用阿洛西林鈉)	Injection	Type 1	Zhejiang province	15	–	–
2.	Cefmenoxime Hydrochloride for Injection (注射用鹽酸頭孢甲肟)	Injection	Type 1	Zhejiang province	43	–	–
3.	Mezlocillin Sodium for Injection (注射用美洛西林鈉)	Injection	Type 1	Shanghai	70	–	–
4.	Isepamicin Sulfate Injection (硫酸異帕米星注射液)	Injection	Type 1	Zhejiang province	106	–	–
5.	Cefotaxime Sodium and Sulbactam Sodium for Injection (注射用頭孢噻肟鈉舒巴坦鈉)	Injection	Type 1 and Type 2	Zhejiang province	157	68	–
6.	Lomefloxacin Hydrochloride Tablets (鹽酸洛美沙星片)	Tablet	Type 1 and Type 2	Anhui, Zhejiang province	–	3	–
7.	Relinqing Jiaonang (熱淋清膠囊)	Capsule	Type 1	Zhejiang province	–	9	–
8.	Ozagrel Sodium for Injection (注射用奧紮格雷鈉)	Injection	Type 1	Zhejiang province	–	176	–
9.	Sulbenicillin Sodium for Injection (注射用磺苄西林鈉)	Injection	Type 2	Anhui province	–	11	–
10.	Carbazochrome Sodium Sulfonate for Injection (注射用卡絡磺鈉)	Injection	Type 1	Zhejiang province	–	–	6
	Total				391	267	6

MAJOR PRODUCTS

During the Track Record Period and as at the Latest Practicable Date, we had a selected portfolio of 55 pharmaceutical products. 9, 15, 11, 6, 10 and 4 of our products in our product portfolio were acquired by our Group in 2008, 2009, 2010, 2011, 2012 and 2013 respectively. 4 types of products (including 5 specifications) and 3 types of products (including 4 specifications) acquired in 2012 and 2013 have not participated in the provincial collective tendering during the period in 2009 and 2010.

The table below sets forth 11 major types of our products (including 17 specifications) we distributed during the Track Record Period and as at the Latest Practicable Date:

Product Name	Nature/ Purpose of usage	Prescription Drugs/ OTC Drugs	Commencement of distribution by the Group	Distribution Coverage	Ranking in the relevant PRC region/Total number of manufacturers in the relevant PRC region			Retail unit price/range of retail unit price	Type of distributors responsible for the distribution	Grade A/ Grade B under Medical Insurance Drugs Catalogs
					As at 31 December 2011	As at 31 December 2012	As at 31 March 2013	*(RMB)*		*(Note 2)*
1. Levocarnitine Injection (左卡尼汀注射液)	Treatment of cardiovascular disease	Prescription Drugs	2010	Zhejiang province	1st/3 (Zhejiang)	1st/3 (Zhejiang)	1st/3 (Zhejiang)	53.5	Type 1 Distributor Customers	Grade B
2. Ozagrel Sodium for Injection (注射用奧紮格雷鈉) 80mg, 40mg and 20mg	Treatment of brain and blood vessels diseases	Prescription Drugs	2010	Zhejiang province	1st/3 (Zhejiang)	1st/3 (Zhejiang)	1st/3 (Zhejiang)	16-127.6 *(Note 1)*	Type 1 Distributor Customers	Grade B
3. Cefoxitin Sodium for Injection (注射用頭孢西丁鈉) 0.5g and 2.0g	Treatment of various infection arised from bacteria and virus	Prescription Drugs	2008	Zhejiang province	2nd/15 (Zhejiang)	2nd/15 (Zhejiang)	1st/15 (Zhejiang)	19.9	Type 1 Distributor Customers	Grade B
4 Cefodizime Sodium for Injection (注射用頭孢地嗪鈉) 0.5g and 1.5g	Treatment of various infection arised from bacteria and virus	Prescription Drugs	2008	Zhejiang province	1st/5 (Zhejiang)	1st/5 (Zhejiang)	1st/5 (Zhejiang)	40.5	Type 1 Distributor Customers	Grade B
5. Thymosin α 1 for Injection (注射用胸腺法新)	Treatment of liver diversion	Prescription Drugs	2008	Shanghai	2nd/4 (Shanghai)	2nd/4 (Shanghai)	2nd/4 (Shanghai)	149-161	Type 1 Distributor Customers	Grade B
6. Isepamicin Sulfate Injection (硫酸異帕米星注射液)	Treatment of various infection arised from bacteria and virus	Prescription Drugs	2009	Zhejiang province	2nd/3 (Zhejiang)	2nd/3 (Zhejiang)	2nd/3 (Zhejiang)	63-69.5	Type 1 Distributor Customers	Grade B
7. Cefixime Dispersible Tablet (頭孢克肟分散片) 50mg x 10 tablets 50mg x 6 tablets	Treatment of various infection arised from bacteria and virus	Prescription Drugs	2009	Anhui, Guangdong, Hebei, Heinan. Hubei, Jiangxi and Zhejiang provinces	3rd/7 (Zhejiang)	3rd/7 (Zhejiang)	3rd/7 (Zhejiang)	22.4-33.7	Type 1 Distributor Customers	Grade B
8. Alanyl Glutamine for Injection (注射用丙氨酰谷氨酰胺)	Providing of extra nutrition for patients with intestine diseases	Prescription Drugs	2008	Zhejiang province	1st/2 (Zhejiang)	1st/2 (Zhejiang)	1st/2 (Zhejiang)	86.2-91.5	Type 1 Distributor Customers	Grade B

Product Name	Nature/ Purpose of usage	Prescription Drugs/ OTC Drugs	Commencement of distribution by the Group	Distribution Coverage	Ranking in the relevant PRC region/Total number of manufacturers in the relevant PRC region			Retail unit price/range of retail unit price	Type of distributors responsible for the distribution	Grade A/ Grade B under Medical Insurance Drugs Catalogs
					As at 31 December 2011	As at 31 December 2012	As at 31 March 2013	*(RMB)*		*(Note 2)*
9. Ceftizoxime Sodium for Injection (注射用頭孢唑肟鈉)	Treatment of various infection arised from bacteria and virus	Prescription Drugs	2009	Zhejiang province	5th/12 (Zhejiang)	4th/12 (Zhejiang)	4th/12 (Zhejiang)	22.7	Type 1 Distributor Customers	Grade B
10. Sulbenicillin Sodium for Injection (注射用磺苄西林鈉)	Treatment of various infection arised from bacteria and virus	Prescription Drugs	2009	National (except Liaoning province, Beijing, Fujian province Guangxi and Tibet	3rd/4 (Zhejiang)	4th/4 (Zhejiang)	3rd/4 (Zhejiang)	44.4	Type 1 Distributor Customers and 2 Distributor Customers	Grade B
11. Clostridium Butyricum Capsule (酪酸梭菌活菌膠囊) 0.2g x 24 pcs. 0.2g x 36 pcs.	Treatment of digestive system illness	OTC Drugs	2012	Zhejiang province	3rd/5 (Zhejiang)	3rd/5 (Zhejiang)	3rd/5 (Zhejiang)	38.2-56.5	Type 1 Distributor Customers	Grade B

Notes:

1. During the Track Record Period, the Zhejiang Provincial Price Bureau had lowered the maximum price of Ozagrel Sodium for Injection (注射用奧紮格雷鈉) three times. For further details, please refer to the sub-section headed "Price Control" under the "Business" section in this prospectus.

2. Drugs as listed in western medicines and TCM parts of the Medical Insurance Drugs Catalogs can be refunded by the social security fund, and those drugs are divided into two grades, namely, Grade A and Grade B, when they are refunded under the basic medical insurance. Patients purchasing Grade A drugs are entitled to reimbursement of the entire amount of the purchase price while patients purchasing Grade B drugs are required to pay a deductible and to obtain reimbursement for the remainder of the purchase price from the basic medical insurance. The amount of the deductible differs from region to region in the PRC.

Below is a description of each type of major products:–

Levocarnitine Injection (左卡尼汀注射液)

Levocarnitine Injection is known as L-carnitine, a derivative of amino acid, which is usually applied in the treatment of diseases such as muscular dystrophy, cardiomyopathy, acute and chronic myocardial infraction and angina pectoris, as well as parenteral nutrition.

According to the PICO Report, the Levocarnitine Injection distributed by our Group captured approximately 48.7%, 50.5% and 48.2% of the total sales value of Levocarnitine Injection in Zhejiang province for each of the two years ended 31 December 2011 and 2012 and the three months ended 31 March 2013, respectively. Our Group obtained the exclusive distribution right in Zhejiang province from the manufacturer which took the first place out of three eligible manufacturers from the perspective of market share for both years of 2011 and 2012 and as at 31 March 2013 in Zhejiang province. For each of the two years ended 31 December 2011 and 2012 and for the six months ended 30 June 2013, our revenue generated from Levocarnitine Injection amounted to approximately HK$20.1 million, HK$52.2 million and HK$28.3 million,

respectively, representing approximately 12.6%, 29.8% and 33.8% of the total revenue of our Group during the corresponding periods.

