The following is the text of a report received from the Company's reporting accountants, Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this prospectus.

Deloitte.
德勤

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香港金鐘道88號
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Deloitte Touche Tohmatsu
35/F One Pacific Place
88 Queensway
Hong Kong

18 October 2013

The Directors
New Ray Medicine International Holding Limited

Kingsway Capital Limited

Dear Sirs,

We set out below our report on the financial information relating to New Ray Medicine International Holding Limited (the "**Company**") and its subsidiaries (hereinafter collectively referred to as the "**Group**"), for each of the two years ended 31 December 2011 and 2012, and the six months ended 30 June 2013 (the "**Track Record Period**") (the "**Financial Information**") for inclusion in the prospectus of the Company dated 18 October 2013 (the "**Prospectus**") in connection with the proposed listing of the Company's shares on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**").

The Company, which acts as an investment holding company, was incorporated as an exempted company and registered in Bermuda with limited liability under The Companies Act 1981 of Bermuda ("**The Bermuda Companies Act**") on 9 August 2012. Pursuant to a group reorganisation, as more fully explained in the section headed "Reorganisation" in the Prospectus (the "**Group Reorganisation**"), the Company became the holding company of the Group on 26 September 2013. Other than the transactions relating to the Group Reorganisation and the preparation for the Listing on the Stock Exchange, the Company has not carried on any business since the date of its incorporation.

As of the end of each of the respective reporting period and at the date of this report, the Company has direct and indirect equity interests in the following subsidiaries comprising the Group:

Name of company	Place and date of incorporation/ establishment	Attributable equity interest held by the Company				Issued and fully paid share capital/ registered capital	Principal activities
		31 December 2011	31 December 2012	30 June 2013	Date of this report		
Max Goodrich International Limited ("**Max Goodrich**")	British Virgin Islands ("**BVI**") 21 September 2007	100%	100%	100%	100%	US$21,000	Investment holding
China New Rich Medicine Holding Co. Limited ("**China New Rich Medicine**")	Hong Kong 7 February 2005	100%	100%	100%	100%	HK$10,000	Investment holding

Name of company	Place and date of incorporation/ establishment	Attributable equity interest held by the Company				Issued and fully paid share capital/ registered capital	Principal activities
		31 December 2011	31 December 2012	30 June 2013	Date of this report		
Hong Rui (Hangzhou) Bio-medical Technology Co. Ltd. ("**Hong Rui Bio-medical**") 泓鋭(杭州)生物醫藥科技有限公司 *(notes i, iii & iv)*	The People's Republic of China (the "**PRC**") 8 July 2008	100%	100%	100%	100%	HK$75,000,000	Investment holding
Hangzhou Xin Hong Bio-medical Technology Co. Ltd. ("**Hangzhou Xin Hong**") 杭州新泓生物醫藥科技有限公司 *(notes i, ii & iv)*	PRC 14 March 2001	100%	N/A	N/A	N/A	RMB57,000,000	Investment holding
Zhejiang Xin Rui Pharmaceutical Co. Ltd. ("**Zhejiang Xin Rui Pharmaceutical**") 浙江新鋭醫藥有限公司 *(notes ii & iv)*	PRC 26 April 2006	100%	100%	100%	100%	RMB65,000,000	Trading of pharmaceutical products
Zhejiang Hong Rui Trading Co. Ltd. ("**Hong Rui Trading**") 浙江泓鋭貿易有限公司 *(notes ii & iv)*	PRC 6 September 2005	100%	100%	100%	100%	RMB5,000,000	Inactive

Notes:

(i) On 19 June 2012, Hong Rui Bio-medical merged with its direct wholly owned subsidiary, Hangzhou Xin Hong, whereby Hangzhou Xin Hong was dissolved and its assets and liabilities were taken up by Hong Rui Bio-medical.

(ii) A domestic company incorporated in the PRC with limited liability.

(iii) A wholly foreign owned enterprise with limited liability.

(iv) English translated name is for identification only.

Except for Max Goodrich, all of the above subsidiaries are indirectly held by the Company. All of the above subsidiaries are limited liability companies incorporated/established in their respective places of incorporation/establishment.

We have acted as the auditor of the Company since its date of incorporation. As at the date of this report, no statutory financial statements have been prepared for the Company and Max Goodrich which was incorporated in the BVI as either their first year statutory financial statements have not yet due to be issued or they are incorporated in jurisdiction where there is no statutory audit requirement. We have, however, reviewed all relevant transactions of the Company and Max Goodrich over the Track Record Period or since their respective dates of incorporation and carried out such procedures as we considered necessary for inclusion of the financial information of relating to the Group.

The statutory financial statements of the Group's subsidiaries for the Track Record Period, were prepared in accordance with relevant accounting principles and financial reporting framework applicable to Hong Kong and the PRC, whichever is applicable, and were audited by the following certified public accountants registered in Hong Kong and the PRC, whichever is applicable.

Name of subsidiary	Financial year end	Name of auditor
Max Goodrich	Year ended 31 December 2011 Year ended 31 December 2012	Deloitte Touche Tohmatsu Deloitte Touche Tohmatsu
China New Rich Medicine	Year ended 31 December 2011 Year ended 31 December 2012	Deloitte Touche Tohmatsu Deloitte Touche Tohmatsu
Hong Rui Bio-medical	Year ended 31 December 2011 Year ended 31 December 2012	浙江中恒正一會計師事務所 浙江中恒正一會計師事務所
Hangzhou Xin Hong	Year ended 31 December 2011	浙江中恒正一會計師事務所
Zhejiang Xin Rui Pharmaceutical	Year ended 31 December 2011 Year ended 31 December 2012	浙江中恒正一會計師事務所 浙江中恒正一會計師事務所
Hong Rui Trading	Year ended 31 December 2011 Year ended 31 December 2012	浙江中恒正一會計師事務所 浙江中恒正一會計師事務所

For the purpose of this report, the directors of the Company have prepared consolidated financial statements of Max Goodrich for the Track Record Period in accordance with Hong Kong Financial Reporting Standards (the "**HKFRSs**") issued by the Hong Kong Institute of Certified Public Accountants ("**the HKICPA**") (together with the management accounts of the Company for the period from date of incorporation to 30 June 2013 are herein after referred to as the "**Underlying Financial Statements**"). We have undertaken an independent audit on the Underlying Financial Statements in accordance with Hong Kong Standards on Auditing issued by the HKICPA and carried out procedures which we considered necessary in accordance with Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" as recommended by the HKICPA.

The Financial Information set out in this report has been prepared from the Underlying Financial Statements, on the basis set out in note 2 of section A below, without adjustments.

The Underlying Financial Statements are the responsibility of the directors of the Company and Max Goodrich who approved their issue. The directors of the Company are also responsible for the contents of the Prospectus in which this report is included. It is our responsibility to compile the Financial Information set out in this report from the Underlying Financial Statements, to form an independent opinion on the Financial Information and to report our opinion to you.

In our opinion, on the basis of presentation sets out in note 2 of section A below, the Financial Information gives, for the purpose of this report, a true and fair view of the state of affairs of the Company as at 31 December 2012 and 30 June 2013 and of the Group as at 31 December 2011, 31 December 2012 and 30 June 2013, and of the combined profit and combined cash flows of the Group for the Track Record Period.

The comparative combined statement of profit or loss and other comprehensive income, combined statement of changes in equity and combined statement of cash flows of the Group for the six months ended 30 June 2012 together with the notes thereon (the ''June 2012 Financial Information'') have been extracted from the Group's unaudited combined financial information for the same period, which was prepared by the directors of the Company solely for the purpose of this report. We have reviewed the June 2012 Financial Information in accordance with the Hong Kong Standard on Review Engagements 2410 ''Review of interim financial information performed by the independent auditor of the entity'' issued by the HKICPA. Our review of the June 2012 Financial Information consisted of making enquires, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly we do not express an audit opinion on the June 2012 Financial Information. Based on our review, nothing has come to our attention that causes us to believe that the June 2012 Financial Information is not prepared, in all material respects, in accordance with the accounting policies consistent with those used in the preparation of the Financial Information which conform with HKFRSs.

A. FINANCIAL INFORMATION

COMBINED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

		Year ended 31 December		Six months ended 30 June	
	NOTES	**2011**	**2012**	**2012**	**2013**
		HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
				(Unaudited)	
Revenue	*8*	159,686	175,042	89,828	83,672
Cost of sales		(136,400)	(136,049)	(69,111)	(65,217)
		23,286	38,993	20,717	18,455
Other income, gains and losses	*9*	159	1,544	296	1,050
Selling and distribution expenses		(2,909)	(3,112)	(1,237)	(1,355)
Administrative expenses		(5,944)	(6,635)	(3,029)	(3,339)
Gain on disposal of assets classified as held for sale	*20*	1,473	–	–	–
Share of result of a joint venture		(620)	–	–	–
Listing expenses		–	(8,567)	–	(5,418)
Finance costs	*10*	(187)	(38)	–	(3,855)
Profit before tax		15,258	22,185	16,747	5,538
Income tax expense	*11*	(4,846)	(6,858)	(5,256)	(4,008)
Profit for the year/period	*12*	10,412	15,327	11,491	1,530
Other comprehensive income (expense) for the year/period					
Item that will not be reclassified to profit or loss:					
Exchange difference arising on translation of functional currency to presentation currency		4,730	1,143	(1,222)	2,354
Total comprehensive income for the year/period		15,142	16,470	10,269	3,884
Profit for the year/period attributable to owners of the Company		10,412	15,327	11,491	1,530
Total comprehensive income for the year/period attributable to owners of the Company		15,142	16,470	10,269	3,884

