

SUMMARY

This summary aims to give you an overview of the information contained in this document. As this is only a summary, it does not contain all the information which may be important to you. You should read this document in its entirety before you [●].

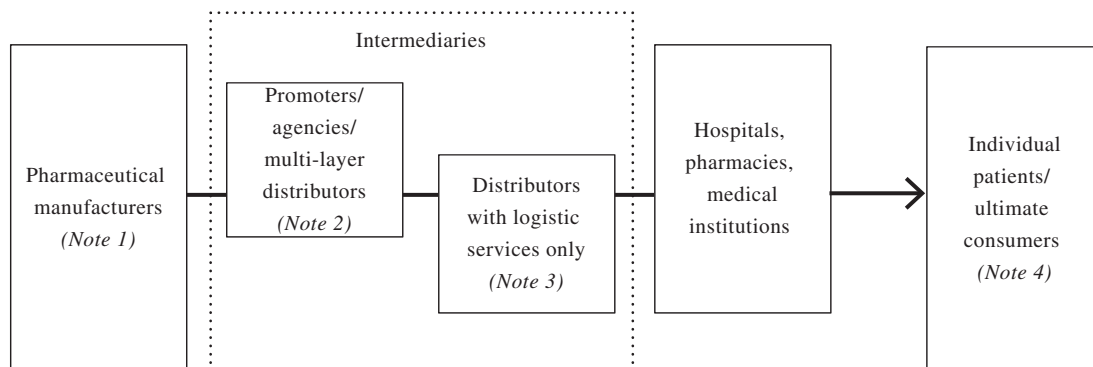
There are risks associated with any investment. Some of the particular risks in [●] are set out in the section headed “Risk Factors” in this document. You should read that section carefully before you [●].

OVERVIEW

We are an established pharmaceutical distributor principally engaged in pharmaceutical distribution businesses in the PRC with a focus in Hangzhou, Zhejiang province. We mainly serve as a provincial distributor, and also as a national distributor for some of our products. We start involving our pharmaceutical distribution business from the stage of identification and acquisition of the distribution rights of products from our suppliers, market research and market development of our new products, assistance and coordination in the collective tendering process for our suppliers throughout different regions in the PRC, procurement and sourcing, and sales and marketing, warehousing and delivery to our Distributor Customers. A majority of our products will in turn be distributed through our Distributor Customers to the ultimate customers which mainly comprise hospitals and medical institutions in the PRC in accordance with the geographical exclusivity of our products. All of the pharmaceutical products distributed by our Group are generic pharmaceutical products.

Our Business Model

The pharmaceutical industry in the PRC mainly involves research and development; manufacturing, distribution and retail sales. The following chart illustrates different models of the PRC pharmaceutical distribution business:



Notes:

1. “**Pharmaceutical manufacturers**” refers to our Type 1 Suppliers, which comprise pharmaceutical manufactures granting us exclusive national or multiple provincials distribution rights. Our Group is the exclusive national or multiple provincials distributors of the products procured from our Type 1 Suppliers.
2. “**Multi-layer distributors**” refers to our Type 2 Suppliers, which are pharmaceutical companies obtaining the exclusive national distribution rights or multiple provincials from the pharmaceutical manufactures, granting us provincial or regional distribution rights. Our Group is also one of the multi-layer distributors as we also grant provincial or regional distribution rights to our Type 2 Distributor Customers and they in turn distribute our products to their sub-distributor customers in the designated geographical areas.

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3. **"Distributors with logistics services only"** refers to our Type 1 Distributor Customers, which are distributors mainly providing logistics functions for our Group. Our Group then distributes the products purchased from Type 1 Suppliers or Type 2 Suppliers to our Type 1 Distributor Customers, which in turn distribute our products to the ultimate customers directly in the designated geographical areas.
4. **"Individual patients/ultimate customers"** refers to the ultimate customers of our products. The products purchased by our Type 1 Distributor Customers and Type 2 Distributor Customers are ultimately delivered to the ultimate customers which comprise hospitals and medical institutions.