Ozagrel of Sodium for Injection (注射用奧紮格雷鈉)

Ozagrel of Sodium for Injection is a new type of antiplatelet aggregation drug and a frequently-chosen TXA 2 synthetase inhibitor, which can hamper the aggregation platelets and is widely applied in the treatment of acute thrombotic cerebral infraction and dyskinesia. This can improve the cerebral angiospasm and shrinkage and the concurrent cerebral ischemia symptoms resulting from a subarachnoid hemorrhage operation.

According to the PICO Report, the Ozagrel of Sodium for Injection distributed by our Group captured approximately 93.5%, 93.1% and 93.4% of the total sales value of Ozagrel of Sodium for Injection in Zhejiang province for each of the two years ended 31 December 2011 and 2012 and the three months ended 31 March 2013, respectively. Our Group obtained the exclusive distribution right in Zhejiang province from the manufacturer which took the first place out of three eligible manufacturers from the perspective of market share for both years of 2011 and 2012 and as at 31 March 2013 in Zhejiang province. For each of the two years ended 31 December 2011 and 2012 and for the six months ended 30 June 2013, our revenue generated from Ozagrel of Sodium for Injection amounted to approximately HK$12.7 million, HK$10.4 million and HK$81,000, respectively, representing approximately 8.0%, 6.0% and 0.2% of the total revenue of our Group during the corresponding periods. The substantial decrease of sales of such product for the six months ended 30 June 2013 was due to our Group's cessation in the sales of one of the specifications of such product, namely Ozagrel Sodium for Injection 20mg (注射用奧紮格雷鈉 20mg) since the unit gross profit amount of this product was limited after several price controls, and it became no longer profitable for us to continue the sales of this product.

Cefoxitin Sodium for Injection (注射用頭孢西丁鈉)

Cefoxitin Sodium for Injection is a second-generation semisynthetic cephalosporin antibiotics, which is usually applied in the treatment of the infections caused by indefinite or mixed pathogenic bacteria, respiratory tract infections, genito-urinary system infection, intra-abdominal infections, bone and joint infections and septicemia.

According to the PICO Report, the Cefoxitin Sodium for Injection distributed by our Group captured approximately 18.6%, 19.8% and 21.9% of the total sales value of Cefoxitin Sodium for Injection in Zhejiang province for each of the two years ended 31 December 2011 and 2012 and the three months ended 31 March 2013, respectively. Our Group obtained the exclusive distribution rights in Zhejiang province from the manufacturer which took the second place out of fifteen eligible manufacturers from the perspective of market share for both years of 2011 and 2012 and the first place out of fifteen eligible manufacturers for the three months ended 31 March 2013 in Zhejiang province. For each of the two years ended 31 December 2011 and 2012 and for the six months ended 30 June 2013, our revenue generated from Cefoxitin Sodium for Injection amounted to approximately HK$6.6 million, HK$6.4 million and HK$160,000, respectively, representing approximately 4.1%, 3.6% and 0.2% of the total revenue of our Group during the corresponding periods. The sales of such product

for the six months ended 30 June 2013 substantially decreased since the Cefoxitin Sodium for Injection 0.5g (注射用頭孢西丁鈉0.5g) has fallen within the category of limited use under the Administrative Catalogue of the Clinical Use of Antibiotics of Zhejiang Province (2012 version) (浙江省抗菌藥物臨床應用分級管理目錄(2012版)) issued by Zhejiang Provincial Health Bureau on 19 July 2012. The demands for these products decreased and we have not renewed the distribution agreement with the supplier of such product after the expiration of the distribution agreement on 30 December 2012.

Cefodizime Sodium for Injection (注射用頭孢地嗪鈉)

Cefodizime Sodium for Injection is a third-generation broad-spectrum semisynthetic cephalosporin antibiotics and has a notable curative effect in the treatment of the infections caused by the bacteria such as upper and lower tract urinary tract infections, lower respiratory tract infection and gonorrhea, as well as otitis media, sinusitis, gynecologic infections and preventive treatment of post-operative infections. Cefodizime Sodium for Injection is the first cephalosporin antibiotics with an enhancement effect on immune system and is effective against all kinds of acute and chronic infections.

According to the PICO Report, the Cefodizime Sodium for Injection distributed by our Group captured approximately 34.1%, 35.9% and 32.8% of the total sales value of Cefodizime Sodium for Injection in Zhejiang province for the two years ended 31 December 2011 and 2012 and the three months ended 31 March 2013, respectively. Our Group obtained the exclusive distribution right in Zhejiang province from the manufacturer which took the first place out of five eligible manufacturers from the perspective of market share for both years of 2011 and 2012 and as at 31 March 2013 in Zhejiang province. For each of the two years ended 31 December 2011 and 2012 and for the six months ended 30 June 2013, our revenue generated from Cefodizime Sodium for Injection was approximately HK$12.8 million, HK$18.3 million and HK$6.9 million, respectively, representing approximately 8.0%, 10.4% and 8.2% of the total revenue of our Group during the corresponding periods.

Thoymosin α 1 for Injection (注射用胸腺法新)

Thoymosin α 1 for Injection is an immunomodulator, which is usually applied in the treatment of hepatitis and impaired immunity and can enhance cancer patients' immune response after completion of radiotherapy and chemotherapy. For the purpose of hepatitis treatment, it is also applicable to the treatment of HBe antiogen-positive, decompensated liver cirrhosis, severe hepatitis, tumor relating hepatitis B and chronic hepatitis C.

According to the PICO Report, the Thoymosin α 1 for Injection distributed by our Group captured approximately 29.7%, 28.3% and 26.4% of the total sales value of Thoymosin α 1 for Injection in Shanghai for each of the two years ended 31 December 2011 and 2012 and the three months ended 31 March 2013, respectively. Our Group obtained the exclusive distribution right in Shanghai from the manufacturer which took the second place out of four eligible manufacturers from the perspective of market share for both years of 2011 and 2012 and the three months ended 31 March 2013 in Shanghai. For each of the two years ended 31 December 2011 and 2012 and for the six months ended 30 June 2013, our revenue generated from Thoymosin α 1 for Injection amounted to approximately HK$9.4 million, HK$12.9 million and HK$8.2 million, respectively, representing approximately 5.9%, 7.4% and 9.8% of the total revenue of our Group during the corresponding periods.

Isepamicin Sulfate Injection (硫酸異帕米星注射液)

Isepamicin Sulfate Injection is the latest generation aminoglycoside antibiotics, which is usually applied in the treatment of respiratory tract infections, genitourinary system infections, intra-abdominal infections (including peritonitis, cholangitis), bone, joint infections and septicemia.

According to the PICO Report, the Isepamicin Sulfate Injection distributed by our Group captured approximately 29.0%, 30.1% and 29.6% of the total sales value of Isepamicin Sulfate for Injection in Zhejiang province for each of the two years ended 31 December 2011 and 2012 and the three months ended 31 March 2013, respectively. Our Group obtained the exclusive distribution right in Zhejiang province from the manufacturer which took the second place out of three eligible manufacturers from the perspective of market share for both years of 2011 and 2012 and the three months ended 31 March 2013 in Zhejiang province. For each of the two years ended 31 December 2011 and 2012 and the six months ended 30 June 2013, our revenue generated from Ispeamicin Sulfate for Injection amounted to approximately HK$13.1 million, HK$10.0 million and HK$5.7 million, respectively, representing approximately 8.2%, 5.7% and 6.8% of the total revenue of our Group during the corresponding periods.

Cefixime Dispersible Tablet (頭孢克肟分散片)

Cefixime Dispersible Tablet is the third generation oral cephalosporin antibiotics, which is usually applied in the infections caused by streptococcus and pneumococcus, the acute attack of chronic bronchitis, acute bronchitis with bacterial infection, pneumonia, pyelonephritis, cystitis, gonococcal urethritis, the acute bacterial infection of the biliary tract system such as cholecystitis and cholangitis, scarlet fever, otitis media and nasosinusitis.

According to the PICO Report, the pharmaceutical products distributed by our Group captured approximately 13.6%, 14.2% and 7.8% of the total sales value of Cefixime Dispersible Tablet in Zhejiang province for each of the two years ended 31 December 2011 and 2012 and the three months ended 31 March 2013, respectively. Our Group obtained the exclusive distribution rights in Zhejiang province from the manufacturer which took the third place out of seven eligible manufacturers from the perspective of market share for both years of 2011 and 2012 and the three months ended 31 March 2013 in Zhejiang province. For each of the two years ended 31 December 2011 and 2012 and for the six months ended 30 June 2013, our revenue generated from Cefixime Dispersible Tablet amounted to approximately HK$7.8 million, HK$6.8 million and HK$2.2 million, respectively, representing approximately 4.9%, 3.9% and 2.6% of the total revenue of our Group during the corresponding periods.