COMBINED STATEMENTS OF FINANCIAL POSITION

	NOTES	THE GROUP As at 31 December 2011 HK$'000	THE GROUP As at 31 December 2012 HK$'000	THE GROUP As at 30 June 2013 HK$'000	THE COMPANY As at 31 December 2012 HK$'000	THE COMPANY As at 30 June 2013 HK$'000
Non-current assets						
Property, plant and equipment	16	6,885	5,668	7,635	–	–
Prepaid lease payments	17	8,638	8,521	8,562	–	–
Club debenture	18	616	621	632	–	–
Deposits paid to suppliers	19	8,616	–	16,404	–	–
Interest in a joint venture	21	–	–	–	–	–
Amount due from a joint venture	21	–	–	–	–	–
		24,755	14,810	33,233	–	–
Current assets						
Inventories	22	14,916	16,151	16,199	–	–
Trade and other receivables	23	80,779	108,462	97,678	2,383	6,241
Bills receivables	23	–	292	–	–	–
Prepaid lease payments	17	189	191	194	–	–
Amounts due from related parties	24	80	80	80	–	–
Pledged bank deposits	25	1,849	–	–	–	–
Bank balances and cash	25	22,686	26,289	43,797	–	–
		120,499	151,465	157,948	2,383	6,241
Current liabilities						
Trade and other payables	26	17,680	14,929	19,256	1,113	2,690
Bills payables	26	3,697	–	–	–	–
Amounts due to related parties	24	1,547	554	–	–	–
Amount due to a subsidiary	24	–	–	–	9,837	17,127
Bank and other borrowings – due within one year	27	–	12,000	28,736	–	–
Tax payable		1,110	1,868	2,213	–	–
		24,034	29,351	50,205	10,950	19,817
Net current assets		96,465	122,114	107,743	(8,567)	(13,576)
Total assets less current liabilities		121,220	136,924	140,976	(8,567)	(13,576)
Non-current liability						
Deferred tax liabilities	28	3,297	2,531	2,699	–	–
		117,923	134,393	138,277	(8,567)	(13,576)
Capital and reserves						
Share capital	29	164	164	164	–	–
Share premium and reserves	29A	117,759	134,229	138,113	(8,567)	(13,576)
Equity attributable to owners of the Company		117,923	134,393	138,277	(8,567)	(13,576)

COMBINED STATEMENTS OF CHANGES IN EQUITY

	Attributable to owners of the Company					
	Share capital *HK$'000*	Share premium *HK$'000*	PRC statutory reserve *HK$'000* *(Note)*	Translation reserve *HK$'000*	Retained profits *HK$'000*	Total *HK$'000*
At 1 January 2011	164	75,203	3,113	3,772	20,529	102,781
Exchange difference arising on translation of functional currency to presentation currency	–	–	–	4,730	–	4,730
Profit for the year	–	–	–	–	10,412	10,412
Total comprehensive income for the year	–	–	–	4,730	10,412	15,142
Released upon disposal of an associate	–	–	–	(243)	243	–
Transfer	–	–	1,461	–	(1,461)	–
At 31 December 2011	164	75,203	4,574	8,259	29,723	117,923
Exchange difference arising on translation of functional currency to presentation currency	–	–	–	1,143	–	1,143
Profit for the year	–	–	–	–	15,327	15,327
Total comprehensive income for the year	–	–	–	1,143	15,327	16,470
Release upon dissolution of Hangzhou Xin Hong	–	–	(983)	–	983	–
Transfer	–	–	3,191	–	(3,191)	–
At 31 December 2012	164	75,203	6,782	9,402	42,842	134,393
Exchange difference arising on translation of functional currency to presentation currency	–	–	–	2,354	–	2,354
Profit for the period	–	–	–	–	1,530	1,530
Total comprehensive income for the period	–	–	–	2,354	1,530	3,884
Transfer	–	–	985	–	(985)	–
At 30 June 2013	164	75,203	7,767	11,756	43,387	138,277
At 1 January 2012 (Audited)	164	75,203	4,574	8,259	29,723	117,923
Exchange difference arising on translation of functional currency to presentation currency	–	–	–	(1,222)	–	(1,222)
Profit for the period	–	–	–	–	11,491	11,491
Total comprehensive income for the period	–	–	–	(1,222)	11,491	10,269
Released upon dissolution of Hangzhou Xin Hong	–	–	(983)	–	983	–
Transfer	–	–	1,459	–	(1,459)	–
At 30 June 2012 (unaudited)	164	75,203	5,050	7,037	40,738	128,192

Note: For Hangzhou Xin Hong, Zhejiang Xin Rui Pharmaceutical and Hong Rui Trading, as stipulated by the relevant laws and regulations in the PRC, they are required to maintain a statutory surplus reserve fund. Appropriation to such reserve is made out on 10% of the net profit after taxation as reflected in the statutory financial statements of the PRC subsidiaries in accordance with relevant laws and regulations applicable to PRC enterprises. The statutory surplus reserve fund can be used to make up prior years' losses, if any, and can be applied in conversion into capital by means of capitalisation issue. The statutory surplus reserve can be released to the retained profits upon the dissolution or winding up of the entity.

For Hong Rui Bio-medical, as it is a wholly foreign owned enterprise, appropriation to statutory surplus reserve fund is based on the management's discretion.

COMBINED STATEMENTS OF CASH FLOWS

	NOTE	Year ended 31 December 2011 HK$'000	Year ended 31 December 2012 HK$'000	Six months ended 30 June 2012 HK$'000 (Unaudited)	Six months ended 30 June 2013 HK$'000
OPERATING ACTIVITIES					
Profit before tax		15,258	22,185	16,747	5,538
Adjustments for:					
Interest income		(696)	(1,378)	(296)	(622)
Interest expenses		187	38	–	3,855
Depreciation of property, plant and equipment		1,468	1,430	720	570
Release of prepaid lease payment		185	190	94	96
Write-down of inventories		23	9	9	–
Impairment loss on amount due from a joint venture		600	–	–	–
Share of result of a joint venture		620	–	–	–
Loss/(gain) on disposal of property, plant and equipment		24	16	20	(428)
Gain on disposal of assets classified as held for sale		(1,473)	–	–	–
Operating cash flows before movements in working capital		16,196	22,490	17,294	9,009
Decrease/(increase) in inventories		6,299	(1,141)	3,946	(48)
Increase in trade and other receivables		(18,937)	(14,573)	(10,537)	(2,535)
(Increase)/decrease in bills receivables		–	(292)	(610)	292
(Decrease)/increase in trade and other payables		(3,112)	(2,847)	(9,395)	4,327
Increase/(decrease) in bills payables		3,683	(3,723)	(3,683)	–
Cash from (used in) operations		4,129	(86)	(2,985)	11,045
Income tax paid		(4,225)	(6,886)	(2,963)	(3,573)
NET CASH (USED IN) FROM OPERATING ACTIVITIES		(96)	(6,972)	(5,948)	7,472
INVESTING ACTIVITIES					
Proceed from disposal of assets classified as held for sale	*20*	13,564	–	–	–
Proceeds from disposal of property, plant and equipment		537	–	–	522
Interest received		299	135	84	150
Advance to a joint venture		(600)	–	–	–
Investment in a joint venture		(620)	–	–	–
Purchase of property, plant and equipment		(628)	(174)	(123)	(2,525)
Placement of pledged bank deposits		(1,849)	–	–	–
Withdrawal of pledged bank deposit		–	1,849	1,849	–
NET CASH FROM (USED IN) INVESTING ACTIVITIES		10,703	1,810	1,810	(1,853)

	Year ended 31 December		Six months ended 30 June	
	2011	2012	2012	2013
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
			(Unaudited)	
FINANCING ACTIVITIES				
Repayment to related parties	(7,881)	(4,876)	–	(894)
Interest paid	(187)	(38)	–	(841)
Advanced from related parties	1,049	3,872	3,290	340
Expenses paid in connection with the proposed listing	–	(2,383)	–	(3,858)
New borrowing raised	–	12,000	–	16,736
NET CASH (USED IN) FROM FINANCING ACTIVITIES	(7,019)	8,575	3,290	11,483
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	3,588	3,413	(848)	17,102
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	18,285	22,686	22,686	26,289
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	813	190	(216)	406
CASH AND CASH EQUIVALENTS AT END OF THE YEAR/PERIOD, represented by bank balances and cash	22,686	26,289	21,622	43,797

NOTES TO THE FINANCIAL INFORMATION

1. GENERAL

The Company was incorporated and registered as an exempted company with limited liability in Bermuda. The Company's registered office is located at Clarendon House, 2 Church Street, Hamilton, HM 11, Bermuda and its place of business is located at Room 1001, 10th Floor, Sino Centre, Nos. 582-592 Nathan Road, Kowloon, Hong Kong.

The Company is an investment holding company. The Group is principally engaged in trading of pharmaceutical products in the PRC.

The Company's functional currency is Renminbi ("**RMB**"). However, the Financial Information is presented in Hong Kong dollars ("**HKD**") for the convenience of shareholders as it is to be listed in Hong Kong.

2. REORGANISATION AND BASIS OF PRESENTATION OF FINANCIAL INFORMATION

In preparation for the listing of the Company's shares on the Stock Exchange, the entities in the Group underwent a group reorganisation which involves interspersing the Company between Max Goodrich (the existing holding company of the Group's subsidiaries) and its shareholders. Shareholders of Max Goodrich were Town Health Pharmaceutical Limited ("**Town Health Pharmaceutical**") (an indirect wholly-owned subsidiary of Town Health International Investments Limited ("**Town Health International**"), which incorporated in the Cayman Islands and continued in Bermuda as an exempted company with limited liability whose issued shares are listed on the Main Board of the Stock Exchange of Hong Kong Limited) (48%), Zhou Ling ("**Mr. Zhou**") (20.08%), Dai Haidong ("**Mr. Dai**") (11.7%), He Lin Xing ("**Mr. He**") (6%), Yang Fang ("**Ms. Yang**") (8.22%) and Festive Mood Group Ltd ("**Festive Mood**") (6%). The Group resulting from the above mentioned reorganisation is regarded as a continuing entity and the Financial Information of the Group have been prepared as if the Company had been the holding company of Max Goodrich and its subsidiaries throughout the Track Record Period. The principle steps are as follows:

(a) Throughout the Track Record Period, the business of the Group was principally conducted by Zhejiang Xin Rui Pharmaceutical, which was ultimately controlled by Max Goodrich.