Value added services to our suppliers

As at the [Latest Practicable Date], our Group acquires distribution right of the new potential products in the market from our [47] suppliers which comprise [46] small to medium pharmaceutical manufacturers or pharmaceutical companies with an annual sales less than RMB300 million and [one] large pharmaceutical manufacturer. It is difficult for those pharmaceutical manufacturers and pharmaceutical companies to explore and expand their footsteps to every single province in the PRC with their limited resources. Generally, all pharmaceutical products procured by public hospitals and medical institutions in the PRC are subject to provincial collective hospital tendering process that involves bidding by the pharmaceutical manufacturers of these products. We can assist our suppliers by providing them with (i) industry and market expertise; (ii) market intelligence; (iii) competitive price suggestions and (iv) documentation and other administrative support in order to improve the bidding positions of our suppliers. In addition, our Group formulates the marketing strategies and marketing activities of the products we acquired from our suppliers. We then procure the products from our suppliers. The price of the products supplied by our suppliers as prescribed in the distribution agreements is determined based on the tender price, cost of the product and the negotiation between our Group and our suppliers. The purchase from each type of suppliers is set out in the table below:

	For the year ended 31 December				For the six months ended 30 June			
	2011		2012		2012		2013	
	HK\$'000	% of purchase	HK\$'000	% of purchase	HK\$'000	%	HK\$'000	%
Type 1 Suppliers – pharmaceutical manufacturers	6,809	5.2	9,042	6.6	419	0.6	609	0.9
Type 2 Suppliers – national distributors of products	120,462	92.7	121,493	88.6	62,408	95.7	58,664	90.3
Type 3 Suppliers – retail distributors and independent pharmacies	2,698	2.1	6,615	4.8	2,357	3.7	5,732	8.8
Total	129,969	100.0	137,150	100.0	65,184	100.0	65,005	100.0

Our Products

As at the Latest Practicable Date, [42] out of [55] pharmaceutical products were included in the Medical Insurance Drugs Catalogs. 9, 15, 11, 6, 10 and 4 of our products amongst our product portfolio were acquired by our Group 2008, 2009, 2010, 2011, 2012 and 2013 respectively. 4 types of products (including 5 specifications) and 3 types of products (including 4 specifications) acquired in 2012 and 2013 has not participated in the collective tendering process during the period in 2009 and 2010. During the Track Record Period, our revenue derived from our products included in the Medical Insurance Drugs Catalogs accounted for approximately [85.0]%, [93.7]% and [93.0]%, respectively, of our total revenue in the corresponding periods.

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During the period between 2009 and 2010, 35 of 41 of products won in the provincial collective tendering process in Zhejiang province which involved our participation, representing a success rate of approximately 85.4%. Our revenue derived from our products that have already won the collective tendering process were approximately [97.7]%, [98.2]% and [96.8]% respectively, during the Track Record Period and those products are subject to the upcoming collective tendering in 2013. The Directors are of the view that the exact date of the collective tendering process which has been anticipated to take place in 2013 is yet to be confirmed. Should our Group lose in the upcoming collective tendering in 2013, our Group's financial performance will be seriously affected.

The following sets out the (i) purpose of usage; (ii) the sales performance for the two years ended 31 December 2012 and for the six months ended 30 June 2012 and 30 June 2013; and (iii) the market ranking in the relevant PRC region as a result of obtaining the exclusive distribution right from the manufacturers as at 31 December 2011, 31 December 2012 and 31 March 2013, respectively, relating to our 11 major types of products (including 17 specifications):