Alanyl Glutamine for Injection (注射用丙氨酰谷氨酰胺)

Alanyl Glutamine for Injection is usually applied in the process of catabolism and hypermetabolism, such as trauma, major operation, acute and chronic infections, burn injury, intestinal function impairment, bone marrow transplantation and malignant tumor.

According to the PICO Report, the Alanyl Glutamine for Injection distributed by our Group captured approximately 81.3%, 71.7% and 80.9% of the total sales value of Alanyl Glutamine for Injection in Zhejiang province for each of the two years ended 31 December 2011 and 2012 and the three months ended 31 March 2013, respectively. Our

Group obtained the exclusive distribution right in Zhejiang province from the manufacturer which took the first place out of two eligible manufacturers from the perspective of market share for both years of 2011 and 2012 and for the three months ended 31 March 2013 in Zhejiang province. For each of the two years ended 31 December 2011 and 2012 and for the six months ended 30 June 2013, our revenue generated from Alanyl Glutamine for Injection amounted to approximately HK$4.6 million, HK$9.2 million and HK$4.3 million, respectively, representing approximately 2.9%, 5.3% and 5.2% of the total revenue of our Group during the corresponding periods.

Ceftizoxime Sodium for Injection (注射用頭孢唑肟鈉)

Ceftizoxime Sodium for Injection is a third-generation broad-spectrum semisynthetic cephalosporin antibiotics, which is usually applied in the treatment of respiratory tract infections, urinary tract infection, intra-abdominal infections, bone and joint infections.

According to the PICO Report, the Ceftizoxime Sodium for Injection distributed by our Group captured approximately 3.6%, 4.7% and 4.5% of the total sales value of Ceftizoxime Sodium for Injection in Zhejiang province for the year ended 31 December 2011 and 2012 and the three months ended 31 March 2013, respectively. Our Group obtained the exclusive distribution right in Zhejiang province from the manufacturer which took the fifth place out of twelve eligible manufacturers from the perspective of market share for 2011 and the fourth place out of twelve eligible manufacturers in 2012 and for the three months ended 31 March 2013. For each of the two years ended 31 December 2011 and 2012 and for the six months ended 30 June 2013, our revenue generated from Ceftizoxime Sodium for Injection was approximately HK$3.7 million, HK$6.9 million and HK$3.7 million, representing approximately 2.3%, 3.9% and 4.4% of the total revenue of our Group during the corresponding periods.

Sulbenicillin Sodium for Injection (注射用磺苄西林鈉)

Sulbenicillin Sodium for Injection is a broad spectrum semisynthetic penicillin antibiotics, which is usually applied in the treatment of pneumonia, urinary tract infections, skin and soft tissue infections and pelvic inflammatory disease.

According to the PICO Report, the Sulbenicillin Sodium for Injection distributed by our Group captured approximately 12.4%, 6.5% and 20.8% of the total sales value of Sulbenicillin Sodium for Injection in Zhejiang province for each of the two years ended 31 December 2011 and 2012 and the three months ended 31 March 2013, respectively. Our Group obtained the exclusive distribution right in Zhejiang province from the manufacturer which took the third place out of four eligible manufacturers from the perspective of market share for 2011, the fourth place out of four eligible manufacturers from the perspective of market share in 2012 in Zhejiang province and the third place out of four eligible manufacturers from the perspective of market share for the three months ended 31 March 2013. For each of the two years ended 31 December 2011 and 2012 and for the six months ended 30 June 2013, our revenue generated from Sulbenicillin Sodium for Injection amounted to approximately HK$10.4 million,

HK$642,000 and HK$4.0 million, respectively, representing approximately 6.5%, 0.4% and 4.8% of the total revenue of our Group during the corresponding periods.

Clostridium Butyricum Capsule (酪酸梭菌活菌胶囊)

Clostridium Butyricum Capsule is a strictly anaerobic endospore-forming gram-positive acid, which is usually applied in the treatment of diarrhea and digestive system relevant illness.

According to the PICO Report, the Clostridium Butyricum Capsule distributed by our Group captured approximately 9.3%, 6.2% and 12.2% of the total sales value of Clostridium Butyricum Capsule in Zhejiang province for each of the two years ended 31 December 2011 and 2012 and the three months ended 31 March 2013, respectively. Our Group obtained the exclusive distribution right in Zhejiang province from the manufacturer which took the third place out of five eligible manufacturers from the perspective of market share for the year ended 31 December 2012 in Zhejiang province and for the three months ended 31 March 2013. For each of the year ended 2012 and for the six months ended 30 June 2013, our revenue generated from Clostridium Butyricum Capsule amounted to approximately HK$1.7 million and HK$2.9 million, respectively, representing approximately 1.0% and 3.4% of the total revenue of our Group during the corresponding periods.

QUALITY CONTROL

We obtained the GSP Certificate from SFDA on 22 August 2011, which is valid until 21 August 2016 and may be extended for a further period of five years by making an application three months in advance of the expiration of the GSP Certificate for a re-examination by the relevant authority. We have followed the GSP requirements and seek to ensure that our products meet the national standards and the requirements of SFDA. It is our policy to select suppliers with sound credentials and product quality track records. We have established a set of quality control policies covering, among other things, the management of our warehouse in Xiaoshan District, Hangzhou, Zhejiang Province, the PRC and the delivery of products to our Distributor Customers. We have maintained a temperature-controlled environment in our warehouse for a suitable storage condition to ensure the quality and safety of our pharmaceutical products.

Our quality control department is responsible for formulating and implementing our quality management system for our distribution operation to ensure compliance with stipulated standards and procedures. Our quality control department is headed by Ms. Yang. Please refer to "Directors, senior management and staff" for the qualification of Ms. Yang. As at the Latest Practicable Date, our quality control department comprised two quality control inspectors. Each of our quality control inspectors has acquired clinical medicine university qualification and the medical checking professional qualification in the PRC, respectively. Our quality control inspectors at our warehouse are responsible for (i) ensuring that the quality control system is in line with the GSP requirements during the validity period of the GSP Certificate by conducting routine maintenance and holding staff training; (ii) conducting daily product sampling inspections; and (iii) conducting quarterly product quality sampling inspections. As at the Latest Practicable Date, we also engaged independent professionals to conduct quality inspections annually by sampling to ensure the quality of our products.

We undertake quality control inspections on the products that we procure from our suppliers to the delivery of the products to our Distributor Customers. In addition, our Group, will carry out laboratory or clinical testing of the quality of the pharmaceutical products on the sampling basis to safeguard the quality of the products, which is not compulsorily required under GSP Standards. For further details, please refer to paragraph headed "Inspection on products procured from our suppliers" below. Below are the quality control inspection procedures in compliance with the applicable GSP standards that our Group has implemented.

Delivery of products from our suppliers

Other than the distribution agreements with Type 1 Supplier B and Type 1 Supplier C, under the existing distribution agreements that our Group entered into with our suppliers, our suppliers shall be responsible for the transportation, and according to such agreements and the relevant laws and regulations of the PRC, our suppliers shall bear all the risks associated with the transportation and delivery process from the suppliers warehouse to the designated pick-up point as designated by our Group. Our PRC legal adviser further advises that according to the relevant PRC laws and regulations, and pursuant to the two distribution agreements entered into by our Group with, Type 1 Supplier B and Type 1 Supplier C respectively, our Group shall be responsible for the transportation and bear the risk during the transportation and the delivery process.

Inspection on products procured from our suppliers

Once the products have been procured from and delivered by our suppliers to our warehouse, our quality control inspectors will inspect the quality of the product on a batch by batch basis in compliance with the GSP standards and our quality control policies. Each batch of the products delivered by our suppliers is attached with a "quality inspection report", which sets out the quality test results of the products as conducted and certified by the quality control personnel of our suppliers. Our quality control inspectors will check information such as the invoices, the name of the suppliers, the specifications, dosage forms, quantities, batch numbers, validity periods, origins of the products, as well as the quality verification certificates and quality inspection reports of the products provided by our suppliers as required under the GSP standards.

The quality inspection of our products is conducted by means of random sampling in the following manner:

(i) if there are less than 50 units in one batch, the quality control inspectors will pick two samples from each batch;

(ii) if there are more than 50 units in one batch, the quality control inspectors will pick two samples for the first 50 units and an additional one for every extra 20 units;

(iii) for each unit that has been chosen, the quality control inspectors will take at least three pieces from the top, middle and bottom of the batch of units as samples;

(iv) the quality control inspectors will remove all the packaging of each sample and will check each sample according to different types of products, to inspect if those samples have any abnormal substance or condition; and

(v) if any particular unit appears or is found to be abnormal, the quality control inspectors will double the number of samples to be taken from that particular batch units for re-inspection.

Once our quality control inspectors have completed the abovementioned quality inspection procedures, where:

(i) the quality and specifications of the product do not meet the specifications as described in the quality inspection report issued by our suppliers and/or in the distribution agreement; or

(ii) the product falls within one year period from the expiry dates of the products; or

(iii) damage and material quality problem have been found during our quality inspection; or

(iv) the package of the product is not completed; or

(v) the product has been recalled or suspended by SFDA,

such product fails our quality inspection. Our quality control inspectors will fill in the purchase return approval form and contact the sales team to arrange the return of the purchase to our suppliers.