(b) On 19 June 2012, Hong Rui Bio-medical merged with its direct wholly-owned subsidiary, Hangzhou Xin Hong, whereby Hangzhou Xin Hong was dissolved and all assets and liabilities of Hangzhou Xin Hong were taken up by Hong Rui Bio-medical. As a result, Hong Rui Bio-medical was then became a direct wholly-owned subsidiary of Hong Rui Bio-medical.

(c) On 9 August 2012, the Company was incorporated in Bermuda as exempted company with limited liability with an authorised share capital of HK$100,000 divided into 10,000,000 shares of HK$0.01 each. On 23 August 2012, one subscriber share, was allotted and issued as nil paid share, to Town Health Pharmaceutical.

(d) On 26 September 2013, Max Goodrich's shareholders namely, Town Health Pharmaceutical, Mr. Zhou, Mr. Dai, Mr. He, Ms. Yang and Festive Mood, as vendors, and the Company as purchaser entered into a sale and purchase agreement whereby Town Health Pharmaceutical, Mr. Zhou, Mr. Dai, Mr. He, Ms. Yang and Festive Mood have sold their respective interests in Max Goodrich to the Company at a consideration which has been satisfied by (i) the allocation and issue, credited as fully paid, of 20,999 shares to Town Health Pharmaceutical, Mr. Zhou, Mr. Dai, Mr. He, Ms. Yang and Festive Mood in proportion to their then shareholdings in Max Goodrich, that is 10,079 shares to Town Health Pharmaceutical, 4,216 shares to Mr. Zhou, 2,457 shares to Mr. Dai, 1,260 shares to Mr. He, 1,727 shares to Ms. Yang, 1,260 shares to Festive Mood; and (ii) the crediting as fully paid at par the one nil paid share held by Town Health Pharmaceutical.

3. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

For the purpose of preparing and presenting the Financial Information for the Track Record Period, the Group has consistently adopted Hong Kong Accounting Standards ("**HKASs**"), HKFRSs, amendments and interpretations issued by the HKICPA which are effective for the accounting periods beginning on 1 January 2013 throughout the Track Record Period.

At the date of this report, the HKICPA has issued the following new and revised HKFRSs which are not yet effective. The Group has not early applied the following new and revised HKFRSs in the preparation of the financial information for the Track Record Period:

Amendments to HKFRS 9 and HKFRS 7	Mandatory Effective Date of HKFRS 9 and Transition Disclosures[2]
Amendments to HKFRS 10, HKFRS 12 and HKAS 27	Investment Entities[1]
HKFRS 9	Financial Instruments[2]
Amendments to HKAS 32	Offsetting Financial Assets and Financial Liabilities[1]
Amendments to HKAS 36	Recoverable Amount Disclosures for Non-Financial Assets[1]
Amendments to HKAS 39	Novation of Derivatives and Continuation of Hedge Accounting[1]
HK(IFRIC) – Int 21	Levies[1]

1 Effective for annual periods beginning on or after 1 January 2014.
2 Effective for annual periods beginning on or after 1 January 2015.

HKFRS 9 Financial Instruments

HKFRS 9 issued in 2009 introduces new requirements for the classification and measurement of financial assets. HKFRS 9 amended in 2010 includes the requirements for the classification and measurement of financial liabilities and for derecognition.

Key requirements of HKFRS 9 are described as follows:

- All recognised financial assets that are within the scope of HKAS 39 *Financial Instruments: Recognition and Measurement* are subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent reporting periods. In addition, under HKFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

- With regard to the measurement of financial liabilities designated as at fair value through profit or loss, HKFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value of financial liabilities attributable to changes in the financial liabilities' credit risk are not subsequently reclassified to profit or loss. Under HKAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss was presented in profit or loss.

HKFRS 9 is effective for annual periods beginning on or after 1 January 2015, with earlier application permitted.

The directors anticipate that based on the Group's financial instruments as at 31 December 2012 the adoption of HKFRS 9 in the future will not affect the classification and measurement of the Group's Financial Information.

Amendments to HKAS 36 "Recoverable amount disclosures for non-financial assets"

In June 2013, the amendments to HKAS 36 align the disclosure requirements in respect of the recoverable amount for each cash-generating unit for which the carrying amount of intangible assets with indefinite useful lives allocated to that unit is significant in comparison with the entity's total carrying amount of intangible assets with definite useful lives upon adoption of HKFRS 13 "Fair value measurement". Moreover, additional information is required about the fair value measurement for non-financial assets when their recoverable amounts are determined based on fair value less costs of disposal.

The additional information is not required for periods (including comparative periods) in which the HKFRS 13 is not applied.

The amendments to HKAS 36 are effective for annual periods beginning on or after 1 January 2014. Earlier application is permitted.

The directors anticipate that the amendments will be adopted in the Group's combined financial statements for the annual period beginning 1 January 2014 and will result in more extensive disclosures in the combined financial statements in respect of impairment assessment of prepaid lease payments which the recoverable amounts are determined based on fair value less costs of disposals.

The directors of the Company anticipate that the application of the other new and revised standards, amendments and interpretations will have no material impact on the Financial Information of the Group.

4. SIGNIFICANT ACCOUNTING POLICIES

The Financial Information has been prepared in accordance with Hong Kong Financial Reporting Standards issued by the HKICPA. These policies have been consistently applied throughout the Track Record Period. In addition, the Financial Information includes applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange and by the Hong Kong Companies Ordinance.

The Financial Information has been prepared on the historical cost basis. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

The principal accounting policies are set out below.

<u>Basis of combination</u>

The Financial Information incorporates the financial information of the Company and entities controlled by the Company (its subsidiary). Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the combined statement of profit or loss and other comprehensive income from the date the Company gains control until the date when the Company ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiary is attributed to the owners of the Company and to the non-controlling interests.

When necessary, adjustments are made to the financial statements of subsidiary to bring its accounting policies into line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Investment in a joint venture

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The results and assets and liabilities of joint venture are incorporated in these combined financial statements using the equity method of accounting. Under the equity method, an investment in a joint venture is initially recognised in the combined statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the joint venture. When the Group's share of losses of a joint venture exceeds the Group's interest in that joint venture (which includes any long-term interests that, in substance, form part of the Group's net investment in the joint venture), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the joint venture.

An investment is accounted for using the equity method from the date on which the investee becomes a joint venture. On acquisition of the investment in a joint venture, any excess of the cost of the investment over the Group's share of the net fair value of the identifiable assets and liabilities of the investee is recognised as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of the investment, after reassessment, is recognized immediately in profit or loss.

The requirements of HKAS 39 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investment in a joint venture. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with HKAS 36 *Impairment of Assets* as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with HKAS 36 to the extent that the recoverable amount of the investment subsequently increases.

When a group entity transacts with a joint venture of the Group, profits and losses resulting from the transactions with the joint venture are recognised in the Group's combined financial statements only to the extent of interests in the joint venture that are not related to the Group.

Revenue recognition

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

Revenue from sales of goods is recognised when goods are delivered and title have passed, at which time all the following conditions are satisfied:

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

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Property, plant and equipment

Property, plant and equipment including buildings held for administrative purposes are stated in the combined statements of financial position at cost less subsequent accumulated depreciation and accumulated impairment losses, if any.

Depreciation is recognised so as to write off the cost of items of property, plant and equipment less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on disposal or retirement of an item of property, plant and equipment is determined as the difference between the net disposal proceeds and the carrying amount of the asset and is recognised in profit or loss.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term.

Leasehold land and building

When a lease includes both land and building elements, the Group assesses the classification of each element as a finance or an operating lease separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group, unless it is clear that both elements are operating leases in which case the entire lease is classified as an operating lease.

Specifically, the minimum lease payments (including any lump-sum upfront payments) are allocated between the land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element of the lease at the inception of the lease.

To the extent the allocation of the lease payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as "prepaid lease payments" in the combined statement of financial position and is amortised over the lease term on a straight-line basis.

Foreign currencies

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

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise.

For the purposes of presenting the Financial Information, the assets and liabilities of the Group are translated into the presentation currency of the Group (i.e. Hong Kong dollars) using exchange rates prevailing at the end of each reporting period. Income and expenses items are translated at the average exchange rates for the year. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of translation reserve.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All borrowing costs are recognised in profit or loss in the period in which they are incurred.

Retirement benefit costs

Payments to defined contribution retirement benefit plans, state-managed retirement benefit schemes and the Mandatory Provident Fund Scheme are recognised as an expense when employees have rendered service entitling them to the contributions.

Taxation

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

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

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the Financial Information and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary difference to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

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

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

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

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

Current and deferred tax are recognised in profit or loss, except when it relates to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

Impairment losses on tangible assets

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

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

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

Where an impairment loss subsequently reverses, the carrying amount of the asset (or a cash-generated unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or a cash-generating unit) in prior years. A reversal of an impairment loss is recognised as income immediately.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average method. Net realisable value represents the estimated selling price for inventories and costs necessary to make the sale.

Club debenture

Club debenture with indefinite useful life is carried at cost less any subsequent accumulated impairment losses.

Financial instruments

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

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

Financial assets

The Group's financial assets are classified as loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Effective interest method

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

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

Loans and receivables

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

Impairment of financial assets

Financial assets are assessed for indicators of impairment at the end of the reporting period. Financial assets are considered to be impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

An objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For certain categories of financial asset, such as trade receivables that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the respective credit period, observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate.