Name of product	Ranking in the relevant PRC region/Total number of manufacturers in the relevant PRC region			For the year ended 31 December				For the six months ended 30 June			
	As at 31 December 2011	As at 31 December 2012	As at 31 March 2013	2011		2012		2012		2013	
				%	HKS'000	%	HKS'000	% of revenue	HKS'000	% of revenue	HKS'000
1. Levocarnitine Injection (左卡尼丁注射液)	1st/5 (Zhejiang)	1st/5 (Zhejiang)	1st/3 (Zhejiang)	20,072	12.6	52,227	29.8	27,105	30.2	28,271	33.8
2. Ozagrel Sodium for Injection (注射用奥蔡格雷钠) 80mg, 40mg and 20mg	1st/3 (Zhejiang)	1st/3 (Zhejiang)	1st/3 (Zhejiang)	12,730	8	10,419	6	8,858	9.9	81	0.1
3. Cefoxitin Sodium for Injection (注射用头孢西丁钠) 0.5g and 2.0g	2nd/15 (Zhejiang)	2nd/15 (Zhejiang)	1st/15 (Zhejiang)	6,590	4.1	6,378	3.6	3,663	4.1	160	0.2
4. Cefodizime Sodium for Injection (注射用头孢地嗪钠) 0.5g and 1.5g	1st/5 (Zhejiang)	1st/5 (Zhejiang)	1st/5 (Zhejiang)	12,760	8	18,287	10.4	9,492	10.6	6,854	8.2
5. Thoymosin for Injection (注射用胸腺法新)	2nd/4 (Shanghai)	2nd/4 (Shanghai)	2nd/4 (Shanghai)	9,410	5.9	12,872	7.4	5,318	5.9	8,173	9.8
6. Isepamicin Sulfate Injection (硫酸巯帕米星注射液)	2nd/3 (Zhejiang)	2nd/3 (Zhejiang)	2nd/3 (Zhejiang)	13,136	8.2	10,015	5.7	4,566	5.1	5,698	6.8
7. Cefixime Dispersible Tablets (头孢克肟分散片) 50mg X 10 tablets 50mg X 6 tablets	3rd/7 (Zhejiang)	3rd/7 (Zhejiang)	3rd/7 (Zhejiang)	7,848	4.9	6,808	3.9	3,866	4.3	2,212	2.6
8. Alanyl Glutamine for Injection (注射用丙氨酰谷氨酰胺)	1st/2 (Zhejiang)	1st/2 (Zhejiang)	1st/2 (Zhejiang)	4,580	2.9	9,217	5.3	4,454	5.0	4,319	5.2
9. Ceftizoxime Sodium for Injection (注射用头孢唑肟钠)	4th/12 (Zhejiang)	4th/12 (Zhejiang)	4th/12 (Zhejiang)	3,744	2.3	6,901	3.9	3,032	3.4	3,669	4.4
10. Sulbencillin Sodium for Injection (注射用磺苄西林钠)	3rd/4 (Zhejiang)	4th/4 (Zhejiang)	3rd/4 (Zhejiang)	10,394	6.5	642	0.4	150	0.2	4,012	4.8
11. Clostridium butyricum Capsule (酪酸梭菌活菌胶囊) 0.2 X 24 pcs 0.2 X 30 pcs	3rd/5 (Zhejiang)	3rd/5 (Zhejiang)	3rd/5 (Zhejiang)	-	-	1,679	1.0	19	0.0	2,860	3.4
Total				101,264	63.4	135,444	77.4	70,523	78.7	66,309	79.3

All of the products including our major products as disclosed above were obtained by our existing management.

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Sales to our Distributor Customers

As at the Latest Practicable Date, we sold all pharmaceutical products through our network of [117] Distributor Customers including [42] Distributor Customers which were located in Zhejiang province and the remaining [75] Distributor Customers were spread over the remaining [18] regions in the PRC including Shanghai, Chonging, Anhui province, Sichuan province, Hebei province and Guangdong province. A majority of our Distributor Customers providing logistic function will then on-sell our products to their sub-distributors and/or ultimate customers, which mainly comprise hospitals and medical institutions in the PRC according to the geographical exclusivity of our products. Our Distributor Customers have a different role as compared to our Group in the pharmaceutical distribution value chain. We acquire the distribution rights of pharmaceutical products from small to medium pharmaceutical manufacturers or pharmaceutical companies and mostly our Group would provide a platform for our Distributor Customers to source different products from us without bearing any sales and purchase commitments, which would enhance their flexibility in inventory management. In addition, we, having a good relationship with medical practitioners, will collaborate with our suppliers to organise marketing activities to raise the awareness and familiarity of our products to our targeted medical institutions at provincial level. Our Group makes use of our financial resources and expertise in exploring and sourcing the distribution rights of products and promoting the market development of the products, instead of using our resources to set up the logistic infrastructure and bear a higher credit risk from hospital as what our Distributor Customers face. As at 31 December 2012, there were 782 public hospitals in Zhejiang province, and most of our products subject to the collective tendering process are able to be sold through such public hospitals in Zhejiang Province, where the public hospitals normally demand a diversified product portfolio. A significant capital investment is required for setting up a transport fleet and a cool temperatured warehouse. With economies scale of operation, our Distributor Customers can deliver the pharmaceutical products to our ultimate customers in a faster and more cost effective way as compared to us. Further, the payment period from hospitals to distributors is generally longer than that from the distributors to manufacturers and hence our credit risk can be mitigated.