Storage of products

As soon as the abovementioned quality inspection procedures have been completed and an approval has been granted by our quality control inspectors, the products will be stored in our temperature-controlled warehouse by product type and batch number to ensure that they are sold on a first-in-first-out basis. Our Group will maintain our warehouse clean and hygienic. Our warehouse staff will handle and transport the products with care to avoid causing any damages. Our quality control inspectors check the temperature of the storage area twice a day. They also undertake a maintenance inspection and compile a series of records including the name, the specifications, the batch number, the validity period, the sampling method and numbers, the result of the inspections of the products. Those records will be kept for one to three year(s) after the expiry date of the products.

Delivery of products to our Distributor Customers

Once we have received the purchase orders from our Distributor Customers, we will arrange for the delivery of the products from our warehouse to the place designated by our Distributor Customers. Our PRC legal adviser is of the view that in accordance with the distribution agreements entered into between our Group and our Distributor Customers and the relevant laws and regulations of the PRC, our Group shall be responsible for the transportation and bear all the risks associated with the transportation and delivery process from our warehouse to the designated pick-up point as determined by our Distributor Customers. For the delivery locations in Hangzhou and cities around Hangzhou area, our own logistic team will be responsible for the delivery. As at the Latest Practicable Date, our logistic team comprised 2 vehicles with temperature controlled function for delivery of our products to the Distributor Customers. For delivery locations outside Hangzhou, we will engage the logistics services provider, and if there are any damages or losses during the delivery process, the logistics services provider will compensate the Company in accordance with the insurance claims.

Our Group has set out certain assessment criteria in the selection of logistics service providers based on their reputation, credibility, historical quality and safety track record. During the Track Record Period and as at the Latest Practicable Date, our Group had engaged a logistic service provider, an Independent Third Party, headquartered in Shanghai, the PRC. This logistic service provider is currently rated as a national approved AAAAA class company in logistics industry approved by China Federation of Logistics and Purchasing (中國物流與採購聯合會), an organisation approved by the State Council.

Our quality control department is responsible for monitoring our logistic service providers to follow our standard operation procedures by reviewing the temperature delivery data upon completion of each delivery of the relevant products required to be stored in a cool environment. Our warehouse staff and the logistic service provider will transport the products with care to avoid any damages.

We have installed a centralised inventory management system which enables us to monitor our inventory levels at all times. The inventory levels of our products are updated from time to time with daily monitoring of the stock levels by our staff in the warehouse so as to check the accuracy of inventory records and make necessary adjustments for any products which may be damaged during the delivery process from our suppliers to our warehouse.

As a result of adopting the abovementioned quality control measures, our Group did not experience any material safety problem concerning the quality of the pharmaceutical products our Group distributed during the Track Record Period.

Return of products procured from our suppliers

During the Track Record Period, our Group returned a batch of products, namely, Cefotaxime Sodium and Sulbactam Sodium for Injection 2.25g (注射用頭孢噻肟鈉舒巴坦鈉2.25g), to Kaihongxin on 31 January 2012, which amounted to approximately HK$8,146,800. The reason for the purchase return was that the relevant batch of products fell within less than one year from the expiration date of the products as identified by our quality control inspectors during the quality check of the products upon its delivery. As agreed between Kaihongxin and our Group, our Group only accepts products with a valid period of more than one year. In this connection, our Group liaised with Kaihongxin for arranging return of the products. Kaihongxin subsequently agreed to deliver a new batch of the same products to our warehouse. As at the Latest Practicable Date, Kaihongxin has fully resumed the supply of the product and the first batch of the product has arrived at our warehouse on 24 May 2013. For further details in relation to the shortage of supply of the product by Kaihongxin, please refer to the paragraph headed "Product shortage from our suppliers during the Track Record Period" under the sub-section headed "Phase 2 – Procurement of products from our suppliers" under the "Business" section.

According to the PICO Report, it is the industry practice that the pharmaceutical distributors normally purchase pharmaceutical products with a validity period of not less than half year, whereas our Group only procures pharmaceutical products with a validity period of not less than one year.

Our Directors are of the view that the quality control inspectors of our Group have taken the necessary precautionary measures during the quality check process, where the expiration period problem on the batch of product supplied by Kaihongxin has been successfully identified. This demonstrates that our Group's quality control procedures have been

successfully implemented. As we cannot guarantee the quality of the product provided by our suppliers, our Group continues to rely on our quality control inspectors to conduct quality control inspection of the newly arrived products in accordance with our quality control standard and the requirements as set out in the GSP standards. Meanwhile, our Group will communicate with our suppliers to make sure that they will not deliver their products with a validity period for less than a year. Our quality control inspection includes inspection of the specification, dosage forms, quantities, batch numbers, validity periods, origins of the products, as well as the quality verification certificates and quality inspection reports of the products provided by our suppliers as required under the GSP standards.

Incidents related to quality of the products we distributed

Since the commencement of our pharmaceutical business, our Group has encountered one claim and one administrative penalty in relation to the quality of the products we distribute. The details of two incidents are set out as below:

(1) In 2009, Zhejiang Xin Rui Pharmaceutical entered into several sales contracts with a former Distributor Customer for the sale of a pharmaceutical product, namely, Naloxone Hydrochloride for Injection (鹽酸納洛酮注射液) as supplied by one of the former suppliers, which was a pharmaceutical manufacturer. The sales contracts contained, among other things, a warranty given by Zhejiang Xin Rui Pharmaceutical that the quality of the products distributed to that former Distributor Customer was in compliance with the national pharmaceutical standards.

The former Distributor Customer sold those products to a pharmaceutical enterprise ("**Pharmaceutical Enterprise A**"). Pharmaceutical Enterprise A then sold the products concerned to another pharmaceutical enterprise ("**Pharmaceutical Enterprise B**"), which were subsequently sold to four hospitals in the PRC during the period from March to July 2009.

On 18 June 2009, Jiangsu province Huaian Food and Drug Administration, by sampling, assessed and found a particular batch of those products to be of inferior quality. As a result, each of the above-mentioned four hospitals, Pharmaceutical Enterprise A and Pharmaceutical Enterprise B was penalised.

In March 2010, the former Distributor Customer brought the legal proceedings against Zhejiang Xin Rui Pharmaceutical for the loss and damages arising from the assessment of those pharmaceutical products concerned to be of inferior quality in breach of the sales contracts described above. In August 2010, the court ordered Zhejiang Xin Rui Pharmaceutical to pay, among other things, a compensation in the amount of approximately RMB1,049,000 to our former Distributor Customer. Zhejiang Xin Rui Pharmaceutical had appealed against the court decision and the appeal was dismissed in October 2010.

In view that the pH value of that particular batch of Naloxone Hydrochloride for Injection (鹽酸納洛酮注射液) did not meet the prescribed standard and the pharmaceutical manufacturer should be held responsible, Zhejiang Xin Rui Pharmaceutical was entitled to take action against the pharmaceutical manufacturer. In November 2010, Zhejiang Xin Rui Pharmaceutical brought the arbitration proceedings against the pharmaceutical manufacturer of the product concerned for loss and damages, which amounted to approximately RMB1,062,000, being the abovementioned compensation paid and the relevant court fee.

In March 2011, our Group had reached a settlement with the relevant pharmaceutical manufacturer after the process of arbitration proceedings and recovered our losses and damages of the abovementioned sum of approximately RMB1,062,000 from such pharmaceutical manufacturer.

For each of the two years ended 31 December 2010 and 2011, our Group continued to distribute Naloxone Hydrochloride for Injection (鹽酸納洛酮注射液) of the same type, but of different batch(es) of those products allegedly found of inferior quality. Our PRC legal adviser confirmed that there is no statutory provision prohibiting sales of a pharmaceutical product of the other different batches should a particular batch of that product was found of inferior quality, unless the relevant authority has also required cessation in the sale of that product of different batch(es). In this connection, our Directors confirmed that our Group had not received (i) any notice from SFDA or any other relevant authority in the PRC as to any quality problem of that product of different batch(es) we distributed or any requirement to suspend or cease the sale of such product, or (ii) any notice or complaint from the relevant pharmaceutical manufacturer or our Distributor Customers as to the quality problem of such product. Accordingly, our PRC legal adviser confirmed that it was lawful for our Group to sell the other batches of such product, which had not been found of inferior quality by any governmental authority, under the existing PRC laws. The sales amount of such Naloxone Hydrochloride for Injection (鹽酸納洛酮注射液) amounted to approximately HK$298,000 and HK$442, respectively, during the corresponding periods. Our Group had then ceased distribution of Naloxone Hydrochloride for Injection (鹽酸納洛酮注射液) since early 2011, after all the then inventory of such product of different batches was sold out. As at the Latest Practicable Date, our Group did not have any contractual relationship with the former Distributor Customer and the pharmaceutical manufacturer which had supplied us with the product of inferior quality.