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Financial liabilities and equity instruments

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

Equity instruments

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

Effective interest method

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

Financial liabilities

Financial liabilities (including trade and other payables, bills payables, amounts due to related parties, amount due to a subsidiary and bank and other borrowings) are subsequently measured at amortised cost, using the effective interest method.

Derecognition

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

5. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 4, the directors of the Company are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

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

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Estimated allowance for doubtful receivables

The Group makes allowances for doubtful debts based on an assessment of the recoverability of trade receivables. Allowances are applied to trade receivables where events or changes in circumstances indicate that the balances may not be collectible. The identification of doubtful receivables requires the estimation of future cash flows. Where the expectation of the recoverability of trade receivables is different from the original estimate, such difference will impact the carrying value of trade receivables and allowance for doubtful debts in the year in which such estimate has changed. As at 31 December 2011, 31 December 2012 and 30 June 2013, the carrying amount of trade receivables is HK$48,149,000, HK$41,409,000 and HK$45,506,000 respectively.

Allowance for inventories

The management of the Group reviews the aging of the inventories at the end of the reporting period, and makes allowance for obsolete and slow-moving inventory items identified that are not longer saleable in the market. The identification of obsolete inventories requires the use of estimation of the net realisable value of items of inventory and estimates on the conditions and usefulness of items of inventories. Where the expectation on the net realisable value is lower than the cost for certain items, a write-down of inventories may arise. As at 31 December 2011, 31 December 2012 and 30 June 2013, the carrying amount of inventories is HK$14,916,000, HK$16,151,000 and HK$16,199,000 (net of allowance of HK$23,000, HK$32,000 and HK$32,000) respectively.

6. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The Group's overall strategy remained unchanged throughout the Track Record Period.

The capital structure of the Group consists of debt, which includes the bank and other borrowings disclosed in note 27, cash and cash equivalents and equity attributable to owners of the Company, comprising share capital, various reserves and retained profits.

The directors of the Company review the capital structure periodically. As part of this review, the directors consider the cost of capital and the risks associates with each class of capital. Based on recommendations of the directors, the Group will balance its overall capital structure through the new share issues as well as the issue of new debt or the redemption of existing debt.

7. FINANCIAL INSTRUMENTS

7a. Categories of financial instruments

	THE GROUP			THE COMPANY	
	As at 31 December		As at 30 June	As at 31 December	As at 30 June
	2011	2012	2013	2012	2013
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Financial assets					
Loans and receivables (including cash and cash equivalents)	87,337	103,848	122,839	–	–
Financial liabilities					
Amortised cost	(14,920)	(20,887)	(36,158)	(9,837)	(17,127)

7b. Financial risk management objectives and policies

The Group's major financial instruments include deposits paid to suppliers, trade and other receivables, bills receivables, amounts due from related parties, pledged bank deposits, bank balances and cash, trade and other payables, bills payables, amounts due to related parties and bank and other borrowings. The Company's major financial instrument includes amount due to a subsidiary. Details of the financial instruments are disclosed in respective notes. The risks associated with these financial instruments include currency risk, interest rate risk, credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Market risk

(i) Currency risk

The Group has foreign currency unsecured other loan which expose the Group to foreign currency risk. The carrying amount of the Group's foreign currency denominated monetary liability at the end of reporting period.

	As at 31 December		As at 30 June
	2011	2012	2013
	HK$'000	*HK$'000*	*HK$'000*
HK$	–	12,000	18,000

Sensitivity analysis

The Group is mainly exposed to HK$. The following table details the Group's sensitivity to a 3% increase and decrease in the functional currency of each group entity against the above foreign currency. 3% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rate. A positive number below indicates an increase in profit where the above foreign currency strengthen by 3% against the functional currency of each group entity. For a 3% weakening of the above foreign currencies against the functional currency of each group entity, there would be an equal and opposite impact on the profit and the balance below would be opposite.

	As at 31 December		As at 30 June
	2011	**2012**	**2013**
	HK$'000	*HK$'000*	*HK$'000*
Profit after tax	–	270	405

(ii) Interest risk

The Group is exposed to fair value interest rate risk in relation to bank and other borrowings and pledged bank deposits at fixed interest rates and cash flow interest rate risk in relation to bank deposits at floating interest rates.

The directors consider the Group's exposure of the bank balances to cash flow interest rate risk is insignificant as interest bearing bank balances are within short maturity period. Besides, as the fluctuation of market interest rate is not expected to be significant, no sensitivity analysis is prepared.

The Group currently does not have any interest rate hedging policy in relation to fair value and cash flow interest rate risks. The directors monitor the Group's exposure on an ongoing basis and will consider hedging the interest rate should the need arise.

Credit risk

As at the respective reporting dates, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the combined statement of financial position and the amount of contingent liabilities as disclosed in note 32.

The Group credit risk is primarily attributable to its trade receivables. In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at the end of the reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The Group has concentration of credit risk on bank balances as 86%, 92% and 87% of balances are placed with two, two and two banks of which all are located in the PRC as at 31 December 2011 and 2012 and 30 June 2013, respectively.

The credit risk on liquid funds is limited because the counterparties are banks with good reputation.

The Group has concentration of credit risks on its outstanding trade and bills receivables and other receivables as 80%, 71% and 67% of its trade and other receivables were due from five, five and five customers in aggregate as at 31 December 2011 and 2012 and 30 June 2013 respectively. These five, five and five customers are distributors which engaged in trading and wholesaling of drugs in Zhejiang and Shanghai, as at 31 December 2011 and 2012 and 30 June 2013, respectively. In addition, the Group also has concentration of credit risks on its deposits paid to suppliers as 59%, 80% and 79% of its deposits paid to suppliers were paid to one, three and three suppliers in aggregate as at 31 December 2011, 2012 and 30 June 2013 respectively. Such suppliers are also principally engaged in pharmaceutical trading and distribution in the PRC. As represented by the directors of the Company, all of these customers and suppliers have good credit quality by taking into account of their credit history. The Group has delegated a team responsible for determination of credit limits and monitoring procedures to ensure that follow-up action to recover overdue debts and to monitor credit risk on suppliers.

Other than the above, the Group does not have other significant concentration of credit risk.

Liquidity risk

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows.

The following table details the Group's and the Company's remaining contractual maturity for its financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group and the Company can be required to pay.

The table includes both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate curve at the end of the reporting period.

Liquidity table

	Weighted average interest rate	On demand or less than 1 month	1-3 months	3 months to 1 year	Total undiscounted cash flows	Carrying value at 31 December 2011
	%	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
THE GROUP						
At 31 December 2011						
Trade and other payables	–	7,396	–	2,280	9,676	9,676
Bills payables	–	–	3,697	–	3,697	3,697
Amounts due to related parties	–	1,547	–	–	1,547	1,547
		8,943	3,697	2,280	14,920	14,920

	Weighted average interest rate	On demand or less than 1 month	1-3 months	3 months to 1 year	Total undiscounted cash flows	Carrying value at 31 December 2012
	%	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 31 December 2012						
Trade and other payables	–	7,214	–	1,119	8,333	8,333
Amounts due to related parties	–	554	–	–	554	554
Bank and other borrowings	6.0	61	116	12,505	12,682	12,000
		7,829	116	13,624	21,569	20,887

	Weighted average interest rate	On demand or less than 1 month	1-3 months	3 months to 1 year	Total undiscounted cash flows	Carrying value at 30 June 2013
	%	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 30 June 2013						
Trade and other payables	–	348	–	7,074	7,422	7,422
Bank and other borrowings	6.45	155	304	29,512	29,971	28,736
		503	304	36,586	37,393	36,158

	Weighted average interest rate	On demand or less than 1 month	1-3 months	3 months to 1 year	Total undiscounted cash flows	Carrying value at 30 June 2013
	%	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
THE COMPANY						
At 31 December 2012						
Amount due to a subsidiary	–	9,837	–	–	9,837	9,837
At 30 June 2013						
Amount due to a subsidiary	–	17,127	–	–	17,127	17,127

7c. Fair value

The fair value of financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

The directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortized cost in the combined financial statements approximate their fair values.

8. REVENUE AND SEGMENT INFORMATION

The Group is principally engaged in wholesale trading of pharmaceutical products in the PRC. Information reported to the chief operating decision maker (the "**CODM**"), being the executive directors of the Company, for the purposes of resources allocation and assessment of segment performance focuses on types of goods delivered.

Specially, the Group's reportable and operating segments are as follows:

(i) Injection drugs – trading of injection drugs

(ii) Tablet drugs – trading of tablet drugs

(iii) Capsule drugs – trading of capsule drugs

(iv) Others – trading of miscellaneous types of drugs, other than injection drugs, tablet drugs and capsule drugs

The accounting policies of the reportable and operating segments are the same as the Group's accounting policies described in note 4.

Segment profit represents the gross profit attributable to each segment. This is the measure reported to the CODM for the purposes of resource allocation and assessment of segment performance.

Segment information about these reportable and operating segments is presented below.