The revenue generated from each type of our Distributor Customers is set out in the table below:

	For the year ended 31 December				For the six months ended 30 June			
	2011		2012		2012		2013	
	HK\$'000	% of revenue	HK\$'000	% of revenue	HK\$'000	%	HK\$'000	%
Type 1 Distributor Customers – distributors mainly providing logistics function	117,532	73.6	153,134	87.5	78,648	87.5	76,139	91.0
Type 2 Distributor Customers – provincial and regional distributors	26,462	16.6	8,408	4.8	4,186	4.7	2,066	2.5
Type 3 Distributor Customers – local distributors, independent retail pharmacies, hospitals and healthcare institutions	15,692	9.8	13,500	7.7	6,994	7.8	5,467	6.5
Total	159,686	100.0	175,042	100.0	89,828	100.0	83,672	100.0

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Price controls

As at Latest Practicable Date, 42 out of our 55 products were included in the Medical Insurance Drugs Catalogs, and were therefore subject to price controls in the PRC. The products, including our major product, Levocarnitine Injection, subject to price control contributed to approximately 85.0%, 93.7% and 93.0% of our total revenue for each of the two years ended 31 December 2011 and 2012 and for the six months ended 30 June 2013. On 3 September 2012, NDRC, the Ministry of Health and the Ministry of Human Resources and Social Security jointly issued the Circular on Strengthening the Reform of Pricing for Medicines and Medical Services in County Level Public Hospitals. According to the circular, the retail prices of medicines sold by the selected pilot hospitals shall be reduced by approximately 15% after the reform. There is no deadline for the implementation of this reform. During the Track Record Period, [6] types of major products (including [9] specifications) subject to the change in the retail price ceiling imposed by NDRC or Zhejiang Provincial Price Bureau accounted for approximately 32.2%, 32.2% and 28.5% of our total revenue in the corresponding periods.

RELATIONSHIP WITH THE CONTROLLING SHAREHOLDERS

Town Health International, Town Health (BVI) and Town Health Pharmaceutical will be our Controlling Shareholders upon [●]. The Town Health Group has interests in a number of associated companies including Best Pharmaceutical Limited ("**Best Pharmaceutical**"), which as at the Latest Practicable Date held approximately 14.63% interest in Longlife Group Holdings Limited ("**Longlife**") whose shares are listed on GEM. The principal businesses of Longlife and its subsidiaries (collectively, the "**Longlife Group**") include sale and distribution of consumer cosmetic, health related and over-the-counter products, diagnostic reagents for diagnostic test (which are without any therapeutical effect) and other businesses which are different from that of the Group. For further details, please refer to the section headed "Relationship with the Controlling Shareholders" in this document.

SUMMARY OF HISTORICAL FINANCIAL INFORMATION

The following tables set forth certain historical financial information of our Group during the Track Record Period, which was extracted from the Accountants' Report as set out in Appendix I to this document. Please refer to the Accountants' Report as set out in Appendix I to this document for further details.

Segmental information on revenue and gross profit margin

	For the year ended 31 December						For the six months ended 30 June					
	2011		2012		2012		2012		2013		Gross profit margin (%)	
	Amount HK\$'000	% of total (%)	Gross profit margin (%)	Amount HK\$'000	% of total (%)	Gross profit margin (%)	Amount HK\$'000	% of total (%)	Gross profit margin (%)	Amount HK\$'000		% of total (%)
Revenue contributed from:												
Injection drugs	137,691	86.2	13.4	151,242	86.4	21.8	77,929	86.8	22.9	70,586	84.4	21.2
Tablet drugs	10,243	6.4	24.8	14,501	8.3	23.2	7,733	8.6	25.8	6,256	7.5	14.8
Capsule drugs	10,032	6.3	22.8	6,636	3.8	40.2	2,380	2.6	31.2	4,355	5.2	55.9
Other drugs	1,720	1.1	2.5	2,663	1.5	2.4	1,786	2.0	5.6	2,475	2.9	5.8
Total	159,686	100.0	14.6	175,042	100.0	22.3	89,828	100.0	23.1	83,672	100.0	22.1

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Consolidated Statements of Comprehensive Income

	For the year ended		For the six months ended	
	31 December		30 June	
	2011	2012	2012	2013
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Revenue	159,686	175,042	89,828	83,672
Gross profit	23,286	38,993	20,717	18,455
Gross profit margin	14.6%	22.3%	23.1%	22.1%
Profit before taxation	15,258	22,185	16,747	5,538
Income tax	(4,846)	(6,858)	(5,256)	4,008
Profit for the year/period	10,412	15,327	11,491	1,530
Net profit margin	6.5%	8.8%	12.8%	1.8%

Key Financial Ratios

	As of 31 December		As of
	2011	2012	30 June
			2013
Current ratio	5.0	5.2	3.1
Quick ratio	4.4	4.6	2.8
Return on equity	9.4%	12.1%	2.2%
Return on total assets	7.4%	9.8%	1.7%

An increase in our revenue for the year ended 31 December 2012 was primarily attributable to the increase in sales of Levocarnitine Injection since the medical practitioners had gradually become more familiar with the products after being listed in the Medical Insurance Drugs Catalogs effective from 31 March 2010. However, a slight decrease in our revenue for the six months ended 30 June 2013 mainly attributable to (i) the cessation in October 2012 of the sales of one of the specification of such product, namely Ozagrel Sodium for Injection 20mg which accounted for approximately HK\$[8,927,000] for the six months ended 30 June 2012 since the unit gross profit amount of this product was limited after several price controls; and (ii) the decrease in sales amount of Cefoxitin Sodium for Injection as a result of having fallen within the category of limited use under the Administrative Catalogue of the Clinical Use of Antibiotics of Zhejiang Province (2012 version).

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An increase in net profit for the year ended 31 December 2012 was mainly attributable to the improved gross profit margin for Levocarnitine Injection, Ozagrel Sodium for Injection and Mezlocillin Sodium and Sulbactam Sodium for Injection. However, our net profit decreased from approximately HK\$11.5 million for the six months ended 30 June 2012 to approximately HK\$1.5 million for the six months ended 30 June 2013 mainly attributable to (i) the decrease in the gross profit margin of the injection drugs and tablet drugs as a result of the cessation in the sales of Ozagrel Sodium for Injection and the decrease in sales of Cefixime Dispersible Tablet which both of them are our major products with a higher average gross profit margin during the Track Record Period; and (ii) the imputed interest adjustment on deposit paid to suppliers upon its initial recognition of approximately HK\$3.0 million [which will be written back when Zhongcheng Huida and Kaihongxin return the deposit to our Group for provision of corporate guarantee by Hong Rui Bio-medical and/or other subsidiary of the Company in substitution upon [●]].

Our Group recorded an improvement in the current ratios and quick ratios as at 31 December 2012 but recorded a decrease in the current ratio and the quick ratio as at 30 June 2013 as a result of (i) the reclassification of deposit paid to Zhongcheng Huida and Kaihongxin as non-current assets for the renewal of contracts in January 2013 which will be expired on 31 December 2015; and (ii) the drawdown of unsecured loan from E-Finance Limited of HK\$6 million and the secured loan from Agricultural Bank of China Limited – Hangzhou Jiefang Road branch of approximately HK\$10.7 million during the six months ended 30 June 2013. Our Group recorded an improvement in the return on equity and return on total assets as at 31 December 2012 but recorded a decrease in the return on equity and return on total assets as at 30 June 2013 mainly due to the decrease in net profit as mentioned above.

For details, please refer to the section headed "Financial Information" of this document.

Operating cash flow

Our Group recorded net operating cash outflows of approximately HK\$96,000 and HK\$6,972,000, respectively, for both of the two years ended 31 December 2011 and 2012, which was mainly attributable to the deposits and/or prepayments as the case may be we paid to our suppliers. Our Directors are of the view that the nature of our operation will result in the timing difference between the deposits payment for the acquisition of the new distribution rights for the business expansion and the diversification of our product profile together with generating of profits from the relevant products that we paid the deposits. During the Track Record Period, the payment made to our suppliers, such as Kaihongxin, Zhongcheng Huida and Liaoning Ketai in the aggregate amount of RMB23 million that will have the immediate effect in the cashflow can generate the revenue flow that is sufficient to cover the amount of deposits previously paid by us within [1] to [2] financial year(s). Our Group recorded the net cash generated from operating activities of approximately HK\$7.5 million for the six months ended 30 June 2013 since our Group did not make a large amount of deposit for the acquisition of distribution rights, while our operating cash flows before change in working capital were approximately HK\$9,009,000.