(2) In November 2010, the relevant government authority imposed administrative penalties on Zhejiang Xin Rui Pharmaceutical for the inferior quality of our product, namely, Jinfukang Koufuye (金复康口服液) that we distributed, resulting in losses suffered by our Group in the amount of approximately RMB13,179. Our Group had obtained the quality testing report issued by Hangzhou Institute for Drug Control (杭州市藥品檢驗所) and the Directors are of the view that the product had fundamental quality problem with the substances of Jinfukang Koufuye (金复康口服液) being less than the official benchmark as prescribed by CFDA, which the pharmaceutical manufacturer should be held responsible and our Group was entitled to take actions against the pharmaceutical manufacturer for recovering our losses and damages arising from the inferior quality of Jinfukang Koufuye (金复康口服液). Notwithstanding our entitlement to take legal action, we had not instituted any such legal action against the pharmaceutical manufacturer concerned for recovery of such loss and damages with a view to saving the time and costs which would otherwise be involved and incurred in legal proceedings. For the year ended 31 December 2010, the sale of Jinfukang Koufuye (金复康口服液) amounted to approximately HK$845,000. We have immediately ceased selling Jinfukang Koufuye (金复康口服液) after our receipt of the notice of administrative penalty from Hangzhou Food and Drug Administration (杭州市食品藥品監督管理局) in September 2010. During the Track Record Period, our Group did not distribute Jinfukang Koufuye (金复康口服液) nor have any contractual relationship with such supplier of the product.

Our Directors believe that the abovementioned incidents were two isolated events and are due to the fundamental quality of the products manufactured by the pharmaceutical manufacturer. Our PRC legal adviser is of the opinion that our Group would have been entitled to seek compensation from the suppliers for the relevant losses in relation to the quality issues of the products if the fundamental quality problems of the products were caused by the default of the suppliers although our Group were held responsible for the two quality control incidents under the PRC laws and regulations. Since our Group is merely a pharmaceutical distributor which does not have any control on the quality of the product manufactured by the suppliers, our Group, like the other pharmaceutical distributors, does not have any facilities to conduct any scientific test or clinical application of the products. However, we have engaged Hangzhou Institute of Drug Control (杭州市藥品檢驗所), a government controlled certified testing centre in Hangzhou City, to conduct clinical testing for our pharmaceutical products. In addition, our Group conducts quality inspection of the product by our quality control inspectors in compliance with the applicable GSP standards. Under the current GSP standards, the pharmaceutical operators are required to inspect the quality of the procured pharmaceuticals batch by batch by sampling within specified period at the designated spot, including without limitation checking the packages, tags, specifications, and other related documents of the pharmaceuticals and the quality inspection report and it is the ultimate responsibility of our Group's suppliers to guarantee the quality of the products and to make sure that the quality meet the standard as set out in the quality inspection report provided on each batch of the products delivered. Therefore, the aforesaid inspection measures taken by the Group are in compliance with the current GSP standards. For further details, please refer to the paragraph headed "The brand name of the products we distribute as well as our corporate image and reputation may be materially and adversely affected as a result of any legal or administrative proceedings relating to the alleged inferior quality of the products we distribute and also the existence of counterfeit products in the pharmaceutical industry" under the sub-section headed "Risks relating to the business" under the "Risk factors" section of this prospectus.

In order to prevent the abovementioned incidents in relation to the quality of the products we distributed from happening in the future, we have been improving our standard of supplier selection process and quality control by implementing the following measures upon occurrence of the abovementioned incidents:

(i) once the product of inferior quality has been identified by our Group or by the food and drug administration of the respective province in the PRC, our Group will immediately cease selling the product found to be of inferior quality, where the cessation of selling of those inferior products are initiated and approved by our quality control department. Our quality control personnel will issue the notice of cessation of sales of such inferior products to our management, our sales and procurement departments which will immediately halt all the procurement and sales activities of such inferior products from the date of such notice.

Our Group will report the product quality incident to the the relevant food and drug administration in the respective provinces in the PRC. In the event that the product of inferior quality is caused by fundamental quality problems, such batch of products of inferior quality will be destroyed under the supervision of the food and drug administration. Our Group will then assess the responsible party for such quality incident and if it is found to be our supplier's responsibility, we will, upon seeking advice from our legal advisers to be appointed, take necessary legal action against the relevant supplier for recovery of any losses and damages arising from the inferior products. We will also assess historical record of the product of inferior quality provided and the supplier itself. If the quality incident relating to the product of inferior quality has persistently occurred, we will terminate our contractual relationship with such suppliers immediately;

(ii) we have further improved and strengthened the selection and assessment of potential supplier process by taking into consideration (i) the validity of GMP and/or GSP certificates of our suppliers; (ii) the reputation, product quality and the production capacities of our suppliers; and (iii) the historical quality control record of our suppliers. Our Group may also conduct site visits of our suppliers' production facilities as part of the selection and assessment process. We have completed the review on such process and implemented the relevant improvement procedures in the third quarter of 2012. For further details, please refer to the paragraph headed "Selection of our suppliers" under the sub-section headed "Phase 1 – Acquisition of distribution rights of pharmaceutical products from our suppliers" under the "Business" section;

(iii) we have further reviewed and improved our Group's quality control systems, including updating the quality control guidelines for our employees in charge of quality control, and/or raising the requirement on the years of industry or work experience for appointment of the relevant quality control staff. In the future, we will continue to make full effort in ensuring compliance of our quality control guidelines with all the applicable regulations governing the distribution of our products, including any revision of GSP standards, in order to ensure that our quality control standards are in line with the industry standard at all times. We will look for recruitment of more quality control professionals to our quality control department in order to meet our business expansion in the future; and

(iv) we have engaged Hangzhou Institute of Drug Control (杭州市藥品檢驗所) ("**HIDC**"), a government controlled certified testing center in Hangzhou City, the PRC, to conduct clinical testing for our pharmaceutical products. Our Group will (i) conduct such clinical testing for every newly acquired product, whose annual sales are estimated to be more than 3% of our total revenue; and (ii) conduct an annual clinical testing for all the existing major products of our Group with the annual sales of more than 3% of the Group's total revenue. As at the Latest Practicable Date, we had submitted 9 types of products (including 12 specifications) for such clinical testing. 4 types of products (including 4 specifications) had completed such testing with the result in compliance with requirement as set out in the Pharmacopoeia of People's Republic of China (2010 Edition) (中國藥典2010年版) and 5 types of products (including 8 specifications) are still in the progress of such clinical testing and expected to be completed in December 2013 and the result if available will be disclosed in the Annual Report for 2013. As advised by our PRC legal adviser, such quality control measure is not required under the current GSP standard. Our Directors are of the view that the engagement of HIDC, together with the existing quality control policies and procedures that we have implemented, will however strengthen the product quality control of our Group and minimise the risk of recurrence of similar incidents in the future.

Our Directors are of the view that such incidents relating to the quality of products we distributed was resulted from the fundamental quality problem of the products distributed by our suppliers and occurred outside the Track Record Period. After occurrance of the abovementioned quality control incidents, our GSP certificate was renewed on 22 August 2011, and as at the Latest Practicable Date, had not been revoked by the relevant regulatory bodies in the PRC and would remain valid until 21 August 2016. Further, after the implementation of the above measures, we had not experienced any material quality problems relating to our products reported by our Distributor Customers or relevant government authorities or any material legal claims due to the quality of our products, nor did we have any material product recall from the government authorities, which may affect our daily operation. The Directors considered that the above measures are proven to be effective and successful in preventing the recurrence of the related incidents in the future. In addition our Group strives to ensure that the quality control policy will be implemented and strengthened from time to time in accordance with any regulations governing the distribution of our pharmaceutical products including any revision of the GSP standards.

During the Track Record Period and as at the Latest Practicable Date, our Group had not received any type of complaint in respect of the quality and safety issue of the products as supplied by our Group.

OCCUPATIONAL HEALTH AND SAFETY

The PRC government imposes a number of regulatory requirements on pharmaceutical companies with regard to employee safety. Please refer to the sub-section headed "Occupational health and safety" under the section headed "Regulatory overview" in this prospectus for the details of these requirements. We regard occupational health and safety as one of our important social responsibilities and have implemented safety measures at our warehouse to ensure compliance with the applicable regulatory requirements. We believe that safety practices are the only means to ensuring employee safety, and we also conduct regular safety training sessions for our employees, including accident prevention and management. During the Track Record Period, we had complied with all the applicable occupational health and safety regulations in the PRC.

PRODUCT DEVELOPMENT

On 24 March 2011, Zhejiang Xin Rui Pharmaceutical and Lodays Pharma (Hubei) has entered into an agreement to establish a joint venture, namely Haikou Xin Lang, in which Zhejiang Xin Rui Pharmaceutical and Lodays Pharma (Hubei) each owns 50.1% and 49.9% of its shareholdings, respectively. Pursuant to the joint venture agreement, Zhejiang Xin Rui Pharmaceutical and Lodays Pharma (Hubei) have agreed to jointly commence a product development project of a new pharmaceutical product in relation to cardio-cerebrovascular disease. Haikou Xin Lang currently has no definite plan as to the development of the pharmaceutical product in relation to cardio-cerebrovascular disease. Zhejiang Xin Rui Pharmaceutical, Lodays Pharma (Hubei) and Haikou Xin Lang entered into a supplemental agreement dated 19 October 2012, pursuant to which the parties agreed that any matters relating to such pharmaceutical product development including but not limited to a concrete development plan, strategy, timetable, budget and capital contribution shall only be carried out with mutual written consents from Zhejiang Xin Rui Pharmaceutical and Lodays Pharma (Hubei).

INTELLECTUAL PROPERTY RIGHTS

We currently do not own any trademark or patent that is material to our business operation. However, we are aware of the significance of developing and protecting the intellectual property rights to our pharmaceutical business development in the long term.

During the Track Record Period, we were not involved in any litigation involving infringement of intellectual property rights.

COMPETITION

We are principally engaged in distribution and marketing of various pharmaceutical products in the PRC and have obtained nationwide and regional distribution rights of certain pharmaceutical products in the PRC market.

The pharmaceutical distribution market is competitive in the PRC. Our Directors consider that we have established our reputation amongst the Distributor Customers and sub-distributor customers in the PRC pharmaceutical industry over the past years and are able to operate competitively. However, our Directors also believe that we face competitors with financial resources, sales and marketing expertise and distribution network comparable to or better than those of our Group.

Moreover, our Directors believe that the increase in the general population in the PRC and the aging population, accompanied by the increasing health concern in the PRC has led to an increase in the demand for high quality pharmaceutical products in recent years, which may attract more enterprises to enter into the pharmaceutical distribution market in the PRC. According to the PICO Report, the aggregate sales amount of seven major categories of pharmaceutical products increased from approximately RMB300.0 billion in 2005 to approximately RMB1,117.4 billion in 2012, representing a CAGR of approximately 20.7%. Our major Distributor Customers are located in Hangzhou and Shanghai, the heart of the Eastern China region of the PRC, which gives us a more competitive edge as compared to other players in the other regions in the PRC. The total sales value in Eastern China region increased from approximately 37.0% in 2005 to 40.5% in 2012, which was the highest compared to other regions in the PRC. Our Directors are of the view that the pharmaceutical industry in the PRC will continue to grow in the forthcoming years. We believe that these factors will foster a good environment and opportunity for the pharmaceutical distribution players in the PRC.

INFORMATION MANAGEMENT SYSTEM

On 18 August 2010, we entered into a SCM software agreement with a software technology company in Hangzhou, the PRC (which, to the best of the Directors' knowledge and belief, is an Independent Third Party) for a lump sum fee of RMB100,000 which has been fully settled during the Track Record Period and a maintenance fee of RMB10,000 per annum.

Our SCM Software system provides invoice preparation, inventory tracking and management of our Distributor Customers' accounts. We maintain a database containing our up-to-date inventory flow and volume and also the details of our suppliers and Distributor Customers.

INSURANCE

In accordance with the requirements of the applicable PRC laws and regulations, we maintain insurance covering unemployment, pension, personal injury, maternity and medical expenses for our employees in the PRC. We also maintain insurance policies in respect of our inventories stored in our warehouse in Hangzhou which cover physical loss or damage arising from natural hazards or accidents in relation to our warehouse operation in the PRC. In view of the scope of insurance coverage described above, our Directors are of the view that the insurance coverage of our Company is adequate for our Group's operation in the PRC as we have maintained all insurance required under the applicable PRC laws and regulations, and we believe that it is in line with the norm of the pharmaceutical distribution industry in the PRC.

Save as disclosed above, we do not maintain any product liability insurance or insurance covering potential liability relating to the release of hazardous materials as (i) we are primarily engaged in the distribution of pharmaceutical products in the PRC but not involved in any pharmaceutical manufacturing process; and (ii) so far as we are aware, maintaining product liability insurance for pharmaceutical products and insurance relating to the release of hazardous materials is not a common industry practice in the PRC.

In the event that any of our products is found to be of inferior quality, our Group may encounter legal claim instituted by our Distributor Customers for any loss or damages. In this regard, our Group will request our suppliers to indemnify any loss or damages that our Distributor Customers claim against us. During the Track Record Period, we encountered one legal claim from a Distributor Customer regarding one of our products found to be of inferior quality and we had subsequently taken arbitration proceedings against the pharmaceutical manufacturer concerned for recovery of the judgment sum incurred arising from the products to be found of inferior quality. For further details, please refer to the sub-section headed "Quality control" under the section headed "Business" of this prospectus. Our Directors believe that the insurance policies maintained by the pharmaceutical manufacturers generally are sufficient to cover potential product liability claims arising from the use of their pharmaceutical products that are distributed by us.

We have complied with the relevant PRC regulations in relation to the social security insurance for all of our employees by making contribution to a pension contribution plan, a medical insurance plan, an unemployment insurance plan, a work-related injury insurance plan and a maternity insurance plan. We have also made contribution to the employee's housing provident fund according to the applicable PRC regulations.

During the Track Record Period, our Group has not received any claims arising from any accidents relating to product liability. As at the Latest Practicable Date, our Group did not receive any reimbursement from the insurance companies of the costs to settle any product quality claim.

During the Track Record Period and up to the Latest Practicable Date, there was no fire, explosion, spill, corrosion, pollution or other unexpected or dangerous accident causing personal injury or death, property damage or interruption of our operations which had a material impact on us.

We will continue to review and assess our risk portfolio and make necessary and appropriate adjustments to our insurance practices to align with our needs and with industry practice in the PRC.

PROPERTIES

Head Office

Our head office is located at Rooms 3702-03, Dikai International Centre, Jianggan District, Hangzhou City, Zhejiang Province, the PRC.

Offices and warehouse

As at the Latest Practicable Date, the Group owned one property, acquired the right to use certain carparking spaces and rented/was granted licence to use five properties, with a total gross floor area of approximately 3,523.8 sq.m. for use as offices and warehouse and the Group had no property under construction.

Zhejiang Xin Rui Pharmaceutical has entered into a tenancy agreement (as supplemented by a confirmation dated 15 August 2012) as tenant with Mr. Yang Qi (楊奇) and Ms. Tu Yueli (屠月麗) as landlords to lease the premises at Room 3703, Dikai International Center, Jianggan District, Hangzhou City, Zhejiang Province, PRC (中國浙江省杭州市江干區迪凱國際中心3703室) at an annual rental of RMB550,099 (equivalent to approximately HK$680,858) for a term of 3 years from 1 April 2012 to 31 March 2015 for its office use. For further details, please refer to the sub-section headed "Zhejiang Xin Rui Pharmaceutical Office" under the "Connected Transactions" section in this prospectus.

Save as disclosed above, all the properties of our Group were bought or rented from Independent Third Parties.

Details of the properties owned by our Group are set out in the table below:

Location	**Date of Acquisition**	**Gross Floor Area**	**Consideration** *(RMB)*	**Usage**
Room 3702, Dikai International Centre, Jianggan District, Hangzhou City, Zhejiang Province, the PRC	15 January 2010	343.19 sq.m.	9,823,814 (equivalent to approximately HK$12,458,864)	Office

Details of the properties which our Group has acquired the right to use are set out in the table below:

Location	**Date of Acquisition**	**Gross Floor Area**	**Consideration** *(RMB)*	**Usage**
Carparking Space Nos. 366, 366-1, 367 and 368 Dikai International Centre, Jianggan District, Hangzhou City, Zhejiang Province the PRC	20 January 2010	N/A	620,000 (equivalent to approximately HK$786,303)	Carparking

Details of properties licensed to/rented by our Group are set out in the table below:

Location	Monthly Rent	Duration	Gross Floor Area	Usage
Room 3703, Dikai International Centre, Jianggan District, Hangzhou City, Zhejiang Province, the PRC	RMB45,873 (equivalent to approximately HK$56,774)	1 April 2012 – 31 March 2015	376.78 sq.m.	Office
Portion of No. 4789, Shidai Road, Wenyan Town, Xiaoshan District, Hangzhou City, Zhejiang Province, the PRC	1st year – RMB19,935 (equivalent to approximately HK$24,033) 2nd year – RMB21,781 (equivalent to approximately HK$26,957) 3rd year – RMB23,627 (equivalent to approximately HK$29,663) 4th year – RMB25,473 (equivalent to approximately HK$31,981) 5th year – RMB27,318 (equivalent to approximately HK$34,297)	21 October 2011 – 20 October 2016	2,215 sq.m.	Warehouse
Room 1805, No. 42 Fengqi Road East, Jianggan District, Hangzhou City, Zhejiang Province, the PRC	N/A	1 June 2012 – 31 May 2017	42.64 sq.m.	Office

Location	Monthly Rent	Duration	Gross Floor Area	Usage
Room 15J, Block A, Chengtian Garden, No. 8 Jinmao Road West, Longhua District, Haikou City, Hainan Province, the PRC	N/A	29 March 2011 – 28 March 2016	155.19 sq.m.	Office
Room 1001 on 10th Floor, Sino Centre, Nos. 582-592 Nathan Road, Kowloon, Hong Kong	HK$16,200	1 September 2013 – 31 August 2014	391 sq.ft.	Office

Ascent Partners Valuation Service Limited has valued the properties owned by us as at 31 August 2013 at RMB12,400,000 (equivalent to approximately HK$15,738,000), with RMB12,400,000 (equivalent to approximately HK$15,738,000) attributable to us. The text of the letter and the valuation certificates issued by Ascent Partners are set out in the valuation report set forth in Appendix III to this prospectus.

EMPLOYEES

We had 41, 35 and 38 employees as of 31 December 2011, 31 December 2012 and 30 June 2013, respectively.

As at the Latest Practicable Date, our Group had 35 employees, all of them are based in the PRC except for our executive Director, Mr. Lee, and our company secretary and financial controller, Mr. Lai both of whom are based in Hong Kong. A breakdown of employees by function as at the Latest Practicable Date was as follows:

	Number of employees
Management	3
Sales and marketing	13
Accounting and Finance	5
Procurement	2
Quality Control	2
Logistics	5
Administration	5
Total	35

Note: Three independent non-executive Directors are not included because they are not employees of the Group.

Our Group considers our team of employees to be a key factor in the success of our business. During the Track Record Period, our Group had not experienced any significant difficulties in recruiting employees nor any significant staff turnover or labour disputes. Our Directors represents that the decrease in the number of employees during the Track Record Period was due to the personal commitments of those employees and there were no disagreement or disputes between our Group and those employees. Our Group believes that the employer and employee relationship is satisfactory in general. Our Group believes that the management policies, working environment, career prospects and benefits extended to the employees have contributed to the retention of our employees and the establishment of a good relationship between us and our employees.

We participate in social insurance funds as required by the applicable PRC laws and regulations, including pension contribution plans, medical insurance plans, maternity insurance plans, work-related injury insurance plans and unemployment insurance plans organised by municipal and provincial governments. Furthermore, as required by the relevant PRC laws, we contribute to the employee benefit plans at specified percentages of the salaries, bonuses and certain allowances of the employees, up to a maximum amount specified by the local government from time to time. Members of the retirement plans are entitled to a pension equal to a fixed proportion of the salary prevailing at the member's retirement date. On the other hand, the Group must pay wages in the amount not lower than the local minimum wage standards to the employees as determined from time to time in accordance with the relevant PRC laws.

For each of the two years ended 31 December 2011 and 2012 and for the six months ended 30 June 2013, the total amount of the employee benefit expenses of our Group were approximately HK$0.4 million, HK$0.4 million and HK$0.2 million, respectively. As confirmed by the relevant PRC authorities, (i) we have made contribution to social insurance funds, including pension contribution plans, medical insurance plans, maternity insurance plans, work-related injury insurance plans and unemployment insurance plans for the employees according to the local governmental requirements, and (ii) have fully paid housing funds for our employees under PRC laws and regulations.

We provide training for employees in order to help our employees to meet their job requirements, strengthen their commitment and improve staff knowledge in a number of areas of the products and services of our Group. For example, we provide and reimburse our staff in the accounting department to attend the further education course in order to let such staff attain a further qualification in the accounting and financial field.

LICENSES AND PERMITS

We act, in all material aspects, in compliance with all the applicable PRC laws and regulations, and with respect to the businesses we conduct, we have obtained all the necessary licenses, permits, approvals or certificates that are necessary for the commencement and continuation of our business. Based on the confirmations provided by the relevant PRC governmental authorities with respect to our business operation, foreign exchange control, taxation, and social security matters, and upon due enquiry, our PRC legal adviser has confirmed that they are not aware of any violation of or non-compliance with the applicable PRC laws and regulations in the aforementioned areas which would have a material adverse impact on our business. Our PRC legal adviser has further confirmed that we have obtained all the licenses, permits, approvals or certificates that are necessary for the commencement and continuance of businesses within our business scope as stipulated in the business licenses.

Below we set forth the major licenses, permits, approvals or certificates that we have obtained for our business and operations:

Type of Permit/License	Certificate/ License No.	Purpose	Issuing Authority/ Licensing Body	Validity Period
Pharmaceutical Operation Permit (藥品經營許可證)	浙AA5710087	Trading of pharmaceutical drugs	Zhejiang Province Food and Drug Administration (浙江省食品藥品監督管理局)	12 May 2011 – 11 May 2016
Certificate of GSP for pharmaceutical products (藥品經營質量管理規範認證證書)	A-ZJ11-067	Quality management of the supply of pharmaceutical products	Zhejiang Province Food and Drug Administration (浙江省食品藥品監督管理局)	22 August 2011 – 21 August 2016
Medical Device Operation Enterprise Permit (醫療器械經營企業許可證)	浙011967	Trading of Class II and Class III medical devices; and Class II medical equipment and devices to be used at wards	Zhejiang Province Food and Drug Administration (浙江省食品藥品監督管理局)	29 May 2012 – 28 May 2017

Our Directors believe that a strict legal compliance policy is critical to ensure the safety of our products. The approvals, permits, licences and certificates which we have obtained for our business and operations have not yet expired. Our Directors are of the view that there is no legal impediment to obtain the renewal of any of the relevant approvals, permits, licenses and certificates.

ANTI-CORRUPTION POLICY

To prevent the occurrence of any incident concerning corruption, bribery, abuse or other improper conducts engaged by our Group or our employees or affiliates, our Group has established internal control systems such as organisational framework, policies and procedures that are designed to monitor and control potential risks areas relevant to our business operations. Such policies and procedures include, but are not limited to, whistleblowing policy (舉報政策) and anti-corruption management policy (反貪腐管理政策) and other required policies in compliance with all relevant regulations.

We adopted a whistleblowing policy (舉報政策) on 15 October 2012, as revised on 18 March 2013. Under such whistleblowing policy, our employees are encouraged to report any reportable conduct (such as corruption or fraudulent behaviors) directly to our incident manager. The whistleblowing policy set out not only the investigation procedures, but also the requirement of providing a written report to the Board after investigation. Mr. Lee Chik Yuet ("**Mr. Lee**"), our Executive Director and compliance officer, has been appointed as our incident manager in December 2012 to handle any reported incident. For details of Mr. Lee's qualifications and experience, please refer to the section headed "Directors, Senior Management and Staff – Executive Directors" of this prospectus. Prior to his appointment,

Mr. Zhou was responsible for maintaining such internal control system. Both Mr. Lee and Mr. Zhou confirmed that as at the Latest Practicable Date, neither of them had received any incident reported by our employees.

We also adopted a code of conduct manual (行為守則) incorporated in a staff handbook to all employees on 15 October 2012, as revised on 18 March 2013. Under such code of conduct manual, we prohibit conducts of bribery or corruption in any form by our employees when carrying out their duties in relation to our Group. The code of conduct manual also sets out the reporting procedures of any acceptance of gifts or souvenirs and any actual or perceived conflict of interest by our Directors or employees. We have provided anti-corruption compliance seminar to our senior management in March 2013 and will continue to provide similar seminar or training periodically to our employees in order to enhance the anti-corruption awareness within our Group.

In addition, we adopted an anti-corruption management policy (反貪腐管理政策) starting from 18 March 2013 to prevent our Distributor Customers and suppliers from being engaged in corruption, bribery, or other improper conduct. Our Group has established and adopted the policies and taken initiatives such as (i) conducting background search against our top ten Distributor Customers and suppliers annually and conducting background search against our new Distributor Customers and suppliers prior to entering into the distribution agreements in order to identify if they have been involved in any legal proceedings or have any record on breach of law and regulations; (ii) including the provisions relating to anti-corruption practice or of similar effect in our written agreements with our Distributor Customers and suppliers; (iii) obtaining annual confirmation from our Distributor Customers and suppliers through interviewing with our Distributor Customers and suppliers as to, among other things, any record on breach of law and regulations during the year for risk assessment.

So far as our Directors are aware, none of our existing Distributor Customers and existing suppliers was unwilling to include express provisions of anti-corruption practice or of similar effect in its agreement with our Group. Our Directors, to the best of their knowledge and belief and after due and careful inquiry, were not aware of any incident concerning corruption, bribery, abuse or other improper conducts engaged by our Group or our employees or affiliates before the Track Record Period and up to the Latest Practicable Date.

Recently, an integrated pharmaceutical enterprise in the PRC ("**Company A**") has been reported to be involved in an alleged bribery incidents in the PRC in relation the payment of rebates and kickbacks to medical institutions and medical practitioners in the PRC by its sales representatives that it engaged to conduct direct marketing and promotion activities of its products. As at the Latest Practicable Date, since such alleged bribery incident was undergoing legal procedures, our Group is not in the position to comment on, such alleged bribery incident. However, our Directors, after due and careful enquiry, are of the view that such alleged bribery incident has no negative impact on our Group due to the reasons as set out below:

(i) our Group did not enter into any business relationship with Company A during the Track Record Period and up to the Latest Practicable Date. The PRC legal adviser to our Company, after due and careful review on the distribution agreements provided by our Group, confirmed that our Group has not procured any products from nor distributed any products to the PRC operating companies established by Company A during the Track Record Period and as at the Latest Practicable Date; and

(ii) Unlike Company A, our Group has not engaged any sales representatives to promote our products to medical institutions and medical practitioners directly since the commencement of our business. Our Directors believe this can eliminate the possibility of any possible bribery or improper conduct which may otherwise arise from the involvement of the sales representatives in those direct marketing and promotion activities. In addition, our Group has taken, will continue to take, and will procure our employees to continue to take, all necessary precautionary measures and to comply with (i) whistleblowing policy; (ii) code of conduct manual; and (iii) anti-corruption policy in order to prevent the occurrence of any incident concerning corruption, bribery, abuse or other improper conduct engaged by our Group or our employees or affiliates in the future.

During the Track Record Period and as at the Latest Practicable Date, our Directors confirmed that to the best of their knowledge and belief and after due and careful inquiry, our Group or our employees or affiliates did not receive any rebates or kickbacks from our suppliers and our Group did not pay any rebates or kickbacks to our Distributor Customers or medical institutions and medical practitioners. In addition, our Directors, after due and careful enquiry, were not aware of any change in rules and regulations in relation to the pharmaceutical industry in the PRC as a result of such bribery incident. After due and careful enquiry, we were not aware of any bribery investigation concerning our Group by any regulatory bodies in the PRC during the Track Record Period and as at the Latest Practicable Date.

Where required, we will appoint an independent professional consultant to assist our Company to review the effectiveness of the internal control systems and address the areas in need of improvement. However, there is no assurance that our employees or affiliates will not be engaged in corruption, bribery, abuse or other improper conduct or violate applicable PRC anti-corruption laws in the future. Please refer to the section headed "Risk Factors – Risks Relating to the Industry – Any actual or potential involvement in corrupt practices or other improper conduct by our Group, our employees or affiliates as well as our suppliers, Distributor Customers or ultimate customers could severely damage our reputation and have a material adverse effect on our results of business and operations of this prospectus. Our failure to comply with these measures, or effectively manage our employees and affiliates, could severely damage our reputation and have a material adverse effect on our results of business and operations.

LEGAL PROCEEDINGS AND NON-COMPLIANCE

(i) Legal proceedings relating to our Group

During the Track Record Period, a subsidiary of our Group, Zhejiang Xin Rui Pharmaceutical faced a legal proceeding with one of our former Type 2 Distributor Customers (the "**Plaintiff**"). On 25 June 2012, the Plaintiff instituted a legal proceeding against Zhejiang Xin Rui Pharmaceutical at Hangzhou City Jianggan District People's Court (杭州市江干區人民法院) (the "**Court**") claiming for, among other things, the alleged infringement of distribution rights by Zhejiang Xin Rui Pharmaceutical of the exclusive regional distribution rights of our product, namely, Sulbenicillin Sodium for Injection (注射用磺苄西林鈉) (the "**Product**") granted to the Plaintiff in contravention of the exclusivity provision as set out in the distribution agreement for (i) damages in total amount of approximately RMB1,018,000 (together with interest for the period from 25 June 2012 to the date of enforcement of the Court judgement); (ii) the deposit paid by the Plaintiff to our Group of RMB50,000 (together with interest for the period from 25 June 2012 to the date of enforcement of the Court judgement); and (iii) costs of the aforesaid proceedings to be borne by our Group.

The Plaintiff was originally a regional distributor of the Product in Shaoxing, Zhejiang province, for a distribution period from 3 February 2010 to 2 February 2011 (the "**Period**"). According to the distribution agreement entered between the Plaintiff and Zhejiang Xin Rui Pharmaceutical, a prescribed minimum order quantity requirement has been set out in the distribution agreement and the Plaintiff failed to meet such prescribed minimum order quantity requirement within the Period. As set out in the distribution agreement, with the consideration that the Plaintiff persistently failed to meet the prescribed minimum order quantity requirement, Zhejiang Xin Rui Pharmaceutical was entitled to reduce the size of distribution of the designated region(s) that the Plaintiff was responsible for. Moreover, the Plaintiff persistently failed to meet the prescribed minimum order quantity requirement. Therefore, the Plaintiff had, in fact, breached the distribution agreement and should not be entitled to the exclusive distribution rights in Shaoxing from 3 May 2010. Zhejiang Xin Rui Pharmaceutical did not distribute the Product to the other Distributor Customers in Shaoxing nor refuse to supply the Product as claimed by the Plaintiff during the Period.

On 7 July 2013, the Court notified Zhejiang Xin Rui Pharmaceutical that the Plantiff has submitted to the Court on 5 July 2013 that they decided to withdraw the legal proceedings against Zhejiang Xin Rui Pharmaceutical and the Court has subsequently given the permission of withdrawal of the legal proceedings against Zhejiang Xin Rui Pharmaceutical.

Save as disclosed above, as at the Latest Practicable Date, we did not receive notice of any litigation or arbitration proceedings pending or threatened against us or any of our Directors that could have a material adverse effect on our financial condition or results of our operation.

(ii) Non-compliance incidents relating to our Group

The table below summaries the non-compliance incidents relating to our Group during the Track Record Period:

Non-compliance incidents	Reason for the non-compliance	Measures taken/to be taken to prevent any future breaches and ensure on-going compliance
1. Hong Kong New Rich failed to comply with the 15 months' requirement under section 111(1) of the Companies Ordinance in respect of its annual general meetings by way of shareholder's written resolutions for the years 2010 and 2011, respectively.	The oversight of the relevant staff at the material times.	Please see sub-section headed "Ongoing compliance measures" below for procedures in place to ensure ongoing compliance concerning these non-compliances.

	Non-compliance incidents	Reason for the non-compliance	Measures taken/to be taken to prevent any future breaches and ensure on-going compliance
2.	Hong Kong New Rich failed to lay the audited accounts at its relevant annual general meetings and/or failed to lay the audited accounts made up to a date falling not more than the relevant time requirement under section 122 of the Companies Ordinance in respect of its audited accounts for the period from 7 February 2005 (i.e. the date of its incorporation) to 31 December 2009.	The relevant staff of our Group in the PRC were not aware of the requirements under section 122 of the Companies Ordinance.	
3.	Hong Kong New Rich failed to lay the audited accounts made up to a date falling not more than the relevant time requirement under section 122 of the Companies Ordinance in respect of its audited accounts for the year ended 31 December 2010.	Oversight and miscommunication with the auditors.	

On 18 September 2012, Max Goodrich, the sole shareholder of Hong Kong New Rich, and the then directors of Hong Kong New Rich applied to the High Court of Hong Kong for an order to rectify the above 3 non-compliance incidents. The High Court of Hong Kong granted the requested Court Order on 2 November 2012.

(iii) On-going compliance measures

To avoid recurrence of the abovementioned non-compliance incidents and to ensure ongoing compliance with relevant laws, rules and regulations, we have implemented the following internal control measures since June 2013:

(a) our Group appointed Mr. Lai Kwok Wa, a member of the Hong Kong Institute of Certified Public Accountants, in June 2013, to act as company secretary and financial controller to oversee the company secretarial and accounting matters of our Group;

(b) our Group appointed Mr. Lee Chik Yuet, a Hong Kong qualified solicitor and an executive Director, to act as compliance officer to oversee the overall legal and regulatory compliance matters of our Group on 17 September 2012;

(c) our Group has appointed Kingsway Capital Limited as the compliance adviser to advise on ongoing compliance requirements and other issues under the GEM Listing Rules and other applicable laws and regulations in Hong Kong;

(d) our Group has retained Deloitte Touche Tohmatsu to audit the accounts of our Group and intends to appoint a professional firm to prepare internal control report to regularly assess and advise on our Group's existing internal control system;

(e) Our Group has retained a PRC legal counsel to regularly advise our Group in relation to the PRC legal and regulatory compliance matters of our Group as a whole;

(f) our Group will retain an external financial adviser and/or legal adviser to advise on compliance matters (where required);

(g) our Group has established a corporate governance committee with its terms of reference which set out clearly its duties and obligations of, inter alia, reviewing and monitoring our Group's policies and practices on compliance with legal and regulatory requirements;

(h) our Group has established an audit committee comprising all independent non-executive Directors to oversee the financial reporting and internal control procedures of our Group, and aims to review the effectiveness of our Group's internal control system; and

(i) our Group has adopted policies and procedures including whistleblowing policy and code of conduct manual.

Our Directors are of the view that the aforesaid remedial measures and on-going compliance measures are sufficient and proven to be effective in preventing similar non-compliance incidents from re-occurring again in the future as no such similar non-compliance incidents have occurred since its implementation and up to the Latest Practicable Date. In light of the preventive measures and its effectiveness, the Sole Sponsor is of the view that our Group has adequate and effective internal control procedures in place for the purpose of Rule 11.06 of the GEM Listing Rules.