Year ended 31 December 2011

	Injection drugs *HK$'000*	Tablet drugs *HK$'000*	Capsule drugs *HK$'000*	Others *HK$'000*	Total *HK$'000*
REVENUE					
External sales and segment revenue	137,691	10,243	10,032	1,720	159,686
RESULT					
Segment profit	18,408	2,544	2,291	43	23,286
Other income, gains and losses					159
Selling and distribution expenses					(2,909)
Administrative expenses					(5,944)
Gain on disposal of assets classified as held for sale					1,473
Share of result of a joint venture					(620)
Finance costs					(187)
Profit before tax					15,258

Year ended 31 December 2012

	Injection drugs *HK$'000*	Tablet drugs *HK$'000*	Capsule drugs *HK$'000*	Others *HK$'000*	Total *HK$'000*
REVENUE					
External sales and segment revenue	151,242	14,501	6,636	2,663	175,042
RESULT					
Segment profit	32,902	3,359	2,669	63	38,993
Other income, gains and losses					1,544
Selling and distribution expenses					(3,112)
Administrative expenses					(6,635)
Listing expenses					(8,567)
Finance costs					(38)
Profit before tax					22,185

Six months ended 30 June 2012 (Unaudited)

	Injection drugs *HK$'000*	**Tablet drugs** *HK$'000*	**Capsule drugs** *HK$'000*	**Others** *HK$'000*	**Total** *HK$'000*
REVENUE					
External sales and segment revenue	77,929	7,733	2,380	1,786	89,828
RESULT					
Segment profit	17,877	1,998	742	100	20,717
Other income, gains and losses					296
Selling and distribution expenses					(1,237)
Administrative expenses					(3,029)
Profit before tax					16,747

Six months ended 30 June 2013

	Injection drugs *HK$'000*	**Tablet drugs** *HK$'000*	**Capsule drugs** *HK$'000*	**Others** *HK$'000*	**Total** *HK$'000*
REVENUE					
External sales and segment revenue	70,586	6,256	4,355	2,475	83,672
RESULT					
Segment profit	14,640	1,238	2,435	142	18,455
Other income, gains and losses					1,050
Selling and distribution expenses					(1,355)
Administrative expenses					(3,339)
Listing expenses					(5,418)
Finance costs					(3,855)
Profit before tax					5,538

Information of assets and liabilities for reportable and operating segments are not provided to CODM for their review. Therefore, no analysis of the Group's assets and liabilities by reportable and operating segments are presented.

Geographical information

The Group's operations are located in the PRC (country of domicile). The geographical location of the Group's non-current assets is substantially situated in the PRC.

All of the Group's revenue from external customers is attributed to the group entities' country of domicile (i.e. the PRC).

Other segment information

	Injection drugs *HK$'000*	Tablet drugs *HK$'000*	Capsule drugs *HK$'000*	Others *HK$'000*	Total *HK$'000*
Amount included in the measure of segment profit					
Year ended 31 December 2011					
Write-down of inventories	23	–	–	–	23
Year ended 31 December 2012					
Write-down of inventories	9	–	–	–	9
Six months ended 30 June 2012 (Unaudited)					
Write-down of inventories	9	–	–	–	9
Six months ended 30 June 2013					
Write-down of inventories	–	–	–	–	–

Revenue from major product and services

During the Track Record Period, no analysis of revenue from external customers for each type of product and services is presented as the management of the Group consider the cost to develop it would be excessive.

Information about major customers

Revenue from customers of the corresponding years/periods contributing over 10% of the total revenue of the Group during the Track Record Period, are as follows:

	Year ended 31 December		Six months ended 30 June	
	2011	**2012**	**2012**	**2013**
	HK$'000	*HK$'000*	*HK$'000* (Unaudited)	*HK$'000*
Customer A[1]	–[2]	40,289	21,434	21,594
Customer B[1]	16,190	19,001	9,166	8,905
Customer C[1]	39,793	37,478	21,123	13,336
Customer D[1]	–[2]	–[2]	–[2]	9,255

1 The revenue involved in injection drugs, tablet drugs, capsule drugs and others segments.

2 The corresponding customer did not contribute over 10% of the total revenue of the Group.

9. OTHER INCOME, GAINS AND LOSSES

	Year ended 31 December		Six months ended 30 June	
	2011	2012	2012	2013
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
			(Unaudited)	
Bank interest income	299	135	84	150
Sundry income	63	166	–	–
Imputed interest and adjustment on deposits paid to suppliers	397	1,243	212	472
Impairment loss on amount due from a joint venture	(600)	–	–	–
Gain on disposal of property, plant and equipment	–	–	–	428
	159	1,544	296	1,050

10. FINANCE COSTS

	Year ended 31 December		Six months ended 30 June	
	2011	2012	2012	2013
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
			(Unaudited)	
Interest on borrowing wholly repayable within five years:				
Bank and other borrowings wholly repayable within one year	–	38	–	841
Amount due to a related party	187	–	–	–
Imputed interest adjustment on deposits paid to suppliers upon initial recognition	–	–	–	3,014
	187	38	–	3,855

11. INCOME TAX EXPENSE

	Year ended 31 December		Six months ended 30 June	
	2011	2012	2012	2013
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
			(Unaudited)	
Current tax:				
PRC Enterprise Income Tax ("**EIT**")	3,789	7,632	4,207	3,565
Deferred tax (Note 28)	1,057	(774)	1,049	443
	4,846	6,858	5,256	4,008

Under the Law of the People's Republic of China on Enterprise Income Tax (the "**EIT Law**") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25%.

No provision for Hong Kong Profits Tax has been made in the Financial Information as the Group had no assessable profits in Hong Kong.

The tax charge for the Track Record Period can be reconciled to the profit per the combined statements of profit or loss and other comprehensive income as follows:

	Year ended 31 December		Six months ended 30 June	
	2011	**2012**	**2012**	**2013**
	HK$'000	*HK$'000*	*HK$'000* (Unaudited)	*HK$'000*
Profit before tax	15,258	22,185	16,747	5,538
Tax at the domestic income tax rate of 25%	3,815	5,546	4,188	1,384
Tax effect of share of result of a joint venture	155	–	–	–
Tax effect of income not taxable for tax purpose	(508)	(311)	(64)	(122)
Tax effect of expense not deductible for tax purpose	245	2,296	35	2,237
Tax losses not recognised	82	101	48	66
Deferred tax (reversal of deferred tax) on undistributed earnings of PRC subsidiaries	1,057	(774)	1,049	443
Tax charge for the year/period	4,846	6,858	5,256	4,008

Details of deferred taxation are set out in note 28.

12. PROFIT FOR THE YEAR/PERIOD

	Year ended 31 December		Six months ended 30 June	
	2011	**2012**	**2012**	**2013**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
			(Unaudited)	
Profit for the year/period has been arrived at after charging:				
Directors' emoluments	709	729	362	452
Other staff costs	2,847	2,639	1,243	1,638
Contributions to retirement benefits scheme, excluding directors	382	398	218	168
Total staff costs	3,938	3,766	1,823	2,258
Auditors' remuneration	118	143	28	31
Depreciation of property, plant and equipment	1,468	1,430	720	570
Amortisation of prepaid lease payment	185	190	94	96
Minimum lease payments under operating leases in respect of rented premises	878	1,031	484	592
Loss (gain) on disposal of property, plant and equipment	24	16	20	(428)
Cost of inventories recognised as an expense	136,400	136,049	69,111	65,217
Write-down of inventories (included in cost of sales)	23	9	9	–
Impairment loss on amount due from a joint venture (included in other income, gains and losses)	600	–	–	–
and after crediting:				
Bank interest income	(299)	(135)	(84)	(150)

13. DIRECTORS', CHIEF EXECUTIVE'S AND EMPLOYEES' EMOLUMENTS

(a) Directors' and chief executive's emoluments

During the Track Record Period, no emoluments were paid by the Group to the directors and chief executive as an inducement to join or upon joining the Group or as compensation for loss of office.

Details of emoluments paid by the Group to the directors and chief executive of the Company are set out as follows:

	Fees	Salaries and other allowances	Retirement benefit scheme contributions	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
For the year ended 31 December 2011				
Executive directors:				
Mr. Zhou *(note 1)*	–	272	28	300
Mr. Dai Haidong *(note 2)*	–	200	28	228
Ms. Yang Fang *(note 3)*	–	156	25	181
Mr. Lee Chik Yuet *(note 4)*	–	–	–	–
	–	628	81	709
For the year ended 31 December 2012				
Executive directors:				
Mr. Zhou *(note 1)*	–	277	32	309
Mr. Dai Haidong *(note 2)*	–	202	30	232
Ms. Yang Fang *(note 3)*	–	162	26	188
Mr. Lee Chik Yuet *(note 4)*	–	–	–	–
	–	641	88	729
For the period ended 30 June 2012 (Unaudited)				
Executive directors:				
Mr. Zhou *(note 1)*	–	138	15	153
Mr. Dai Haidong *(note 2)*	–	101	15	116
Ms. Yang Fang *(note 3)*	–	80	13	93
Mr. Lee Chik Yuet *(note 4)*	–	–	–	–
	–	319	43	362
For the period ended 30 June 2013				
Executive directors:				
Mr. Zhou *(note 1)*	–	171	17	188
Mr. Dai Haidong *(note 2)*	–	135	16	151
Ms. Yang Fang *(note 3)*	–	100	13	113
Mr. Lee Chik Yuet *(note 4)*	–	–	–	–
	–	406	46	452

Note 1: Mr. Zhou Ling was appointed as a director on 24 August 2012 and re-designated as an executive director and appointed as the chairman of the Company on 17 September 2012.

Note 2: Mr. Dai Haidong was appointed as a director on 24 August 2012 and re-designated as an executive director and appointed as the chief executive officer of the Company on 17 September 2012.

Note 3: Ms. Yang Fang was appointed as a director on 24 August 2012 and re-designated as an executive director of the Company on 17 September 2012.

Note 4: Mr. Lee Chik Yuet ("**Mr. Lee**") was appointed as a director on 14 September 2012 and re-designated as an executive director of the Company on 17 September 2012. There was no remuneration paid to Mr. Lee by the Group during the Track Record Period.

(b) Employees' emoluments

The five highest paid individuals included three, three, three and three directors and the chief executive of the Company for the years ended 31 December 2011 and 2012 and the six months ended 30 June 2012 and 2013, respectively, details of whose remuneration is disclosed above. The emoluments of the remaining highest paid individuals during the Track Record Period were as follows:

	Year ended 31 December		Six months ended 30 June	
	2011	**2012**	**2012**	**2013**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
			(Unaudited)	
Salaries and other allowances	256	390	158	300
Retirement benefit scheme contributions	26	28	13	18
	282	418	171	318

Their emoluments individually were all below HK$1,000,000.