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To use the working capital effectively, our Group is currently negotiating with its existing suppliers and new suppliers to use the corporate guarantee provided by Hong Rui Bio-medical or any subsidiary of the Company upon [●] instead of deposit payment for the acquisition of distribution right. As at the Latest Practicable Date, each of Zhongcheng Huida, Kaihongxin and Jiangsu Baichang has signed confirmation or supply agreement with our Group in July 2013, confirming to return the deposit of RMB8 million, RMB7 million and RMB1 million, respectively, upon [●]. Our Company will procure Hong Rui Bio-medical or any other subsidiary of the Company upon [●] as the guarantor for Zhongcheng Huida, Kaihongxin and Jiangsu Baichang, where Hong Rui Bio-medical or any other subsidiary of the Company upon [●] is required to maintain the minimum cash balance of RMB3 million and RMB2 million for each of Zhongcheng Huida and Kaihongxin respectively during the guarantee period. Please refer to the paragraph headed "Net Cash Used in Operating Activities" in the section headed "Financial Information" for further details. In addition, our Directors are of the view that the latest unutilised loan facilities from a money lending company and a bank in Hong Kong are sufficient for our planned acquisition of distribution rights when such business opportunities arise in the future.

Deposit and prepayment to our suppliers

The payment of deposit to our suppliers is to prevent cannibalisation among the distributors and ensure our commitment to the sales target. The deposit would be subject to deduction, forfeiture or return (as the case may be) if the Group cannot meet the relevant terms and conditions set out in distribution agreements. For details, please refer to the paragraph headed "Deposits and Prepayments" under the sub-section headed "Phase 1 – Acquisition of distribution rights of pharmaceutical products from our suppliers". During the Track Record Period and as at the Latest Practicable Date, our Group did not experience any confiscation of deposits by our suppliers as a result of violation of the terms as set out in the respective distribution agreements. As at the Latest Practicable Date, Zhongcheng Huida, Kaihongxin and Jaingsu Baichang have confirmed to return the deposit of an aggregate of RMB16 million to our Group upon [●].

The prepayment to suppliers is to secure a steady supply of products and the prepayments will be netted off against the amount of our subsequent purchase. During the Track Record Period, there is no requirement to maintain the minimum prepayment amount with our suppliers. As of 31 August 2013, we utilised prepayments to suppliers of approximately HK\$[18,651,000], representing approximately [84.8]% of the prepayment as at 30 June 2013.

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The following table sets forth a breakdown of deposits and prepayments to our major suppliers during the Track Record Period and as at the Latest Practicable Date.

	Deposits				Prepayments			
	As at 31 December 2011 Amount RMB'000	2012 Amount RMB'000	As at 30 June 2013 Amount RMB'000	As at the Latest Practicable Date Amount RMB'000	As at 31 December 2011 Amount RMB'000	2012 Amount RMB'000	As at 30 June 2013 Amount RMB'000	As at the Latest Practicable Date Amount RMB'000
				(unaudited)				
Kaihongxin (Note 1)	-	7,000	6,061	[6,061]	3,512	13,417	[15,308]	[15,308]
Baoding Huida/Zhongcheng Huida (Note 2)	-	8,000	6,927	[6,927]	6,282	6,161	[6,282]	[6,282]
Type 1 Supplier A (Note 6)	8,000	8,000	8,000	[8,000]	1,669	-	[-]	[-]
Guizhou Jingfeng Pharmaceutical Technology Company Limited* ("Guizhou Jingfeng") (Note 3)	-	2,000	2,000	[2,000]	-	-	[-]	[-]
Xizang Yimingxiya	1,500	450	-	[-]	51	-	-	-
Lodays Pharmaceutical (Hubei) Company Limited*	1,000	1,000	1,000	[1,000]	-	34	-	-
Beijing Jiacheng Pharmaceutical Company Limited*	806	806	-	[-]	1,479	1,479	-	[-]
Type 1 Supplier B	260	250	250	[250]	114	746	[-]	[-]
Hainan Noken Pharmaceutical Industry Ltd.* (Note 4)	-	900	1,000	[1,000]	-	-	[-]	[-]
Beijing Haoyafangda Medicine Co., Ltd* (Note 5)	-	-	1,000	[1,000]	-	-	[-]	[-]
Xizang Linzhibai sheng Pharmaceutical Co., Ltd.*	-	-	-	[-]	3,588	-	-	-
Type 3 Supplier A*	-	-	-	[-]	3,300	25	-	-
Jiangsu Baichang (Note 8)	-	-	-	[1,000]	-	-	-	-
Others	1,268	378	250	[250]	1,168	830	413	413
Total	12,834 (Note 7)	28,784	26,488 (Note 7)	[27,488]	21,163	22,692	[22,003]	[22,003]
	(equivalent to approximately HK\$14,573,000)	(equivalent to approximately HK\$35,778,000)	(equivalent to approximately HK\$33,456,000)	(equivalent to approximately HK\$34,720,000)	(equivalent to approximately HK\$26,082,000)	(equivalent to approximately HK\$28,206,000)	(equivalent to approximately HK\$27,792,000)	(equivalent to approximately HK\$27,792,000)

Note 1: The deposits to Kaihongxin was to secure their continual supply of 8 products, including Levocarnitine Injection pursuant to the distribution agreement dated 22 November 2012. The deposits to Kaihongxin during the period of the six months ended 30 June 2013 was classified as non-current asset as a result of the renewal of contract which will be expired on 31 December 2015.

Note 2: The deposit to Zhongcheng Huida was to secure their continual supply of 9 products, including our major products such as Cefodizime Sodium for Injection, Thoymosin α 1 for Injection, Ispemycin Sulfate for Injection and Alanyl Glutamine for Injection pursuant to the distribution agreement dated 20 November 2012. The deposits to Zhongcheng Huida during the period of the six months ended 30 June 2013 was classified as non-current asset as a result of the renewal of contract which will be expired on 31 December 2015.

Note 3: The deposit to Guizhou Jingfeng was to acquire the exclusive distribution right of Salviae Miltiorrhizae Liguspargine Hydrochloride and Glucose Injection in Zhejiang province pursuant to the distribution agreement dated 2 July 2012.

Note 4: The deposit to Hainan Noken Pharmaceutical Industry Ltd. of RMB11.0 million was to secure the potential national exclusive distribution right of Fasudil Hydrochloride Injection and one of two products, namely, Multiple Electrolytic and Invert Sugar Injection and Ozagrel of Sodium for Injection pursuant to the distribution agreement in August 2012 and January 2013, respectively. On 28 June 2013, it has fully returned RMB10 million deposit since the separate pricing status of the target products cannot be obtained from NDRC before 30 June 2013.

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Note 5: The deposit to Beijing Haoyafangda Medicine Co., Ltd. was to acquire two exclusive distribution rights of products, namely Cervus and Cucumis Polypeptide for Injection and Desmopressin Acetate Injection in Zhejiang province pursuant to the distribution agreements dated 21 January 2013 and 28 April 2013, respectively.

Note 6: The deposit to Shenyang Meiluo in 2011 was classified as non-current asset.

Note 7: The current portion of deposit of approximately RMB4,834,000 was equivalent to HK\$5,957,000 as at 31 December 2011. The current portion of deposit of approximately RMB13,500,000 was equivalent to HK\$17,052,000 as at 30 June 2013.

Note 8: The deposit to Jiangsu Baichang was to acquire the exclusive provincial distribution right of Kangfuxin Ye in Zhejiang province pursuant to the distribution agreement in July 2013.

Please refer to the section headed the "Financial Information – Liquidity and capital resources – Deposits and prepayments" of this document for further details of deposits and prepayments.

Our Directors are of the view that the prepayment and deposits to the suppliers are fully recoverable, after taking into consideration, (i) the financial health and operation scale of the suppliers; and (ii) the sales performance and the inventory level of the relevant products. We have adopted measures on the selection and continual assessments of the suppliers. Please refer to the Business Section.

OUR COMPETITIVE STRENGTHS

We believe that the following competitive strengths contribute to our success:

- we are able to identify and acquire distribution rights of certain products with market potential from our suppliers with a focus on prescription drugs;
- we are able to provide different value added services to our suppliers and Distributor Customers with our market knowledge and network in Zhejiang province;
- we have co-operated with a number of reputable suppliers and Distributor Customers in the PRC pharmaceutical industry;
- we have an experienced sales and marketing team; and
- our management team has extensive experience and knowledge in pharmaceutical industry despite our limited track record.

OUR BUSINESS OBJECTIVES AND STRATEGIES

In order to strengthen our position to become one of the leading distributors of pharmaceutical products in Zhejiang province, we plan to pursue the following business objectives and strategies:

- to continue expanding through obtaining new exclusive distribution rights; and
- to continue enhancing and expanding our market share, distribution network and marketing efforts.

SUMMARY

RISK FACTORS

There are risks, among which, the relatively material risks are summarised as follows:

- we rely on our suppliers to provide us the pharmaceutical products with market potential for distribution to Distributor Customers, and also rely on our major Distributor Customers to sell such products;
- our suppliers’ failure to win the collective tendering process for securing orders from public hospitals and medical institutions may result in a significant impact on our future profit;
- the pharmaceutical industry in the PRC is highly regulated with, for example, price controls or other price restrictions on the products;
- our business and results of operation may be adversely affected by any government control over the use of antibiotics and hence the resultant decrease in demand for such products;
- a substantial amount of deposits and prepayments were made to suppliers for securing the exclusive distribution rights of those products with market potential; and
- we may face legal or administrative proceedings as a result of any alleged inferior quality of the products we distribute.

For further details, please refer to the section headed “Risk Factors” in this document.

LEGAL PROCEEDINGS

On 25 June 2012, a former Distributor Customer (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**”) claiming, among other things, the alleged infringement by our Group of the exclusive right of a pharmaceutical product granted to the Plaintiff in contravention of the exclusivity provision under a distribution agreement entered into between the parties. The Court delivered a judgment dated 7 July 2013 approving withdrawal of the legal proceedings against Zhejiang Xin Rui Pharmaceutical upon application by the Plaintiff. Please refer to the section headed “Business – Legal proceedings and non-compliance – (i) Legal proceedings relating to our Group” in this document for details.

SUMMARY

RECENT DEVELOPMENT

Our Group recorded the sales of approximately HK\$109.6 million for the eight months ended 31 August 2013 and the gross profit margin is similar to that for the six months ended 30 June 2013.

During the Track Record Period and as at the Latest Practicable Date, we identified and acquired [1] product with exclusive national distribution rights and [6] new types of products (including 8 specifications) with exclusive provincial distribution rights but all are subject to the upcoming collective tendering process. The following table sets forth details of the new distribution rights of products that our Group acquired during the Track Record Period and up to the Latest Practicable Date:

Product name	Deposit as at the [Latest Practicable Date]	Contract period	Sales of the year ended 31 December 2012		Sales of the six months ended 30 June 2013		Sales of the period from 1 January 2013 to the [Latest Practicable Date]	
			HK\$'000	% of revenue	HK\$'000	% of revenue	HK\$'000	% of revenue
1. Milrinone Lactate Injection	RMB1,000,000	6 January 2012 – end of next tender period	46	0.03	167	0.2	[298]	[0.3]
2. Sulbencillin Sodium for Injection (Note 1)	RMB8,000,000	1 July 2013 – 30 June 2014	642	0.37	4,012	4.8	[5,788]	[5.3]
3. Salviae Miltiorrhizae Liguspyragine Hydrochloride and Glucose Injection (Note 2)	RMB2,000,000	2 July 2012 – 31 December 2013	18	0.01	80	0.1	[92]	[0.08]
4. Clostridium butyricum Capsule 0.2g x 24 pcs 0.2g x 36 pcs	No deposits are needed	25 September 2012 – end of next tender period	1,679	0.96	2,860	3.4	[3,759]	[3.4]
5. Cervus and Cucumis Polypeptide for Injection (Note 3)	RMB500,000	21 January 2013 – end of next tender period	-	-	-	-	-	-
6. Desmopressin Acetate for Injection (Note 3)	RMB500,000	28 April 2013 – 30 April 2014	-	-	-	-	-	-
7. Kangfuxin Ye 30ml x 2 pcs 30ml x 4 pcs (Note 3)	RMB1,000,000	1 July 2013 – 30 June 2016	-	-	-	-	-	-
			2,385	1.37	7,119	8.50	9,937	9.08

Note 1: Our Group is the exclusive national distributors of Sulbencillin Sodium for Injection. Our Group is the exclusive provincial distributors of the other [6] new types of products (including 8 specifications).

Note 2: Salviae Miltiorrhizae Liguspyragine Hydrochloride and Glucose Injection has not entered into the Medical Insurance Drugs Catalogs yet. The other [6] new types of products (including 8 specifications) are under Grade B of the Medical Insurance Drugs Catalogs.

Note 3: Those products have not commenced the supply and distribution yet as they were only acquired in January, April and July 2013. Our Group anticipates that the supply and distribution of those products will only commence after the up-coming collective tendering process.

SUMMARY

During the Track Record Period and as at the Latest Practicable Date, our Group has identified [1] product without production permit, namely Fasudil Hydrochloride Injection (鹽酸法舒地爾氯化鈉注射液), where we have entered into the legally binding contract with the respective supplier of the product and paid RMB1,000,000 as deposit. We will enter the exclusive distribution agreement with this supplier in case the pharmaceutical production permit is granted before 1 July 2014 or we will terminate this legally binding contracts and the deposits will be returned to our Group accordingly.

For further information, please refer to the paragraph headed "Reduction of the reliance on our major products" under the "Business" section of this document.