14. DIVIDENDS

No dividends have been paid or declared by Max Goodrich and the Company since its date of incorporation.

15. EARNINGS PER SHARE

Earnings per share information is not presented as its inclusion, for the purpose of the Financial Information, is not considered meaningful with regard to the Reorganisation and the presentation of the results for the Track Record Period on a combined basis as disclosed in Note 2.

16. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Furniture, fixtures and equipment	Plant and machinery	Motor vehicles	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
THE GROUP					
COST					
At 1 January 2011	4,509	1,139	388	4,704	10,740
Additions	–	70	50	508	628
Disposals	(500)	–	–	(338)	(838)
Exchange realignment	190	53	18	213	474
At 31 December 2011	4,199	1,262	456	5,087	11,004
Additions	–	97	4	73	174
Disposals	–	(313)	–	–	(313)
Exchange realignment	36	10	4	44	94
At 31 December 2012	4,235	1,056	464	5,204	10,959
Additions	–	32	–	2,493	2,525
Disposals	–	–	–	(1,890)	(1,890)
Exchange realignment	68	18	7	88	181
At 30 June 2013	4,303	1,106	471	5,895	11,775
ACCUMULATED DEPRECIATION					
At 1 January 2011	120	526	244	1,884	2,774
Provided for the year	114	199	84	1,071	1,468
Disposals	(101)	–	–	(176)	(277)
Exchange realignment	6	28	13	107	154
At 31 December 2011	139	753	341	2,886	4,119
Provided for the year	109	136	64	1,121	1,430
Disposals	–	(297)	–	–	(297)
Exchange realignment	2	5	2	30	39
At 31 December 2012	250	597	407	4,037	5,291
Provided for the period	55	60	5	450	570
Disposals	–	–	–	(1,796)	(1,796)
Exchange realignment	4	10	7	54	75
At 30 June 2013	309	667	419	2,745	4,140
CARRYING VALUES					
At 30 June 2013	3,994	439	52	3,150	7,635
At 31 December 2012	3,985	459	57	1,167	5,668
At 31 December 2011	4,060	509	115	2,201	6,885

The above items of property, plant and equipment are depreciated on a straight-line basis at the following rates per annum:

Buildings	Over the shorter of the term of lease or 5%
Furniture, fixtures and equipment	20% to 33%
Plant and machinery	10% to 33%
Motor vehicles	10% to 20%

The Group has pledged buildings and prepaid lease payments with an aggregate carrying values of approximately HK$12,887,000, HK$12,697,000 and HK$12,750,000 as at 31 December 2011, 31 December 2012 and 30 June 2013 respectively to secure general banking facilities granted to the Group.

17. PREPAID LEASE PAYMENTS

	As at 31 December		As at 30 June
	2011	**2012**	**2013**
	HK$'000	*HK$'000*	*HK$'000*
Analyzed for reporting purpose as:			
THE GROUP			
Current asset	189	191	194
Non-current asset	8,638	8,521	8,562
	8,827	8,712	8,756

The Group's prepaid lease payments comprise:

Leasehold land outside Hong Kong:			
Medium-term lease	8,827	8,712	8,756

18. CLUB DEBENTURE

THE GROUP

The club debenture represents entrance fee paid to a golf club with indefinite useful life. The directors of the Company consider no impairment identified with reference with market price of the club debenture.

19. DEPOSITS PAID TO SUPPLIERS

THE GROUP

From time to time, the Group is required to make deposit payments to its suppliers as a condition of acquiring the distribution rights of specific products and as security for purchase of products. Except for purchase agreements with several major suppliers detailed below, the deposits payments are for purchases in the next twelve months from the end of each reporting period and are therefore classified as current assets.

For the arrangement with the suppliers, if the minimum purchase requirement is not met in a particular year, the deposits paid to the suppliers in relation to the minimum purchase commitment would be proportionately forfeited or the relevant contract to be terminated by the supplier.

The management has performed detail assessment on these contracts and no impairment losses nor provision were considered necessary for the Track Record Period.

As of 31 December 2011, the amount of RMB8,000,000 (equivalent to HK$9,440,000) represented deposit paid in 2010 to a supplier, which was an associate of the Group for the period from 13 January 2010 to 18 January 2011 (details set out in note 20), as a security for acquiring the distribution right of a specific product in the next 5 year started from 2010, and the deposit would be fully refundable upon its expiry date and not be realised within twelve months from the end of the reporting period in 2011. Accordingly, the amount was included in the non-current assets as at 31 December 2011. The carrying amounts as at 31 December 2011 is determined based on the present value of future cash flows discounted using an effective interest rate of 5% per annum. During the year ended 31 December 2012, a new contract for purchase of goods was entered into by the Group with this supplier and both parties agreed to terminate the original contract on 1 July 2012. The term of the new contract will end on 30 June 2013, and the deposit paid under the contract terminated was treated as deposit for the new contract and will be fully refundable upon its expiry date. Accordingly, such amount was reclassified from non-current assets to current assets and grouped into trade and other receivables. As at 30 June 2013, such supplier contract was further renewed for 1 year from 1 July 2013 to 30 June 2014.

During the six months ended 30 June 2013, certain suppliers contracts were renewed, in which the amount of RMB15,000,000 (equivalent to HK$18,645,000) represented the renewal of other suppliers contracts for the deposits paid as securities for acquiring the distribution rights of specific products in the next 3 years, and the deposits would be fully refundable upon its expiry date and not be realised within twelve months from the end of the reporting period. Accordingly, the amounts were included in the non-current assets as at 30 June 2013. The carrying amounts of these deposits paid are determined based on the present value of future cash flows discounted using an effective interest rate of 6% per annum, and the relevant imputed interest recognised in profit or loss was HK$3,014,000 upon its initial recognition.

	As at 31 December		**As at 30 June**
	2011	**2012**	**2013**
	HK$'000	*HK$'000*	*HK$'000*
THE GROUP			
At 1 January	11,699	14,573	35,778
Deposits paid	3,048	22,167	13,783
Deposits refunded	(1,206)	(2,426)	(14,138)
Imputed interest adjustment upon initial recognition	–	–	(3,014)
Imputed interest and adjustment (note)	397	1,243	472
Exchange realignment	635	221	575
At 31 December	14,573	35,778	33,456
Classified as:			
Current asset (included in trade and other receivables)	5,957	35,778	17,052
Non-current asset	8,616	–	16,404
	14,573	35,778	33,456

Note:

During the year ended 31 December 2012, the amount included an imputed interest adjustment of HK$1,031,000 that was resulted from the deposit paid under the original contract which was early terminated and such deposit was treated as the deposit paid for the new contract.

20. GAIN ON DISPOSAL OF ASSETS CLASSIFIED AS HELD FOR SALE

On 30 November 2010, the Group decided to dispose of an associate, Shenyang Meiluo Pharmaceutical Company Limited* ("**Shenyang Meiluo**") 沈陽美羅製藥有限公司. Its principal activities were engaged in manufacturing of pharmaceutical products. Accordingly, the carrying amount of HK$12,091,000 of interest in an associate in Shenyang Meiluo was reclassified as assets held for sale. The disposal was completed on 19 January 2011 for a cash consideration of RMB11,250,000 (approximately HK$13,564,000) from an independent third party, and the Group lost significant influence over Shenyang Meiluo. The gain on disposal of the assets held for sale is as follows:

	Year ended 31 December		Six months ended 30 June	
	2011	**2012**	**2012**	**2013**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
			(Unaudited)	
Gain on disposal	1,473	–	–	–

* English translated name is for identification only

21. INTEREST IN A JOINT VENTURE/AMOUNT DUE FROM A JOINT VENTURE

	As at 31 December		As at 30 June
	2011	**2012**	**2013**
	HK$'000	*HK$'000*	*HK$'000*
THE GROUP			
Cost of unlisted investment in a joint venture	604	604	604
Share of post-acquisition loss	(604)	(604)	(604)
	–	–	–
Amount due from a joint venture (note)	616	616	616
Less: Impairment	(600)	(600)	(600)
Less: Share of post-acquisition loss that is in excess of the cost of the investment	(16)	(16)	(16)
	–	–	–

The interest in a joint venture represents a 50.1% equity interest in Haikou Xin Lang Pharmaceutical Technology Co. Ltd.* ("**Haikou Xin Lang**") 海口新朗醫藥科技有限公司, an equity joint venture established in the PRC in March 2011. The Group is able to exercise joint control over Haikou Xin Lang as all of the strategic financial and operating decisions require unanimous consent of the Group and the other joint venture partner. Accordingly, Haikou Xin Lang is regarded as a joint venture of the Group.

* English translated name is for identification only

Details of the Group's joint venture at 31 December 2011, 31 December 2012 and at 30 June 2013 are as follows:

Name	Place of incorporation/ operation	Proportion of nominal value of issued capital/ registered capital held by the Group At 31 December 2011	2012	At 30 June 2013	Principal activity
Haikou Xin Lang	PRC	50.1%	50.1%	50.1%	Medical technology development, biological technology development and medical consulting

note:

The amount is unsecured, non-interest bearing and repayable on demand. In the opinion of the directors, settlement is neither planned nor likely to occur in the foreseeable future. The directors consider that the amount form part of the net investment in the joint venture. Accordingly, the amount was classified as non-current.

In 2011, the directors identified indication of impairment loss for the Group's investment in a joint venture and conducted a review on the recoverability on the amount due from a joint venture. For the year ended 31 December 2011, the directors determine that there is impairment of HK$600,000 on the amount due from a joint venture.

The summarised financial information below represents amounts shown in the joint venture's financial statements prepared in accordance with HKFRS.

The joint venture is accounted for using equity method in these combined financial statements.

	As at 31 December 2011	2012	As at 30 June 2013
	HK$'000	*HK$'000*	*HK$'000*
Current assets	1,239	1,246	1,270
Non-current assets	–	–	–
Current liabilities	(1,245)	(1,256)	(1,282)
Non-current liabilities	–	–	–

	Year ended 31 December 2011	2012	Six months ended 30 June 2012	2013
	HK$'000	*HK$'000*	*HK$'000* (Unaudited)	*HK$'000*
Revenue	–	–	–	–
Loss for the year/period	(1,238)	(4)	(4)	(3)
Other comprehensive income	–	–	–	–
Total comprehensive expenses for the year/period	(1,238)	(4)	(4)	(3)
Dividends received from the joint venture during the year/period	–	–	–	–

Reconciliation of the above summarised financial information to the carrying amount of the interest in the joint venture recognised in the combined financial statements:

	As at 31 December		As at 30 June
	2011	**2012**	**2013**
	HK$'000	*HK$'000*	*HK$'000*
Net liabilities of the joint venture	(6)	(10)	(12)
Proportion of the Group's ownership interest in the joint venture	50.1%	50.1%	50.1%
Carrying amounts of the Group's interest in a joint venture	–	–	–

Significant restriction

There are no significant restrictions on the ability of the joint venture of transfer funds to the Group in the form of cash dividends, or to repay loans or advance made by the Group.

22. INVENTORIES

	As at 31 December		As at 30 June
	2011	**2012**	**2013**
	HK$'000	*HK$'000*	*HK$'000*
THE GROUP			
Finished goods	14,916	16,151	16,199

23. TRADE, BILLS AND OTHER RECEIVABLES

	As at 31 December		As at 30 June
	2011	**2012**	**2013**
	HK$'000	*HK$'000*	*HK$'000*
THE GROUP			
Trade receivables	48,149	41,409	45,506
Bills receivables	–	292	–
Other prepayments	478	426	825
Deferred listing expenses	–	2,383	6,241
Prepayments to suppliers	26,082	28,206	27,792
Deposits paid to suppliers	5,957	35,778	17,052
Others	113	260	262
Total trade, bills and other receivables	80,779	108,754	97,678

The Group allows an average credit period ranging from 30 to 90 days to its trade customers, except a customer which had a credit period of 180 days in 2011 and this was subsequently shorten to 90 days on 1 August 2012. The following is an aged analysis of trade and bills receivables presented based on the invoice dates, which approximated the respective revenue recognition dates, at the end of the reporting period.

	As at 31 December		As at 30 June
	2011	**2012**	**2013**
	HK$'000	*HK$'000*	*HK$'000*
Trade and bills receivables:			
0 – 30 days	18,965	20,790	21,764
31 – 60 days	17,521	19,642	20,700
61 – 90 days	2,621	396	2,156
91 – 180 days	4,253	873	886
Over 180 days	4,789	–	–
	48,149	41,701	45,506

Before accepting any new customers, the Group assesses the potential customer's credit quality and defines credit limits by the customer. Limits attributed to customers are reviewed periodically. Majority of the trade receivables that are neither past due nor impaired have no default payment history.

Included in the Group's trade receivable balance are debtors with aggregate carrying amount of approximately HK$4,789,000, HK$873,000 and HK$886,000 which are considered past due as at 31 December 2011, 31 December 2012 and 30 June 2013, respectively. The Group has not provided for impairment loss because management is of the opinion the fundamental credit quality of these customers has not deteriorated. The Group does not hold any collateral over these balances. The average age of these receivables as at 31 December 2011, 31 December 2012 and 30 June 2013 are 195 days, 103 days and 121 days respectively.

Ageing of trade receivables which are past due but not impaired:

	As at 31 December		**As at 30 June**
	2011	**2012**	**2013**
	HK$'000	*HK$'000*	*HK$'000*
91 – 180 days	–	873	886
Over 180 days	4,789	–	–
	4,789	873	886

Prepayments and deposits paid to suppliers represent the prepayments and deposits paid for purchase of pharmaceutical products. The Group is required to make prepayments and trade deposits to certain suppliers to secure regular supply of products. The amount of prepayment to suppliers varies with the terms of supplier contracts entered with different suppliers, which is determined based on the amount of goods purchased from the suppliers. The prepayment is made upon placement of order for the purchase of goods, recorded under "trade, bills and other receivables" and set off against the trade payable upon the delivery of goods to the Group. The amounts of trade deposits required vary on case by case basis. The deposits paid will be refunded upon expiry of contracts. The increase in prepayments and deposits paid to suppliers during the Track Record Period was primarily attributable to the expansion of the Group's operation, resulting in the increase in deposits and prepayments made to more suppliers to expand the sales network.

Deferred listing expenses represent professional fees for the proposed listing of the shares of the Company on the Stock Exchange (the "**Listing**"), which would be offset against the share premium accounts in equity upon the Listing.

THE COMPANY

The amounts at 31 December 2012 and 30 June 2013 represent the deferred professional fees in connection with the proposed Listing, which would be offset against the share premium accounts in equity upon the Listing.

24. AMOUNTS DUE FROM (TO) RELATED PARTIES/AMOUNT DUE TO A SUBSIDIARY

(I) Amounts due from (to) related parties

	As at 31 December		As at 30 June	Maximum account outstanding during the year		Maximum account outstanding during the period 30 June
	2011	2012	2013	2011	2012	2013
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
THE GROUP						
Amounts due from related parties						
Mr. Zhou *(note a)*	33	33	33	33	33	33
Mr. Dai *(note a)*	24	24	24	24	24	24
Ms. Yang *(note a)*	23	23	23	23	23	23
	80	80	80	80	80	80
Amounts due to related parties						
Subsidiaries of Town Health International *(note b)*	(360)	–	–			
Yang Qi *(note c)*	(1,187)	(554)	–			
	(1,547)	(554)	–			

Notes:

(a) The amounts are unsecured, non-interest bearing and repayable on demand. In the opinion of the directors of the Company, the amounts will be fully settled upon the Listing.

(b) The amounts are due to wholly owned subsidiaries of Town Health International, which represent amounts paid on behalf of the Group, and are unsecured, non-interest bearing and repayable on demand.

(c) Yang Qi is a family member of Ms. Yang and the balance represents rental expense payable by the Group, which was unsecured, non-interest bearing and repayable on demand.

(II) Amount due to a subsidiary

THE COMPANY

The amounts at 31 December 2012 and 30 June 2013 are unsecured, interest-free and repayable on demand. The amount represents certain professional fees in connection with the proposed Listing paid by Max Goodrich on behalf of the Company.

25. BANK BALANCES AND CASH/PLEDGED BANK DEPOSITS

THE GROUP

Bank balances and cash comprise cash held by the Group and short-term bank deposits with an original maturity of three months or less. The deposits carry interest at market rates which range from 0.01% to 1.35%, 0.01% to 1.35% and 0.01% to 1.35% per annum, for each of the years ended 31 December 2011, 31 December 2012 and the six months ended 30 June 2013 respectively.

Pledged bank deposit of the Group represents deposit pledged to a bank to secure general short-term banking facilities granted to the Group. The deposit carries fixed interest rate of 0.01% per annum as at 31 December 2011. The pledged bank deposit has been released during the year ended 31 December 2012.

26. TRADE, BILLS AND OTHER PAYABLES

	As at 31 December		As at 30 June
	2011	2012	2013
	HK$'000	*HK$'000*	*HK$'000*
THE GROUP			
Trade payable	7,396	7,214	6,854
Bills payables	3,697	–	–
Deposits received	2,280	1,119	568
Receipt in advance	2,473	1,003	1,472
VAT payables	4,919	3,773	6,339
Other tax payables	213	345	498
Accruals	399	1,475	3,525
	21,377	14,929	19,256

The following is an aged analysis of trade and bills payables present based on invoice date at the end of the Track Record Period:

	As at 31 December		As at 30 June
	2011	2012	2013
	HK$'000	*HK$'000*	*HK$'000*
0 – 30 days	4,350	1,807	1,360
31 – 60 days	12	4,195	–
61 – 90 days	7	1,212	–
Over 90 days	6,724	–	5,494
	11,093	7,214	6,854

The credit period on purchase of goods ranges from 30 to 60 days. For certain suppliers, the Group is required to make prepayments and/or pay deposits to the suppliers based on the supplier agreements for purchase of goods. Details of the amounts of prepayments to suppliers and deposits paid to suppliers are set out in notes of 19 and 23.

THE COMPANY

The amounts at 31 December 2012 and 30 June 2013 represent accruals for professional fees in connection with the proposed Listing.

27. BANK AND OTHER BORROWINGS

	As at 31 December		As at 30 June
	2011	2012	2013
	HK$'000	*HK$'000*	*HK$'000*
THE GROUP			
Secured bank loan	–	–	10,736
Unsecured other loan	–	12,000	18,000
	–	12,000	28,736

The bank and other borrowings are repayable as follows:

	As at 31 December		As at 30 June
	2011	2012	2013
	HK$'000	*HK$'000*	*HK$'000*
Within one year	–	12,000	28,736

The unsecured other loan, which is denominated in HK$ and carried interest at fixed interest rate of 6% per annum, was raised from an independent third party during the year ended 31 December 2012 and repayable in one year.

The secured bank loan, which is denominated in RMB and carried interest at fixed interest rate of 6.9% per annum, was newly raised during the six months ended 30 June 2013 and repayable in one year.

The proceeds were used for general working capital purpose of the Group.

28. DEFERRED TAX LIABILITIES

The deferred tax liabilities recognised by the Group and movements thereon during the Track Record Period are as follows:

	Withholding tax on undistributed earnings of the PRC subsidiaries
	HK$'000
THE GROUP	
At 1 January 2011	2,217
Charge to profit or loss	1,057
Exchange differences	23
At 31 December 2011	3,297
Charge to profit or loss	955
Reversal of withholding tax previously provided (note)	(1,729)
Exchange differences	8
At 31 December 2012	2,531
Charge to profit or loss	443
Earnings distributed	(319)
Exchange differences	44
At 30 June 2013	2,699

Note: Pursuant to an approval from the relevant PRC government obtained by the Group in December 2012, the Group is entitled to a withholding tax at the rate of 5% for dividend payments from the Group's PRC subsidiaries. Therefore, the excessive withholding tax previously provided of HK$1,729,000 based on the rate of 10% is reversed accordingly.

The Group has unused tax losses of approximately HK$2,032,000, HK$2,435,000 and HK$2,699,000 as at 31 December 2011, 31 December 2012 and 30 June 2013 respectively, available for offset against future profits. No deferred tax asset has been recognised in respect of the unutilised tax losses due to the unpredictability of future profits stream. Included in unrecognised tax losses are losses of HK$2,032,000, HK$403,000 and HK$264,000 that will expire in 2016, 2017 and 2018 respectively.

Under the EIT Law of PRC, a 5% withholding tax is imposed on dividends declared to foreign investors in respect of profits earned by PRC subsidiaries from 1 January 2008 onwards.

29. SHARE CAPITAL

On 9 August 2012, the Company was incorporated in Bermuda as exempted company with limited liability with an authorised share capital of HK$100,000 divided into 10,000,000 shares of HK$0.01 each. On 23 August 2012, one subscriber share, was allotted and issued as nil paid share, to Town Health Pharmaceutical. As at 31 December 2012 and 30 June 2013, there was no change in the authorised share capital and one share issued.

The share capital at 31 December 2011 represented the then issued and fully paid share capital of Max Goodrich. The share capital at 31 December 2012 and 30 June 2013 represented the combined share capital of the Company and Max Goodrich.

Share Capital of Max Goodrich

	Number of shares	Nominal value
		USD'000
Ordinary shares of USD1 each		
Authorised:		
At 1 January 2011, 31 December 2011, 2012 and 30 June 2013	50,000	50
Issued and fully paid:		
At 1 January 2011, 31 December 2011, 2012 and 30 June 2013	21,000	21

	HK$'000
Shown in the combined financial statements as:	
At 31 December 2011, 2012 and 30 June 2013	164

29A. RESERVE OF THE COMPANY

	Accumulated loss
	HK$'000
At 9 August 2012 (date of incorporation)	–
Loss and total comprehensive expense for the period	(8,567)
At 31 December 2012	(8,567)
Loss and total comprehensive expense for the period	(5,009)
At 30 June 2013	(13,576)

30. RETIREMENT BENEFIT PLANS

The employees employed in the PRC are members of the state-managed retirement benefit schemes operated by the PRC government. The PRC subsidiaries are required to contribute a certain percentage of their payroll to the retirement benefit schemes to fund the benefits. The only obligation of the Group with respect to the retirement benefit schemes is to make the required contributions under the schemes.

The Group also operates a Mandatory Provident Fund Scheme for all its qualifying employees in Hong Kong. The assets of the schemes are held separately from those of the Group, in funds under the control of trustees. The Group contributes 5% or HK$1,000 (increased to HK$1,250 effective on 1 June 2012) in maximum of relevant payroll costs to the scheme, which contribution is matched by employees.

The total cost of HK$463,000, HK$486,000, HK$261,000 and HK$214,000 for each of the years ended 31 December 2011, 31 December 2012 and the six months ended 30 June 2012 and 2013 respectively charged to combined statements of profit or loss and other comprehensive income represents contribution paid or payable to the above retirement benefit plans by the Group.

At the end of the reporting periods, the Group had no significant obligation apart from the contribution as stated above.

31. PLEDGE OF ASSETS

As at the end of the reporting period, the Group has pledged the buildings and prepaid lease payments with aggregate carrying values of approximately HK$12,887,000, HK$12,697,000 and HK$12,750,000 as at 31 December 2011, 31 December 2012 and 30 June 2013 to secure general banking facilities granted to the Group. In addition, bank deposits of HK$1,849,000 of the Group was pledged to a bank to secure credit facilities as at 31 December 2011.

32. CONTINGENT LIABILITIES

The directors of the Company represented that a former customer ("**Plaintiff**") was in breach of the distribution agreement entered into between the Company's subsidiary, Zhejiang Xin Rui Pharmaceutical and the Plaintiff in June 2010 by failing to commit the agreed minimum order quantity requirement, and that the Plaintiff instituted legal proceedings against Zhejiang Xin Rui Pharmaceutical at Hangzhou Jianggan District People's Court (杭州市江干區人民法院) (the "Court") on 25 June 2012, claiming damages in (i) the total amount of approximately RMB1,018,000 (approximately HK$1,249,000) together with accrued interests thereof; (ii) the deposit paid by the Plaintiff to Zhejiang Xin Rui Pharmaceutical of RMB50,000 (approximately HK$61,000) together with accrued interests thereof; and (iii) costs of the matter to be borne by the Group, due to the alleged infringement by Zhejiang Xin Rui Pharmaceutical of the exclusive right of a pharmaceutical product granted to the Plaintiff which is in contravention of the exclusivity provision under the distribution agreement in question on 3 February 2010.

The directors considered that there is no valid ground for the allegation of a breach of the distribution agreement, and, has instructed its lawyer in PRC to act for Zhejiang Xin Rui Pharmaceutical to defend for the litigation. The case has been heard in court in August 2012 and the second hearing took place on 15 April 2013, where the Plaintiff produced evidence in support of its claim. On 7 July 2013, the Court notified Zhejiang Xin Rui Pharmaceutical that the Plaintiff 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.

After seeking advice of lawyers acting for the Group, the directors are in the opinion that the Plaintiff did not have any valid claim against the Zhejiang Xin Rui Pharmaceutical and therefore it is not probable to have any adverse financial impact to the Group. Therefore, no provision for any losses on litigation was made in the combined financial information for the year ended 31 December 2012 and six months ended 30 June 2013.

33. OPERATING LEASES

The Group as lessee

Minimum lease payments paid under operating leases for premises during the year ended 31 December 2011, 31 December 2012 and the six months ended 30 June 2013 were HK$878,000, HK$1,031,000 and HK$592,000, respectively.

At the respective reporting dates, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	As at 31 December		As at 30 June
	2011	**2012**	**2013**
	HK$'000	*HK$'000*	*HK$'000*
Within one year	510	1,028	1,073
In the second to fifth year inclusive	1,520	1,815	1,322
	2,030	2,843	2,395

Operating lease payments represent rentals payable by the Group for certain of its office and warehouse. Leases are generally negotiated for terms from 3 to 5 years and rentals are fixed over the lease terms.

34. CAPITAL COMMITMENTS

The Group's share of the capital commitments of its joint venture are as follows:

	As at 31 December		As at 30 June
	2011	**2012**	**2013**
	HK$'000	*HK$'000*	*HK$'000*
Capital expenditure in respect of the acquisition of research data and patent of a new pharmaceutical product contracted for but not provided in the combined financial statements	1,605	1,619	1,645

35. RELATED PARTY DISCLOSURES

(I) Transactions

During the Trade Record Period, the Group entered into the following transactions with related parties:

Name of related party	Relationship	Nature of transactions/ balances	Year ended 31 December 2011	Year ended 31 December 2012	Six months ended 30 June 2012	Six months ended 30 June 2013
			HK\$'000	*HK\$'000*	*HK\$'000* (Unaudited)	*HK\$'000*
Yang Qi	Family member of Ms. Yang	Rental expense *(note)*	700	681	325	340
Zhou Jian	Family member of Mr. Zhou	Interest expense	187	–	–	–

Note: The rental expense represents expense for leasing a unit of the Group's office premise in the PRC, which Yang Qi was the lessor during the year ended 31 December 2011, and became one of the lessors during year ended 31 December 2012 and the six months ended 30 June 2013.

(II) Non-trade balances

Details of the Group's outstanding balances with related parties are set out on the combined statement of financial position and in note 24.

(III) Compensation of key management personnel

	Year ended 31 December 2011	Year ended 31 December 2012	Six months ended 30 June 2012	Six months ended 30 June 2013
	HK\$'000	*HK\$'000*	*HK\$'000* (Unaudited)	*HK\$'000*
Short term benefits	628	641	319	406
Post employment benefits	81	88	43	46
	709	729	362	452

The remuneration of directors and key executives is determined having regard to the performance of the individuals.

B. DIRECTORS' REMUNERATION

Save as disclosed in this report, no remuneration has been provided or is payable by the Group to the directors of the Company in respect of the Track Record Period.

Under the arrangement currently in force, the aggregate amount of remunerations payable to the Company's directors for the year ending 31 December 2013 is estimated to be approximately HK$988,000.

C. EVENTS AFTER END OF REPORTING PERIOD

The following significant events took place subsequent to 30 June 2013:

(a) On 7 July 2013, the Court notified Zhejiang Xin Rui Pharmaceutical that the Plaintiff 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. Details of the litigation are set out in note 32.

(b) On 26 September 2013, written resolutions of the sole shareholder, Town Health Pharmaceutical, were passed which include the change in the authorised share capital of the Company and capitalisation issue as described in the paragraph headed "Resolutions in writing of the sole Shareholder passed on 26 September 2013" in Appendix V to this prospectus, and the conditional adoption of the share option scheme as described in the paragraph headed "Share Option Scheme" in Appendix V to this prospectus.

(c) A deed of indemnity dated 17 October 2013 entered into between Town Health International and the Company, pursuant to which Town Health International has given certain indemnities in favour of the Company (for itself and as trustee for each of its subsidiaries) subject to and in accordance with the terms and conditions of the deed of indemnity, further particulars of which are set out in the sub-paragraph headed "Estate duty, tax indemnity and other indemnities" under the paragraph headed "Other Information" in Appendix V to this prospectus.

No other significant events took place subsequent to 30 June 2013.

D. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Group, the Company or any of its subsidiaries in respect of any period subsequent to 30 June 2013.

Yours faithfully,
Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong