The following discussion and analysis of our Group's financial condition and results of operations in conjunction with our Group's combined financial information included in the Accountants' Report, which has been prepared in accordance with HKFRSs, as set out in Appendix I to this document, together with the accompanying notes.

The following discussion and analysis contains certain forward-looking statements that reflect our current views with respect to future events and financial performance. These statements are based on our assumptions and analysis in light of our experience and perception of historical trends, current conditions and expected future developments, as well as factors that we believe are appropriate under the circumstances. However, our Group's actual results and timing of selected events could differ materially from those anticipated in these forward-looking statements as a result of various factors, including those set forth under the section headed "Risk Factors" and elsewhere in this document.

OVERVIEW

We are an established pharmaceutical distributor originated from Zhejiang province and headquartered in Hangzhou, Zhejiang province. We are principally engaged in pharmaceutical distribution businesses in the PRC. We start involving our pharmaceutical distribution business from the stage of acquiring the distribution rights of pharmaceutical products from our suppliers, market research and market development of our new products, assisting and co-ordinating the collective tendering process for our suppliers, procurement, sourcing, sales and marketing, warehousing and delivery to our Distributor Customers. We source and procure our products from the pharmaceutical manufacturers and pharmaceutical companies throughout different provinces in the PRC, and distribute pharmaceutical products to our Distributor Customers. A majority of our products will in turn be distributed through our Distributor Customers to the ultimate customers which mainly comprise hospitals and medical institutions in the PRC in accordance with the geographical exclusivity of our products.

Our success relies on identify and procurement of pharmaceutical products nationwide in the PRC and the establishment of our efficient distribution network. As at the Latest Practicable Date, we sourced and procured our pharmaceutical products through our network of [47] suppliers in the PRC, and sold all of our pharmaceutical products through our distribution network of [117] Distributor Customers in [19] provinces throughout the PRC. As at the Latest Practicable Date, [42] out of [117] Distributor Customers were located in Zhejiang province while the remaining [75] Distributor Customers were spread over 18 regions in the PRC including Shanghai, Hainan province, Jiangxi province and Guangdong province. Our Distributor Customers distribute and resell our products to their sub-distributors and/or ultimate customers. For each of the two years ended 31 December 2011 and 2012 and the six months ended 30 June 2013, the revenue generated from our top five Distributor Customers amounted to HK$[93.2] million, HK$[121.4] million and HK$[59.3] million, respectively, representing approximately 58.4%, 69.4% and [70.9]% of our total revenue during the corresponding periods.

Our revenue for each of the two years ended 31 December 2011 and 2012 was approximately HK$159,686,000 and HK$175,042,000, respectively, representing a growth of approximately 9.6%. Our revenue for the six months ended 30 June 2012 and 2013 was approximately HK$89,828,000 and HK$[83,672,000], respectively, representing a decrease of approximately [6.9]%. Our gross profit for each of the two years ended 31 December 2011 and 2012 was approximately HK$23,286,000 and HK$38,993,000, respectively, representing a growth of approximately 67.5%. Our gross profit for the six months ended 30 June 2012 and 2013 was approximately HK$20,717,000 and HK$[18,455,000], respectively, representing a decrease of approximately [10.9]%. Our profit for each of the two years ended 31 December 2011 and 2012 was approximately HK$10,412,000 and HK$15,327,000, respectively, representing a growth of approximately 47.2%. Our profit for the six months ended 30 June 2012 and 2013 was approximately HK$[11,491,000] and HK$[1,530,000], respectively, representing a decrease of approximately [86.7]%.

REORGANISATION AND BASIS OF PRESENTATION

[Our Company was incorporated on 9 August 2012 in Bermuda and, as part of the Reorganisation became the holding company of our Group with our business being conducted through our subsidiaries. Please refer to the section headed "History and Development – Reorganisation" of this document for details.

The financial information presents our consolidated results and financial position as if the current group structure had been in existence through the Track Record Period. All material intra-group transactions and balances have been eliminated on combination.]

SIGNIFICANT FACTORS AFFECTING RESULTS OF OPERATIONS AND FINANCIAL CONDITION

The major factors affecting the results of operations and financial condition of our Group at any given time included the following:

Demand for pharmaceutical products and policies of the PRC government

Our results of operations are significantly affected by the demand for pharmaceutical products in the PRC, which is in turn influenced by a variety of factors, such as PRC government policy and changes in the PRC healthcare industry. This market is driven by the growing PRC economy, the high urbanisation growth, the increasing health consciousness and the rising disposable incomes. The growth of the healthcare industry in China significantly contributed to an increase in demand for our products and thus a growth in our business during the Track Record Period.

The demand for pharmaceutical products will continue to be influenced by government policy. The sales amount of pharmaceutical products listed in the Medical Insurance Drug Catalogs would be significantly higher than the ones not listed in that catalog. Therefore, whether or not the pharmaceutical products our Group has the exclusive distribution rights are included in the Medical Insurance Drug Catalogs can affect our business significantly. However, the pharmaceutical products included in the Medical Insurance Drugs Catalogs are subject to government price controls in the form of fixed retail prices or retail price ceilings and periodic downward adjustments in pricing. The PRC government may further lower the retail price ceilings of pharmaceutical products from time to time to make healthcare more affordable to the public. Regulatory controls over and downward adjustments to retail prices of pharmaceutical products, if significant, could have an adverse impact on the revenue of the Group.

Product Combination

During the Track Record Period, we acquired exclusive distribution rights of various products and recorded different gross profit margin for different products. Also, market potential varies from product to product depending on the market conditions, competitive landscape, the nature of manufacturers and product natures. Our profitability and results of operation, therefore, varied significantly from period to period as a result of changes in the combination of products sold during the relevant period.

Procurement of pharmaceutical products

Our ability to maintain and increase turnover is significantly affected by our supply chain. During the Track Record Period, we were able to secure key products and acquired four new products with market potential to our product portfolio in order to maintain a stable level of turnover.

According to applicable PRC laws and regulations, the procurement of substantially all pharmaceutical products, including the pharmaceutical products listed in the Medical Insurance Drugs Catalogs, is subject to a collective tendering process through which only successful bidders may sell their products to public hospitals and other public healthcare institutions. Therefore, assisting our suppliers to participate and win the collective tendering is one of the crucial elements to our business. If our suppliers fail to win bids in the collective tendering process, we will lose the revenue associated with the sales of the pharmaceutical products involved in the collective tendering process to the hospitals in the relevant regions and our results of operations may be adversely affected. The failure of securing our existing major products may also adversely affect our results of operation.

Distribution network coverage and scale of operations

Our established distribution network, particularly in Zhejiang province, allows us to distribute our products to our ultimate customers including hospitals and medical institutions in an effective and efficient manner. Our strong network of Distribution Customers, and the network of medical institutions and practitioners in Zhejiang province, and the scale of our operations provide us with competitive advantages over our competitors.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The discussion and analysis of our operating results and financial position are based on our combined financial information, together with the notes thereto, included in the Accountants' Report set out in Appendix I to this document. Preparation of our financial statements requires us to make estimates and judgments in applying our critical accounting policies with a significant impact on the results that we report in our financial statements. Some of our accounting policies involve subjective assumptions and estimates, as well as complex judgments relating to accounting items. Estimates and judgments are from time to time evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Our operating results and financial position are sensitive to the accounting methods, assumptions and estimates that underlie the preparation of the financial information. Actual results may differ from these estimates under different assumptions and conditions. We believe that the following accounting policies involve the most significant judgments and estimates used in the preparation of our financial statements. For more details about our significant accounting policies, please refer to Note 4 of the Accountants' Report as disclosed in Appendix I to this document.

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 titles are passed, at which time all the following conditions are satisfied:

- our Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- our 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.

Specifically, we recognise our revenue when the products are delivered at the warehouses of the Distributor Customers or the designated pick-up area as instructed by the Distributor Customers. From that point of time, the related risks are transferred to the Distributor Customers.

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

Inventories

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

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 as reported in the financial information because it excludes items of income or expenses that are taxable or deductible in other years and further excludes items that are never taxable or deductible. Our Group's liabilities 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 differences 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, except where our 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 profit 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 assets 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 our 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.

DESCRIPTION OF PRINCIPAL ITEMS OF RESULTS OF OPERATIONS

Revenue

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. During the Track Record Period, the turnover was derived from the sales of our pharmaceutical products. The following table sets forth a breakdown of turnover by product type for the Track Record Period:

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

Injection drugs sales generated a predominant portion of our revenue and accounted for approximately 86.2%, 86.4% and [84.4]% of our total revenue for each of the two years ended 31 December 2011 and 2012 and the six months ended 30 June 2013, respectively.

Our revenue had increased by approximately 9.6% for the year ended 31 December 2012. This was primarily due to the increase in sales amount of (i) Levocarnitine Injection (左卡尼汀注射液); (ii) Cefodizime Sodium for Injection (注射用頭孢地嗪鈉); (iii) Thymosin α1 for injection (注射用胸腺法新); (iv) Alanyl Glutamine for Injection (注射用丙氨酰谷氨酰胺) and (v) Ceftizoxime Sodium for Injection (注射用頭孢唑肟鈉) and partially offset by the decrease in the sales amount of (i) Ozagrel Sodium for Injection (注射用奧紮格雷鈉); (ii) Isepamicin Sulfate Injection (硫酸異帕米星注射液); and (iii) Sulbenicillin Sodium for Injection (注射用磺芐西林鈉) for the year ended 31 December 2012.

Our revenue had decreased by approximately [6.9]% for the six months ended 30 June 2013. This was primarily due to the decrease in sales amount of (i) Ozagrel Sodium for Injection (注射用奧紮格雷鈉); (ii) Cefoxitin Sodium for Injection (注射用頭孢西丁鈉); (iii) Cefodizime Sodium for Injection (注射用頭孢地嗪鈉); and (iv) Cefixime Dispersible Tablet (頭孢克肟分散片), and partially offset by the increase in sales of (i) Thymosin α1 for Injection (注射用胸腺法新); (ii) Isepamicin Sulfate Injection (硫酸異帕米星注射液); (iii) Sulbenicillin Sodium for Injection (注射用磺芐西林鈉); and (iv) Clostridium butyricum Capsule (酪酸梭菌活菌膠囊) for the six months ended 30 June 2013.

The following table sets forth a breakdown of turnover by our 11 major types of products (including 17 specifications) for the Track Record Period:

	Year ended 31 December				Six months ended 30 June			
	2011		2012		2012		2013	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
	HK$'000	*(%)*	*HK$'000*	*(%)*	*HK$'000*	*(%)*	*HK$'000*	*(%)*
Revenue								
Levocarnitine Injection (左卡尼汀注射液)	20,072	12.6	52,227	29.8	27,105	30.2	[28,271]	[33.8]
Ozagrel Sodium for Injection (注射用奧紮格雷鈉)	12,730	8.0	10,419	6.0	8,858	9.9	81	0.1
Cefoxitin Sodium for Injection (注射用頭孢西丁鈉)	6,590	4.1	6,378	3.6	3,663	4.1	160	0.2
Cefodizime Sodium for Injection (注射用頭孢地嗪鈉)	12,760	8.0	18,287	10.4	9,492	10.6	[6,854]	[8.2]
Thymosin α1 for injection (注射用胸腺法新)	9,410	5.9	12,872	7.4	5,318	5.9	[8,173]	[9.8]
Isepamicin Sulfate Injection (硫酸異帕米星注射液)	13,136	8.2	10,015	5.7	4,566	5.1	[5,698]	[6.8]
Cefixime Dispersible Tablet (頭孢克肟分散片)	7,848	4.9	6,808	3.9	3,866	4.3	[2,212]	[2.6]
Alanyl Glutamine for Injection (注射用丙氨酰谷氨酰胺)	4,580	2.9	9,217	5.3	4,454	5.0	[4,319]	[5.2]
Ceftizoxime Sodium for Injection (注射用頭孢唑肟鈉)	3,744	2.3	6,901	3.9	3,032	3.4	[3,669]	[4.4]
Sulbenicillin Sodium for Injection (注射用磺苄西林鈉)	10,394	6.5	642	0.4	150	0.2	4,012	[4.8]
Clostridium butyricum Capsule (酪酸梭菌活菌膠囊)	–	–	1,678	1.0	19	0.0	[2,860]	[3.4]
Others	58,422	36.6	39,598	22.6	19,305	21.3	17,363	20.7
Total	159,686	100.0	175,042	100.0	[89,828]	100.0	[83,672]	100.0

Note: Each product included in "Others" contributed less than 3% of the revenue for each of the two years ended 31 December 2011 and 2012 and the six months ended 30 June 2013, respectively.

(i) For the year ended 31 December 2012

The increase in sales amount of Levocarnitine Injection (左卡尼汀注射液) was primarily attributable to the increased sales volume since medical practitioners had gradually become more familiar with the product after it was listed in the Medical Insurance Drugs Catalogs in 2009 and effective from 31 March 2010. For the year ended 31 December 2012, the sales volume of Levocarnitine Injection (左卡尼汀注射液) increased by approximately 62.3% as compared to the year ended 31 December 2011. The number of covered hospitals increased from 41 in 2011 to 60 in 2012. The increase in sales amount of Cefodizime Sodium for Injection (注射用頭孢地嗪鈉) was primarily attributable to the increase in demand from hospitals. For the year ended 31 December 2012, the sales volume of Cefodizime Sodium for Injection (注射用頭孢地嗪鈉) increased by approximately 34.9% as compared to the year ended 31 December 2011.

The increase in sales amount of Ceftizoxime Sodium for Injection (注射用頭孢唑肟鈉) was primarily attributable to the increased hospital coverage in 2012. For the year ended 31 December 2012, the sales volume of Ceftizoxime Sodium for Injection (注射用頭孢唑肟鈉) increased by approximately 64.7% as compared to the year ended 31 December 2011.

The decrease in sales amount of Ozagrel Sodium for Injection (注射用奧紮格雷鈉) was attributable to the price control to lower the retail price of this product on 21 March 2012 and 8 October 2012 imposed by Zhejiang Provincial Price Bureau and NDRC respectively. The decrease in sales amount of Isepamicin Sulfate Injection (硫酸異帕米星注射液) was primarily attributable to a decline in demand from hospitals as a result of the insurance of the Administrative Catalogue of the Clinical Use of Antibiotics of Zhejiang Province (2012 version) (浙江省抗菌藥物臨床應用分級管理目錄(2012版)), which restricted the usage of certain antibiotics. Isepamicin Sulfate Injection (硫酸異帕米星注射液) was one of the antibiotics categorized as limited use listed in such medical catalog. The decrease in sales amount of Sulbenicillin Sodium for Injection (注射用磺苄西林鈉) was mainly due to the shortage of its supply as a result of the revised GMP standards and the resumption of the supply of such product since October 2012.

The sales amounts of Cefoxitin Sodium for Injection (注射用頭孢西丁鈉) and Cefixime Dispersible Tablet (頭孢克肟分散片) were generally stable for the year ended 31 December 2012.

The decrease in the sales amount of "Others" was mainly attributable to the supply shortage of Cefotaxime Sodium and Sulbactam Sodium for Injection 2.25g (注射用頭孢噻肟鈉舒巴坦鈉2.25g) and Cefotaxime Sodium and Sulbactam Sodium for Injection 1.5g (注射用頭孢噻肟鈉舒巴坦鈉1.5g). The decrease in sales amount of Cefotaxime Sodium and Sulbactam Sodium for Injection 2.25g (注射用頭孢噻肟鈉舒巴坦鈉) was approximately HK$3,712,000. This was mainly due to the shortage of its supply as a result of delay in the upgrade of its production facilities to meet the revised GMP standards after we returned a batch of such products to Kaihongxin given the expiry date of the batch of products falling within less than one year which violated our quality control policy. For the year ended 31 December 2012, the decrease in sales amount of Cefotaxime Sodium and Sulbactam Sodium for Injection 1.5g (注射用頭孢噻肟鈉舒巴坦鈉1.5g) was approximately HK$6,099,000. This was mainly due to our failure to renew the contract with the supplier due to the shareholding changes of that supplier.

(ii) For the six months ended 30 June 2013

The decrease in sales amount of Ozagrel Sodium for Injection (注射用奧紮格雷鈉) was primarily due to our cessation in sales of Ozagrel Sodium for Injection (注射用奧紮格雷鈉) of 20mg specifications in October 2012 as it became no longer profitable for us to continue the sales of such products after several price control. We have put less marketing effort for Ozagrel Sodium for Injection (注射用奧紮格雷鈉) of 80mg and 40mg as the profitability was limited after several price controls which lowered the retail price of such products and we have ceased the sales of 80mg and 40mg of this product in June 2013. The decrease in sales amount of Cefoxitin Sodium for Injection (注射用頭孢西丁鈉) was primarily due to such product having fallen within the category of limited use under the Administrative Catalogue of the Clinical Use of Antibotics of Zhejiang Province (2012 version) (浙江省抗菌藥物臨床應用分級管理目錄(2012版)) which has affected its sales performance. Therefore, we did not renew the distribution agreement with the supplier of one of the specifications of such product, namely Cefoxitin Sodium for Injection 0.5g (注射用頭孢西丁鈉0.5g) after expiration of the distribution agreement on 30 December 2012. The decrease in sales amount of Cefodizime Sodium for Injection (注射用頭孢地嗪鈉) and Cefixime Dispersible Tablet (頭孢克肟分散片) was primarily due to such products having fallen within the category of limited use under the Administrative Catalogue of the Clinical Use of Antibotics of Zhejiang Province (2012 version) (浙江省抗菌藥物臨床應用分級管理目錄(2012版)) which was effective from July 2012 and affected their sales performance.

The increase in sales amounts of Thymosin α1 for Injection (注射用胸腺法新) and Isepamicin Sulfate Injection (硫酸異帕米星注射液) were primarily due to [the increased hospital coverage for the six months ended 30 June 2013 with an increase in the average monthly sales amount. The increase in sales amount of Sulbenicillin Sodium for Injection (注射用磺苄西林鈉) was due to the resumption of the supply of such product from Type 1 Supplier A since October 2012. The increase in sales amount of Clostridium butyricum Capsule (酪酸梭菌活菌膠囊) of approximately HK$2,841,000, was due to our entering into the distribution agreement with the supplier in relation to this product on 25 September 2012 and only recorded sales for three months in 2012.

The sales amount of (i) Levocarnitine Injection (左卡尼汀注射液); (ii) Alanyl Glutamine for Injection (注射用丙氨酰谷氨酰胺); and (iii) Ceftizoxime Sodium for Injection (注射用頭孢唑肟鈉) was generally stable for the six months ended 30 June 2013.

Cost of sales

Cost of sales represents cost directly attributed to our revenue generating activities. Our Group's cost of sales mainly comprises cost of purchasing merchandise. Our Group was not engaged in pharmaceutical manufacturing business during the Track Record Period. Our cost of sales does not include the selling and distribution expenses. The following table sets forth a breakdown of cost of sales by product type for the Track Record Period.

	Year ended 31 December				Six months ended 30 June			
	2011		2012		2012		2013	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
	HK$'000	*(%)*	*HK$'000*	*(%)*	*HK$'000*	*(%)*	*HK$'000*	*(%)*
Cost of sales								
Injection drugs	119,283	87.5	118,340	87.0	60,052	86.9	[55,946]	[85,8]
Tablet drugs	7,699	5.6	11,142	8.2	5,735	8.3	[5,018]	[7.7]
Capsule drugs	7,741	5.7	3,967	2.9	1,638	2.4	[1,920]	[2.9]
Other drugs	1,677	1.2	2,600	1.9	1,686	2.4	[2,333]	[3.6]
Total	136,400	100.0	136,049	100.0	69,111	100.0	[65,217]	100.0

The amount of our cost of sales had been stable for each of the two years ended 31 December 2011 and 2012. However, for the year ended 31 December 2012, cost of sales represented a decrease of approximately 0.3%, while revenue represented an increase of approximately 9.6%. For the six months ended 30 June 2013, cost of sales represented a decrease of approximately [5.6%], while revenue represented a decrease of approximately 6.9%.

Gross Profit

Gross profit represents the difference of turnover and cost of sales. The table below sets forth our gross profit and gross profit margin by product type for the Track Record Period:

	Year ended 31 December				Six months ended 30 June			
	2011		2012		2012		2013	
	Amount	Gross Profit Margin	Amount	Gross Profit Margin	Amount	Gross Profit Margin	Amount	Gross Profit Margin
	HK$'000	*(%)*	*HK$'000*	*(%)*	*HK$'000*	*(%)*	*HK$'000*	*(%)*
Gross Profit								
Injection drugs	18,408	13.4	32,902	21.8	17,877	22.9	[14,640]	[20.7]
Tablet drugs	2,544	24.8	3,359	23.2	1,998	25.8	[1,238]	[19.8]
Capsule drugs	2,291	22.8	2,669	40.2	742	31.2	[2,435]	[55.9]
Other drugs	43	2.5	63	2.4	100	5.6	[142]	[5.7]
Total	23,286	14.6	38,993	22.3	20,717	23.1	[18,455]	[22.1]

(i) For the year ended 31 December 2012

The gross profit margin increased from approximately 14.6% for the year ended 31 December 2011 to approximately 22.3% for the year ended 31 December 2012.

The increase in gross profit margin of injection drugs was mainly attributable to that (i) the manufacturers offered us lower prices for certain products, such as Levocarnitine Injection (左卡尼汀注射液), due to higher sales volume we generated for the year ended 31 December 2012. The average unit cost of Levocarnitine Injection (左卡尼汀注射液) decreased by approximately [7.3]%, and the sales volume of Levocarnitine Injection (左卡尼汀注射液) increased by approximately 62.3% as compared to the year ended 31 December 2011 that resulted in an increase in the gross profit margin of approximately 6.2%. The sales of Levocarnitine Injection (左卡尼汀注射液) was approximately HK$20,072,000 and HK$52,227,000, representing approximately 12.6% and 29.8% of our total revenue for each of two years ended 31 December 2011 and 2012, respectively; (ii) we were able to obtain a product known as Ozagrel Sodium for Injection (注射用奧扎格雷鈉) directly from the manufacturer with lower price without going through the intermediary which was no longer engaged in the business of distributing such product in 2012. Hence, we have become the provincial distributor in Zhejiang province for such product and directly sourced such product from the manufacturer. The average unit cost of Ozagrel Sodium for Injection 80mg (注射用奧紮格雷鈉80mg) decreased by approximately [81.8]% as compared to the year ended 31 December 2011 that resulted in an increase in the gross profit margin of approximately 73.3%. The sales amount of Ozagrel Sodium for Injection (注射用奧紮格雷鈉) was approximately HK$12,730,000 and HK$10,419,000, representing approximately 8.0% and 6.0% of our total revenue for each of two years ended 31 December 2011 and 2012; and (iii) we were able to sell a product known as Mezlocillin Sodium and Sulbactam Sodium for Injection (注射用美洛西林鈉舒巴坦鈉) at a substantially higher price to our Type 1 Distributor Customers with larger sales volume during the year ended 31 December 2012 instead of selling such product to Type 2 Distributor Customers within Zhejiang province. Our Group was responsible for the marketing activities for the year ended 31 December 2012, and was thus able to sell such product to the Type 1 Distributor Customers with a substantially higher price. The average unit selling price of Mezlocillin Sodium and Sulbactam Sodium for Injection (注射用美洛西林鈉舒巴坦鈉) increased by [140.4]% as compared to the year ended 31 December 2011 that resulted in an increase in the gross profit margin of approximately 50.6%. The sales amount of Mezlocillin Sodium and Sulbactam Sodium for Injection (注射用美洛西林鈉舒巴坦鈉) was approximately HK$1,338,000 and HK$4,223,000, representing approximately 0.8% and 2.4% of our total revenue, respectively.

The increase in gross profit margin of capsule drugs was mainly attributable to the introduction of Clostridium butyricum Capsule (酪酸梭菌活菌膠囊) since September 2012. The sales amount of Clostridium butyricum Capsule (酪酸梭菌活菌膠囊) was approximately HK$1,679,000 for the year ended 31 December 2012, and the gross profit margin of such product was substantially higher than the average gross profit margin level of capsule drugs for the year ended 31 December 2011. The gross profit margin was stable for tablets drugs and other drugs for the year ended 31 December 2012.

(ii) For the six months ended 30 June 2013

The gross profit margin was generally stable since 2012, and recorded at 23.1% and 22.1% for the six months ended 30 June 2012 and 2013 respectively.

The decrease in gross profit margin of injection drugs was mainly attributable to the cessation of the sales of Ozagrel Sodium for Injection (注射用奧紮格雷鈉). The gross profit margin of such product was higher than the average gross profit margin of the injection drugs for the six months ended 30 June 2012. Therefore, the substantial decrease in the sales amount of Ozagrel Sodium for Injection (注射用奧紮格雷鈉) for the six months ended 30 June 2013 lowered the gross profit margin of the injection drugs for the same period.

The decrease in gross profit margin of tablet drugs was mainly attributable to the decrease in the sales amount and gross profit margin of Cefixime Dispersible Tablet (頭孢克肟分散片). The sales amount of Cefixime Dispersible Tablet (頭孢克肟分散片) was approximately HK$3,866,000 and HK$2,212,000, representing 50.0% and 35.4% of the sales amount of the tablet drugs for the six months ended 30 June 2012 and 2013, respectively. The gross profit margin of such product was higher than the average gross profit margin of the tablet drugs for the six months ended 30 June 2012 and 2013. Therefore, the decrease in the sales amount and gross profit margin of Cefixime Dispersible Tablet (頭孢克肟分散片) for the six months ended 30 June 2013 lowered the gross profit margin of the tablet drugs for the same period.

The increase in gross profit margin of capsule drugs was mainly attributable to the introduction of Clostridium butyricum Capsule (酪酸梭菌活菌膠囊) since September 2012. The sales amount of Clostridium butyricum Capsule (酪酸梭菌活菌膠囊) was approximately HK$2,860,000 for the six months ended 30 June 2013, representing approximately 65.7% of the sales amount of the capsule drugs and the gross profit margin of such product was substantially higher than the average gross profit margin level of capsule drugs for the six months ended 30 June 2012. The gross profit margin for other drugs was stable for the six months ended 30 June 2013.

Our Directors believe that the Group is well positioned in conducting the business of distribution of pharmaceutical products in Zhejiang province. During the Track Record Period, the market competition and technology improvement have not adversely and materially affect the gross profit margin of the Group.

Other income, gains and losses

Other income, gains and losses primarily includes (i) bank interest income; (ii) sundry income; (iii) imputed interest on deposit paid to a supplier, Shenyang Meiluo for each of the two years ended 31 December 2011 and 2012 and Zhongcheng Huida and Kaihongxin for the six months ended 30 June 2013; (iv) impairment loss on amount due from Haikou Xin Lang, a joint venture; and (v) gain on disposal of property, plant and equipment. The following table sets forth a breakdown of other income, gains and losses for the Track Record Period:

	Year ended 31 December		Six months ended 30 June	
	2011	2012	2012	2013
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Bank interest income	299	135	84	[150]
Sundry income	63	166	–	[–]
Imputed interest and adjustment on deposit 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]
Total	159	1,544	296	[1,050]

Pursuant to the tri-partite agreement entered by Shenyang Meiluo, Type 1 Supplier A and our Group in July 2012, Type 1 Supplier A has undertaken to our Group that the deposits and prepayments that originally paid to Shenyang Meiluo from our Group for the supply of the product has been transferred to Type 1 Supplier A as the deposit for supply of Sulbenicillin Sodium for Injection (注射用磺苄西林鈉). Such deposit, which was classified as non-current asset as at 31 December 2011 with the carrying amounts determined based on the present value of future cash flows discounted using an effective interest at 5%, was reclassified as current assets as at 31 December 2012. The adjustment of HK$1,031,000 was included in imputed interest and adjustment on deposit paid to a supplier. As of 1 January 2013, the amount of RMB7 million and RMB8 million represented deposits paid to Kaihongxin and Zhongcheng Huida, respectively, as securities for purchase of goods from 1 January 2013 to 31 December 2015 as stated in the renewed contracts. However, such deposits of RMB15 million (equivalent to HK$18,645,000), in aggregate, would not be realised within twelve months from 30 June 2013. Accordingly, the amounts were included in the non-current assets as at 30 June 2013. The carrying amounts as at 30 June 2013 are determined based on the present value of future cash flows discounted using an effective interest rate of 6%. Imputed interest and adjustment of approximately HK$472,000 was recognised for the six months ended 30 June 2013. A gain of approximately HK$428,000 was recognised for the disposal of motor vehicles for the six months ended 30 June 2013.

Selling and distribution costs

Our selling and distribution expenses principally include (i) salaries; (ii) marketing expenses; (iii) rental expenses; (iv) depreciations of building, plant and equipment, which are primarily for sales and services purposes; (v) travel expenses for our sales team; (vi) transportation cost; and (vii) other miscellaneous selling and distribution expenses.

Our selling and distribution expenses were approximately HK$2,909,000, HK$3,112,000 and HK$[1,355,000] for each of the two years ended 31 December 2011 and 2012 and the six months ended 30 June 2013, respectively. The following table sets forth a breakdown of selling and distribution expenses for the Track Record Period:

	Year ended 31 December		**Six months ended 30 June**	
	2011	**2012**	**2012**	**2013**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Salaries	1,633	1,558	597	[680]
Marketing expenses	133	344	115	[108]
Rental expenses	214	301	147	[164]
Depreciations	167	154	83	[56]
Travelling expenses	147	89	50	[56]
Transportation cost	474	538	207	[219]
Others	141	128	38	[72]
Total	2,909	3,112	1,237	[1,355]

Administrative Expenses

Our administrative expenses principally include (i) salaries and benefits for our management and administrative team; (ii) office and rental expenses; (iii) travel and business development expenses; (iv) depreciation and amortisation; (v) other tax expenses; (vi) other miscellaneous administrative expense.

Our administrative expenses were approximately HK$5,944,000, HK$6,635,000 and HK$[3,339,000] for each of the two years ended 31 December 2011 and 2012 and the six months ended 30 June 2013, respectively. The following table sets forth a breakdown of administrative expenses for the Track Record Period:

	Year ended 31 December		Six months ended 30 June	
	2011	2012	2012	2013
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Salaries and benefits	2,305	2,215	1,088	[1,578]
Office and rental expenses	976	1,003	490	[477]
Travel and business development expenses	381	633	170	[117]
Depreciation and amortization	1,487	1,479	731	[610]
Other tax expenses	340	589	156	[161]
Others	455	716	394	[396]
Total	5,944	6,635	3,029	[3,339]

Finance Costs

Our finance costs are interest on amounts due to a related party, bank and other borrowings wholly repayable within one year and imputed interest adjustment as deposit paid to suppliers upon initial recognition. For each of the two years ended 31 December 2011 and 2012 and the six months ended 30 June 2013, our finance costs were approximately HK$187,000, HK$38,000 and HK$[3,855,000], respectively. The significant increase for the six months ended 30 June 2013 was primarily due to the imputed interest adjustment on deposits paid to suppliers including Zhongcheng Huida and Kaihongxin to secure their supplies of products from 1 January 2013 to 31 December 2015 as stated in the renewed contracts upon initial recognition of approximately HK$3,014,000, and the interest on bank and other borrowings wholly repayable within one year arising from the drawdown of the banking facilities of approximately HK$841,000 for the six months ended 30 June 2013. According to HKAS 32 and 39, the deposit paid to Zhongcheng Huida and Kaihongxin, that are non-current in nature, has to be discounted to its present value. The carrying amounts as at 30 June 2013 are determined based on the present value of future cash flows discounted using an effective interest rate of 6%. The imputed interest adjustment upon initial recognition of approximately HK$3,014,000 was recognised in the finance costs accordingly.

Income tax expense

Income tax expenses represent our total current and deferred tax expenses. During the Track Record Period, income tax expenses consisted entirely of tax expenses incurred by our PRC subsidiaries. Under the Law of the PRC on Enterprise Income Tax (the "**EIT Law**") and Implementation Rules to the EIT Law, the tax rate of the PRC subsidiaries has been 25% from 1 January 2008 onwards. No provision was made for profits tax in Hong Kong, Bermuda and BVI as there was no income assessable for tax in these jurisdictions during the Track Record Period. The table below sets forth the reconciliation between tax expenses and accounting profit at the applicable tax rates:

	Year ended 31 December		**Six months ended 30 June**	
	2011	**2012**	**2012**	**2013**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'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]
Effective tax rate	31.8%	30.9%	31.4%	[72.4%]

During the Track Record Period, the effective tax rate was approximately 31.8%, 30.9% and [72.4]% for each of the two years ended 31 December 2011 and 2012 and the six months ended 30 June 2013. The increase in the effective tax rate for the six months ended 30 June 2013 was mainly due to the increase in the tax effect of expense not deductible for tax purpose, which was resulted from [●] and the imputed interest adjustment as deposit paid to Zhongcheng Huida and Kaihongxin upon initial recognition of approximately HK$3.0 million.

The provision of deferred tax on undistributed earnings of PRC subsidiaries is in accordance with Hong Kong Accounting Standard 12.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF THE RESULTS OF THE OPERATIONS

The consolidated statements of comprehensive income of the Group during the Track Record Period are summarised as below:

	Year ended 31 December		Six months ended 30 June	
	2011	2012	2012	2013
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Revenue	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	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 an associate	1,473	–	–	[–]
Share of result of a joint venture	(620)	–	–	[–]
[●]	–	(8,567)	–	[(5,418)]
Finance costs	(187)	(38)	–	[(3,855)]
Profit before tax	15,258	22,185	16,747	[5,538]
Income tax expense	(4,846)	(6,858)	(5,256)	[(4,008)]
Profit for the year/period	10,412	15,327	11,491	[1,530]
Other comprehensive income for the year				
Exchange difference arising on translation to presentation currency	4,730	1,143	(1,222)	[2,354]
Total comprehensive income for the year	15,142	16,470	10,269	[3,884]
Profit for the year attributable to owner of the Company	10,412	15,327	11,491	[1,530]
Profit and total comprehensive income for the year attributable to owner of the Company	15,142	16,470	10,269	[3,884]
Earnings per share – basic and diluted	HK$[●]	HK$[●]	HK$[●]	HK$[●]

Year ended 31 December 2012 compared with year ended 31 December 2011

Revenue

The total revenue for the year ended 31 December 2012 was approximately HK$175,042,000, representing an increase of approximately 9.6% from approximately HK$159,686,000 for the year ended 31 December 2011. The growth was primarily due to the increase in revenue from Levocarnitine Injection (左卡尼汀注射液) and Cefodizime Sodium for Injection (注射用頭孢地嗪鈉) offset by the decrease in revenue from Ozagrel Sodium for Injection (注射用奧紮格雷鈉) and Isepamicin Sulfate Injection (硫酸異帕米星注射液) and the overall expansion of pharmaceutical market.

Cost of sales

The cost of sales for the year ended 31 December 2012 was approximately HK$136,049,000, representing a decrease of approximately 0.3% from approximately HK$136,400,000 for the year ended 31 December 2011.

Gross Profit

As a result of the foregoing, our gross profit increased by approximately HK$15,707,000, or approximately 67.5%, from approximately HK$23,286,000 in 2011 to approximately HK$38,993,000 in 2012. Our gross profit margin increased from approximately 14.6% in 2011 to approximately 22.3% in 2012 mainly attributable to the increase in the gross profit margin of injection drugs and capsule drugs.

Other income, gains and losses

Other income, gains and losses for the year ended 31 December 2012 was approximately HK$1,544,000, representing an increase of approximately 871.1% from approximately HK$159,000 for the year ended 31 December 2011. The increase was mainly due to an increase in imputed interest on the deposit paid to Shenyang Meiluo of approximately HK$846,000.

Selling and distribution expenses

Selling and distribution expenses for the year ended 31 December 2012 was approximately HK$3,112,000, representing an increase of approximately 7.0% from approximately HK$2,909,000 for the year ended 31 December 2011. The selling and distribution expenses were generally stable and in line with the change on turnover.

Administrative expenses

Administrative expenses for the year ended 31 December 2012 were approximately HK$6,635,000, representing an increase of approximately 11.6% from approximately HK$5,944,000 for the year ended 31 December 2011. The administrative expenses were generally stable and in line with the change on turnover.

Profit before tax

As a result of the foregoing, profit before tax for the year ended 31 December 2012 was approximately HK$22,185,000, representing an increase of approximately 45.4% from approximately HK$15,258,000 for the year ended 31 December 2011. The increase was primarily due to (i) higher gross profit due to different product mix; and (ii) an increase in imputed interest on the deposit paid to a supplier. The result was partially offset by [●].

Income tax expenses

Income tax expenses for the year ended 31 December 2012 was approximately HK$6,858,000, representing an increase of approximately 41.5% from approximately HK$4,846,000 for the year ended 31 December 2011. The increase was primarily due to the higher profit before tax.

Profit for the year

As a result of the foregoing, profit for the year ended 31 December 2012 was approximately HK$15,327,000, representing an increase of approximately 47.2% from approximately HK$10,412,000 for the year ended 31 December 2011.

The six months ended 30 June 2013 compared with the six months ended 30 June 2012

Revenue

The total revenue for the six months ended 30 June 2013 was approximately HK$[83,672,000], representing a decrease of approximately [6.9]% from approximately HK$89,828,000 for the six months ended 30 June 2012. The decrease was primarily due to the decrease in sales amount of Ozagrel Sodium for Injection (注射用奥紮格雷鈉) and Cefoxitin Sodium for Injection (注射用頭孢西丁鈉) for the six months ended 30 June 2013.

Cost of sales

The cost of sales for the six months ended 30 June 2013 was approximately HK$[65,217,000], representing a decrease of approximately [5.6]% to approximately HK$69,111,000 for the six months ended 30 June 2012.

Gross Profit

As a result of the foregoing, our gross profit decreased by approximately HK$[2,262,000], or approximately [10.9]%, from approximately HK$20,717,000 for the six months ended 30 June 2012 to approximately HK$[18,455,000] for the six months ended 30 June 2013. Our gross profit margin decreased from approximately 23.1% for the six months ended 30 June 2012 to approximately [22.1]% for the six months ended 30 June 2013. Such decrease was mainly attributable to the decrease in the gross profit margin of injection drugs and tablet drugs, and partially offset by the increase in the gross profit margin of capsule drugs.

Other income, gains and losses

Other income, gains and losses for the six months ended 30 June 2013 was approximately HK$[1,050,000], representing an increase of approximately [254.7]% from approximately HK$296,000 for the six months ended 30 June 2012. Such increase was primarily due to (i) an increase in imputed interest on deposits paid to suppliers of approximately HK$260,000; and (ii) a gain on disposal of motor vehicles of approximately HK$428,000.

Selling and distribution expenses

Selling and distribution expenses for the six months ended 30 June 2013 was approximately HK$[1,355,000], representing an increase of approximately [9.5]% from approximately HK$1,237,000 for the six months ended 30 June 2012. Such increase was primarily due to the increase in salaries.

Administrative expenses

Administrative expenses for the six months ended 30 June 2013 was approximately HK$[3,339,000], representing an increase of approximately [10.2]% to approximately HK$3,029,000 for the six months ended 30 June 2012. Such increase was mainly due to the increase in salaries and benefits.

Finance costs

Finance cost for the six months ended 30 June 2013 was approximately HK$3,855,000 as compared to nil for the six months ended 30 June 2012. The increase was mainly due to imputed interest adjustment on deposit paid to suppliers including Zhongcheng Huida and Kaihongxin upon initial recognition of HK$3,014,000.

Profit before tax

As a result of the foregoing, profit before tax for the six months ended 30 June 2013 was approximately HK$[5,538,000], representing a decrease of approximately [66.9]% from approximately HK$16,747,000 for the six months ended 30 June 2012. The decrease was primarily due to (i) the decrease in gross profit resulted from the decrease in revenue and gross profit margin; (ii) the [●] of approximately HK$5.4 million; and (iii) the increase in finance cost as a result of the imputed interest adjustment on deposits paid to Zhongcheng Huida and Kaihongxin upon initial recognition of approximately HK$3.0 million.

Income tax expenses

Income tax expenses for the six months ended 30 June 2013 was approximately HK$[4,008,000], representing a decrease of approximately [23.7]% to approximately HK$5,256,000 for the six months ended 30 June 2012. The decrease was primarily due to the decrease in profit before tax, and partially offset by the increase in the tax effect of expense not deductible for tax purpose resulted from the payment of the [●] and the imputed interest adjustment on deposit paid to suppliers upon initial recognition.

Profit for the period

As a result of the foregoing, profit for the six months ended 30 June 2013 was approximately HK$[1,530,000], representing a decrease of approximately [86.7]% from approximately HK$11,491,000 for the six months ended 30 June 2012.

LIQUIDITY AND CAPITAL RESOURCES

Cash Flows

Our primary uses of cash are to pay for purchases of our products from suppliers, and to fund our working capital. We maintain our liquidity through internal resources, banking facilities, and unsecured loan facilities.

[In the future, we believe that our liquidity requirements will be satisfied by using consolidated cash flows generated from our operating activities, banking facilities, unsecured loan facilities and other funds raised from capital markets from time to time.]

The following table sets forth selected cash flow data from our consolidated cash flow statements for the Track Record Period:

	Year ended 31 December		Six months ended 30 June	
	2011	**2012**	**2012**	**2013**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Cash and cash equivalents at beginning of the year	18,285	22,686	22,686	[26,289]
Net cash (used in) from operating activities	(96)	(6,972)	(5,948)	[7,472]
Net cash from (used in) investing activities	10,703	1,810	1,810	[(1,853)]
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]
Effect of foreign exchange rate changes	813	190	(216)	[406]
Cash and cash equivalents at end of the year	22,686	26,289	21,622	[43,797]

Net cash (used in) from operating activities

We derive our cash flow from operating activities principally from the receipt of payments for the sale of products. Our cash used in operating activities is primarily used to pay for costs and expenses relating to operating activities, and to fund our working capital.

For the year ended 31 December 2011, our cash used in operating activities was approximately HK$96,000, while our operating cash flows before changes in working capital were approximately HK$16,196,000. The cash outflow of approximately HK$16,292,000 mainly reflected (i) an increase in trade and other receivables of approximately HK$18,937,000 since we needed to give more deposits and prepayments to suppliers to secure their provision of products with market potential; (ii) a decrease in trade and other payables of approximately HK$3,112,000 since that some Type 2 Distributor Customers terminated business relationship with us due to the expiration of the tender period of certain products, and we intentionally reduced the number of Type 3 Distributor Customers due to our business concentration; and (iii) income tax expenses of approximately HK$4,225,000. These cash outflows were partially offset by (i) a decrease in inventories of approximately HK$6,299,000, which was primarily due to our tighter control on inventory level and accelerated inventory turnover; and (ii) an increase in bill payables of approximately HK$3,683,000 due to utilisation of banking facilities.

For the year ended 31 December 2012, our cash used in operating activities was approximately HK$6,972,000, while our operating cash flows before changes in working capital were approximately HK$22,490,000. The cash outflow of approximately HK$29,462,000 mainly reflected (i) an increase in trade and other receivables of approximately HK$14,573,000 since we needed to give more deposits and prepayments to certain suppliers to secure their provision of products with market potential; (ii) a decrease in trade and other payables of approximately HK$2,847,000 since that some Type 2 Distributor Customers terminated business relationship with us due to the expiration of the tender period of certain products, and we intentionally reduced the number of Type 3 Distributor Customers due to our business concentration; (iii) a decrease in bills payable of approximately HK$3,723,000 since we had repaid the banking facilities and (iv) income tax expenses of approximately HK$6,886,000.

For the six months ended 30 June 2013, our cash from operating activities was approximately HK$[7,472,000], while our operating cash flows before changes in working capital were approximately HK$[9,009,000]. The cash outflow of approximately HK$[1,537,000] mainly reflected (i) an increase in trade and other receivables of approximately HK$2,535,000; (ii) income tax expenses of approximately HK$3,573,000; and (iii) the increase in trade and other payables of approximately HK$4,327,000 as a result of the increase in VAT payables and accruals.

Negative operating cashflow as at 31 December 2011 and 2012

Our Group's negative operating cashflow as at 31 December 2011 was primarily attributable to (i) the deposit of RMB1.5 million (equivalent to approximately HK$1,849,000) paid to Xizang Yimingxiya Pharmaceutical Technology Company Limited* (西藏易明西雅生物醫藥科技有限公司) to acquire the exclusive distribution right of Lamivudine Tablets (拉米夫定片) in Zhejiang province, Jiangsu province and Shanghai, where the agreement was terminated on 21 November 2012 and the deposit has been fully returned to our Group in December 2012 and March 2013, respectively; and (ii) a deposit of RMB1.0 million (equivalent to approximately HK$1,232,000) paid to Lodays Pharmaceutical (Hubei) Company Limited* (朗天藥業(湖北)有限公司) to acquire the exclusive distribution right of Milrinone Lactate Injection (乳酸米力農注射液) in Zhejiang province in January 2012; and (iii) the increase in prepayments made to Kaihongxin and Baoding Huida of approximately HK$4.3 million and HK$7.7 million, respectively, which were netted off against the purchase from Kaihongxin and Baoding Huida in 2012.

Our Group's net cash outflow from operating activities as at 31 December 2012 was primarily attributable to (i) the deposits paid to Kaihongxin of approximately RMB7 million (equivalent to approximately HK$8,701,000) and Zhongcheng Huida of approximately RMB8 million (equivalent to approximately HK$9,944,000) to secure the continual supply of our key products; our sales generated by Zhongcheng Huida's products were approximately HK$[51.9] million and HK$[61.4] million for the year ended 31 December 2011 and 2012 respectively, representing approximately [32.5]% and [35.1]% of our total revenue for the corresponding periods, including the sales from our major products, namely (a) Cefodizime Sodium for Injection (注射用頭孢地嗪鈉); (b) Thoymosin α 1 for Injection (注射用胸腺法新); (c) Ispeamicin Sulfate for Injection (硫酸異帕米星注射液); (d) Alanyl Glutamine for Injection (注射用丙氨醯穀氨醯胺); and (e) Ceftizoxime Sodium for Injection (注射用頭孢唑肟鈉), which in aggregate were approximately HK$43.6 million, HK$57.3 million and HK$28.7 million for the years ended 31 December 2011 and 2012 and the six months ended 30 June 2013, respectively. Our sales generated by Kaihongxin's products were approximately HK$[29.4] million and HK$[55.1] million for the year ended 31 December 2011 and 2012, respectively, representing approximately [18.4]% and [31.5]% of our total revenue for the corresponding periods, including the sales of Levocarnitine Injection (左卡尼汀注射液), which was approximately HK$20.1 million, HK$52.2 million and HK$28.3 million for each of the two years ended 31 December 2011 and 2012 and the six months ended 30 June 2013; (ii) the deposits paid to Guizhou Jingfeng of approximately RMB2 million (equivalent to approximately HK$2,486,000) for the distribution right of the new product with market potential for business expansion which is subject to the upcoming tendering process; (iii) the increase in prepayments made to Kaihongxin of approximately RMB9,905,000 (equivalent to approximately HK$12,350,000) for the purchase from Kaihongxin of approximately RMB[14,029,000] (equivalent to approximately HK$17,055,000) for the three months ended 31 March 2013 and the prepayment paid for the return of Cefotaxime Sodium and Sulbactam Sodium for Injection 2.25g (注射用頭孢噻肟鈉舒巴坦鈉2.25g) of approximately HK$[8,182,000] as at 31 December 2012, Kaihongxin has fully resumed the supply of the product and the first batch of the product has arrived at our warehouse on 24 May 2013; and (iv) the [●] of approximately HK$8,567,000 for the year ended 31 December 2012 that is not expected to recur upon [●].

In view of our current business operation, we are required to make substantial deposits to a majority of our suppliers, including pharmaceutical companies and pharmaceutical manufacturers to show our commitment in order to negotiate better terms of purchase and enter into a long term of contract with our supplier and also prepayments to secure the stable supply of our products. The one-off deposit payment will be made to secure the distribution rights of the existing products and acquire the distribution rights of the new products with the market potential for business expansion, for improvement in the profitability of our Group in the long run. Our Directors are of the view that the deposit payments are one-off payment and refundable upon termination of the distribution agreements and the prepayment will be netted off against the purchase in the near future. However, there is the timing difference between the payment of the deposits and these respective generated revenues. During the Track Record Period, our Group paid the deposit of approximately RMB8 million, RMB7 million and RMB8 million to Type 1 Supplier A, Kaihongxin and Zhongcheng Huida, respectively, for the acquisition of distribution right and those deposits were recorded at the time of payment in 2011 and 2012, respectively, with immediate effect in the changes in the working capital of the cashflow statement. The respective revenues generated from those products for which we obtained the distribution rights was sufficient to cover the deposit payment within 1 to 2 financial year(s) following the payment of the respective deposits.

To use the working capital efficiently, our Group has negotiated with our existing suppliers and new suppliers to use the corporate guarantee provided by Hong Rui Bio-medical or any other subsidiary of the Company upon [●] instead of deposit payment for the acquisition of distribution right. Each of Zhongcheng Huida, Kaihongxin and Jiangsu Baichang has agreed and confirmed with our Group in July 2013, confirming to return the deposit of RMB8 million, RMB7 million and RMB1 million held by Zhongcheng Huida, Kaihongxin and Jiangsu Baichang 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, and Hong Rui Bio-medical or any other subsidiary of the Company upon [●] has to maintain a minimum cash balance for Zhongcheng Huida and Kaihongxin respectively during the guarantee period. The following table illustrates the arrangements for such corporate guarantee:

Name of the supplier	**Amount of deposit paid to the supplier**	**The future arrangement**	**The minimum cash balance to be maintained by Hong Rui Bio-medical during the guarantee period**
Zhongcheng Huida	RMB8 million	The supplier will fully return the deposit to our Group upon [●], and will be provided with corporate guarantee for the distribution rights	RMB3 million
Kaihongxin	RMB7 million	The supplier will fully return the deposit to our Group upon [●], and will be provided with corporate guarantee for the distribution rights	RMB2 million
Jiangsu Baichang	RMB1 million	The supplier will fully return the deposit to our Group upon [●], and will be provided with corporate guarantee for the distribution rights	Nil

Our Company will make [●] and disclose in its [●] after [●] regarding the progress of the foregoing corporate guarantee arrangements and subsequent return of deposit as and when appropriate.

Further, our Group has adopted the following measures to avoid imposing pressure on our working capital:

1. our Group has adopted certain criteria in the assessment of potential suppliers and identification of new distribution rights of products by considering the market research and the feasibility report of the new products while negotiating the terms of deposit and prepayment for the acquisition of the distribution right of the new products and the renewal of the distribution right of the existing products;

2. our Group compiles a cash flow forecast [monthly] in order to supervise our cashflow position. The cash flow forecast assists our management to monitor our operation, in particular, the payment of deposit and prepayment for the acquisition of the distribution right of the new products and the inventory procurement. Our Group takes into consideration its cash position and availability of external financing at the time prior to the payment of deposits for a new distribution right of products;

3. our Group reviews the financial health of our major suppliers to which we have paid a huge amount of deposits and/or prepayment every year. We will also liaise with the management of our major suppliers to understand their financial and operation capabilities and performance. Our Directors confirm, as at the Latest Practicable Date, none of our major suppliers has so far encountered any financial difficulty that may affect the repayment of our deposits and/or prepayments;

4. our Group has complied a quarterly sales forecast to assist the management to determine the procurement of the inventory without accumulation, and the amount of prepayment should be made to its suppliers to ensure the stable supply of the products without making too much prepayments;

5. our Group will communicate with our suppliers and our Distributor Customers to monitor the trade and other receivables collection and payments to maintain a better cashflow position; and

6. our Group will identify and look for alternative funding sources to sustain or expand our business operation, when necessary. We are able to obtain bank borrowings and other loan facilities in view of our credit history during each of the two years ended 31 December 2011 and 2012, respectively. We did not encounter any difficulty in raising funds during the Track Record Period up to the Latest Practicable Date. We drew down a loan of RMB8,500,000 from a pledged banking facilities from Agricultural Bank of China Limited – Hangzhou Jiefang Road branch* (中國農業銀行股份有限公司杭州解放路支行) on 10 January 2013 for the payment of the acquisition of the distribution right of new product. On 9 May 2013, Our Group was granted a loan facility of HK$12,000,000 by a money lending company in Hong Kong, which is a licensed money lender in Hong Kong and an Independent Third Party. The interest rate of such loan was 6.0% per annum. On 17 June 2013, our Group was granted a banking facility from Dah Sing Bank of an overdraft of HK$5,000,000 and a revolving loan of HK$15,000,000.

[●] is of the view that our Group has the sufficient working capital for our present requirement for the next 12 months with reference to the recent operation, the financial position, the current cash position of our Group and after considering:

a) **reason for the negative operating cash flow**: the negative operating cash flow for each of the two years ended 31 December 2011 and 2012 was due to (i) the one-off payment of deposit to secure the distribution right generated the timing difference on the cashflow which affected the operating cashflow position immediately after the payment of deposits with profit generated within [1] to [2] financial years; (ii) the prepayment to secure the supply of the products; and (iii) the payment of [●];

b) **internal control measures taken**: the internal control measures taken to safeguard (i) the deposit and prepayment of our Group and (ii) the working capital of our Group as mentioned above; and

c) **its unutilised financing facilities**: the unutilised loan facilities from a money lending company in Hong Kong and the unutilised banking facilities from Dah Sing Bank in Hong Kong as at the Latest Practicable Date.

Net cash from (used in) investing activities

Our cash used in investing activities primarily consists of payments for the purchase of property, plant and equipment, placement of pledged bank deposits, and investment in and advance to a joint venture, Haikou Xin Lang. Our cash from investing activities primarily consists of withdrawals in pledged bank deposits and proceed from disposal of assets classified as held for sale and property, plant and equipment.

For the year ended 31 December 2011, our net cash from investing activities was approximately HK$10,703,000. Our cash from investing activities was primarily due to proceed of disposal of assets classified as held for sale in amount of approximately HK$13,564,000 in relation to the disposal of Shenyang Meiluo under a share transfer agreement dated 19 January 2011 entered into between Mr. He (being a nominee of Zhejiang Xin Rui Pharmaceutical) as transferor and an Independent Third Party as transferee. The cash inflow was partially offset by placements of pledge bank deposits in amount of approximately HK$1,849,000.

For the year ended 31 December 2012, our net cash from investing activities was approximately HK$1,810,000. Our cash from investing activities was primarily due to withdrawals of pledge bank deposits in a total amount of approximately HK$1,849,000. The cash inflow was partially offset by purchase of property, plant and equipment of approximately HK$174,000.

For the six months ended 30 June 2013, our net cash used in investing activities was approximately HK$[1,853,000]. Our cash from investing activities was primarily due to the purchase of motor vehicle of approximately HK$2,525,000.

Net cash (used in) from financing activities

Our cash flow from financing activities consists of an increase in advance from related parties and new borrowing raised. Our cash flows used in financing activities consists of repayment to related parties and interest paid and expenses paid in connection with [●].

For the year ended 31 December 2011, our net cash used in financing activities was approximately HK$7,019,000, which was due to (i) advance from related parties, subsidiaries of Town Health International and Yang Qi of approximately HK$1,049,000; (ii) repayment to related parties, subsidiaries of Town Health International and Yang Qi of approximately HK$7,881,000; and (iii) interest paid in amount of approximately HK$187,000.

For the year ended 31 December 2012, our net cash from financing activities was approximately HK$8,575,000, which was due to (i) a new borrowing raised of approximately HK$12,000,000 for general working capital purpose; (ii) advance from related parties, subsidiaries of Town Health International and Yang Qi (楊奇), Ms. Yang's brother of approximately HK$3,872,000; (iii) repayment to related parties, subsidiaries of Town Health International and Yang Qi (楊奇), Ms. Yang's brother of approximately HK$4,876,000; (iv) interest paid in amount of approximately HK$38,000; and (v) expenses paid in connection with [●] of approximately HK$2,383,000.

For the six months ended 30 June 2013, our net cash from financing activities was approximately HK$[11,483,000], which was mainly due to (i) new borrowing of approximately HK$16,736,000; (ii) net repayment to related parties of approximately HK$554,000; (iii) interest paid in the amount of approximately HK$841,000; and (iv) expenses paid in connection with [●] of approximately HK$3,858,000.

Net Current Assets

The following table sets forth current assets, current liabilities and net current assets from our combined statements of financial position as of the dates indicated:

	As of 31 December		As of 30 June
	2011	**2012**	**2013**
	HK$'000	*HK$'000*	*HK$'000*
Current Assets			
Inventories	14,916	16,151	[16,199]
Trade and other receivables	80,779	108,462	[97,678]
Bill receivables	–	292	[–]
Prepaid lease payments	189	191	[194]
Amounts due from related parties	80	80	[80]
Pledged bank deposits	1,849	–	[–]
Bank balances and cash	22,686	26,289	[43,797]
Total current assets	120,499	151,465	[157,948]
Current Liabilities			
Trade and other payables	17,680	14,929	[19,256]
Bills payables	3,697	–	[–]
Amounts due to related parties	1,547	554	[–]
Unsecured loan	–	12,000	[28,736]
Tax payable	1,110	1,868	[2,213]
Total current liabilities	24,034	29,351	[50,205]
Net current assets	96,465	122,114	[107,743]

We had net current assets of approximately HK$96,465,000, HK$122,114,000 and HK$[107,743,000] as of 31 December 2011, 31 December 2012 and 30 June 2013, respectively.

Working Capital

The Directors are of the opinion that after taking into account the cash flow generated from operating activities, the existing financial resources available to the Group including internally generated funds, the available banking and unsecured loan facilities, the Company and the Group has sufficient working capital for it present requirements for at least the next 12 months from the date of this document.

Inventories

Our inventories primarily consist of finished goods that we purchase from our suppliers for resale through our distribution network. We actively monitor and adjust our inventory based on the levels of products being despatched and our operations team monitors the stock on a regular basis. Additionally, we use our inventory management system to manage our inventories.

We seek to maintain a relatively low level of inventories due to the nature of the pharmaceutical products. We typically maintain 30-45 days' worth of inventories at any given time.

	As of 31 December		As of 30 June
	2011	**2012**	**2013**
	HK$'000	*HK$'000*	*HK$'000*
Finished goods	14,916	16,151	[16,199]

As of 31 December 2012, our inventories increased by approximately 8.3%, to approximately HK$16,151,000 from approximately HK$14,916,000 as of 31 December 2011. This increase was in line with the increase in revenue.

As of 30 June 2013, our inventory level remained stable and recorded at HK$16,199,000 as at 30 June 2013.

The following table sets forth an aging analysis of our inventories, based on the date of receipt of inventory, as of the dates indicated:

	As of 31 December				As of 30 June	
	2011		**2012**		**2013**	
	Amount		**Amount**		**Amount**	
	HK$'000	*(%)*	*HK$'000*	*(%)*	*HK$'000*	*(%)*
Within 90 days	14,224	95.4	16,001	99.1	[11,092]	[68.5]
90 – 365 days	689	4.6	150	0.9	[5,107]	[31.5]
Over 365 days	3	0.0	–	–	–	–
Total	14,916	100.0	16,151	100.0	[16,199]	[100.0]

The following table sets forth the components of our inventory as of 30 June 2013:

Product	1-90 days	Over 91 days	Total amount		Expiry date
	HK$'000	*HK$'000*	*HK$'000*	*(%)*	
Levocarnitine Injection (左卡尼汀注射液)	6,090	–	6,090	37.6	August 2015/ October 2015
Sulbenicillin Sodium for Injection (注射用磺苄西林鈉)	–	4,727	4,727	29.2	October 2014
Cefodizime Sodium for Injection 0.5g (注射用頭孢地嗪鈉0.5g)	1,172	256	1,428	8.8	May 2015
Cefixime Dispersible Tablet (頭孢克肟分散片)	1,121	39	1,160	7.2	November 2014- May 2015
Others	2,709	85	2,794	17.2	
Total	11,092	5,107	16,199	100.0	

Pursuant to the tri-partite agreement entered by Shenyang Meiluo, Type 1 Supplier A and our Group in July 2012, Type 1 Supplier A has undertaken to our Group that the exclusive national distribution rights of Sulbenicillin Sodium for Injection (注射用磺苄西林鈉) are retained to our Group. The production and supply of the product have been resumed in August 2012 and October 2012, respectively by Type 1 Supplier A. Hence, we made a large amount of purchase of Sulbenicillin Sodium for Injection (注射用磺苄西林鈉) for the preparation of national distribution.

The following table sets forth the turnover days of our inventories for the periods indicated:

	Year ended 31 December		Six months ended 30 June
	2011	**2012**	**2013**
Turnover days of inventory	47	42	[45]

Note: Turnover days of inventory is derived by dividing the average of the opening and closing balances of inventory for the relevant period by cost of sales and multiplying this figure by 365 days for a year or 183 days for six months. As of 31 December 2010, we had inventories of approximately HK$20,574,000.

Our inventory turnover days were at a low level and generally stable, and decreased from 47 days for the year ended 31 December 2011 to 42 days for the year ended 31 December 2012, and to [45] days for the six months ended 30 June 2013.

As of 31 August 2013, we sold out inventory of approximately HK$[11,518,000], representing approximately [71.1]% of outstanding balance amount of our inventory as of 30 June 2013.

[Due to the development of national distribution network and the pending status of various provincial tendering processes, the subsequent sales of Sulbenicillin Sodium for Injection (注射用磺苄西林鈉) was limited for the six months ended 30 June 2013, we sold Sulbenicillin Sodium for Injection (注射用磺苄西林鈉) of approximately HK$4,012,000, representing approximately [52.9]% of our inventory of Sulbenicillin Sodium for Injection (注射用磺苄西林鈉) of approximately HK$7,586,000 as at 31 December 2012. Our Group has obtained the exclusive national distribution rights of Sulbenicillin Sodium for Injection (注射用磺苄西林鈉) from Type 1 Supplier A, and our Directors consider that (i) the average monthly subsequent sales of Sulbenicillin Sodium for Injection (注射用磺苄西林鈉) for the six months ended 30 June 2013 was approximately HK$669,000, which has improved as compared to the average monthly sales of Sulbenicillin Sodium for Injection (注射用磺苄西林鈉) since October 2012 of approximately HK$214,000; (ii) the expiry date of the current inventories of Sulbenicillin Sodium for Injection (注射用磺苄西林鈉) is October 2014 and the pharmaceutical distributors normally purchase pharmaceutical products with a valid period of [not less than half year]; and (iii) as encouraged by the government policy, the pharmaceutical products manufactured by the pharmaceutical manufacturers which have complied and satisfied the revised GMP standards will have a relatively better chance to win the tender. Hence our Directors are of the view that its net realisable value is higher than its cost and therefore our Group has not been required to make impairment provision according to the impairment provisioning policy for inventory. In addition, our Group has not acquired any inventory of Sulbenicillin Sodium for Injection (注射用磺苄西林鈉) since 31 December 2012 up to the Latest Practicable Date and has no plan to acquire further inventories of such product until the current inventories have been substantially sold.]

We ceased sales of Ozagrel Sodium for Injection (注射用奧紮格雷鈉) of 20mg specification in October 2012, and both 40mg and 80mg specifications of such product in June 2013. As at the Latest Practicable Date, we sold out all previously purchased Ozagrel Sodium for Injection (注射用奧紮格雷鈉) at profit, and no longer have any inventory.

Trade, bills and other receivables

Our trade, bills and other receivables mainly represent amounts owed to us by our customers who purchased products from us with credit terms. The following table sets forth our trade and other receivables as of the dates indicated:

	As of 31 December		**As of 30 June**
	2011	**2012**	**2013**
	HK$'000	*HK$'000*	*HK$'000*
Trade receivables	48,149	41,409	[45,506]
Bills receivables	–	292	[–]
Sub-total	48,149	41,701	[45,506]
Other receivables			
Other prepayments	478	426	[825]
[●]	–	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]
Sub-total	32,630	67,053	[52,172]
Total	80,779	108,754	[97,678]

(i) Trade and bills receivables

As of 31 December 2012, our trade and bills receivables decreased by approximately 13.4%, to approximately HK$41,701,000 from approximately HK$48,149,000 as of 31 December 2011. This decrease was primarily due to our tighter account receivables collection policy. We require some Type 2 Distributor Customers and Type 3 Distributor Customers to pay before the delivery of the goods. As of 30 June 2013, the trade and other receivables recorded as approximately HK$45,506,000.

We allow a credit period of 30 to 90 days to Distributor Customers in general during the Track Record Period, except Hainan Xinmei Medicine Company Limited* (海南新美醫藥有限公司) ("**Hainan Xinmei**") which had a credit period of 180 days in 2011, this was subsequently shortened to 90 days on 1 August 2012. The following table sets forth an aging analysis of trade and bills receivables presented based on the invoice date at the end of the reporting period as of the dates indicated:

	As of 31 December				As of 30 June	
	2011		2012		2013	
	Amount		Amount		Amount	
	HK$'000	*(%)*	*HK$'000*	*(%)*	*HK$'000*	*(%)*
0 – 30 days	18,965	39.4	20,790	49.9	[21,764]	47.8
31 – 60 days	17,521	36.4	19,642	47.1	[20,700]	45.5
61 – 90 days	2,621	5.4	396	0.9	[2,156]	4.7
91 – 180 days	4,253	8.8	873	2.1	[886]	2.0
Over 180 days	4,789	10.0	–	–	–	–
Total	48,149	100.0	41,701	100.0	[45,506]	100.0

As of 31 December 2011, approximately 39.4% and 36.4% of our trade and bills receivables would be collected within 30 days and 31–60 days, respectively, while approximately 49.9% and 47.1% of trade and bills receivables would be collected within 30 days and 31-60 days, respectively as of 31 December 2012 and approximately [47.8]% and [45.5]% of trade and bills receivables would be collected within 30 days and 31-60 days, respectively, as of 30 June 2013.

We generally grant longer credit terms to our Type 1 Distributor Customers, compared with those to Type 2 Distributor Customers, because our major Type 1 Distributor Customers have a larger scale of operation with better reputation, and the payment collection periods of Type 1 Distributor Customers from hospitals were generally longer. For Type 2 Distributor Customers, we usually require them to pay in advance.

As of 31 August 2013, we have collected trade and bills receivables of approximately HK$[36,554,000], representing approximately [80.3]% of outstanding balance amount of our trade and bills receivables as of 30 June 2013.

The following table sets forth the turnover days of our trade receivables for the periods indicated:

	Year ended 31 December 2011	2012	Six months ended 30 June 2013
Turnover days of trade and bills receivables	107	94	[95]

Note: Turnover days of trade and bills receivables is derived by dividing the average of the opening and closing balances of trade and bills receivables for the relevant period by revenue and multiplying this figure by 365 days for a year or 183 days for six months. As of 31 December 2010, we had trade and bills receivables of approximately HK$45,109,000.

Our trade and bills receivables turnover days decreased from 107 days for the year ended 31 December 2011 to 94 days and 95 days for the year ended 31 December 2012 and for the six months ended 30 June 2013. The trade and bills receivables turnover days are general in line with the credit period we have granted to our customers. We granted a credit period of 180 days for some business transactions with Hainan Xinmei, which is an Independent Third Party owned by the spouse of our finance manager, Ms. Zhang Qiao, mainly distributed our products to smaller medical institutions with longer debt collection periods during the Track Record Period. We did not have long-term business relationship with any other Distributor Customers which engaged in distributing pharmaceutical products to medium and small size medical institutions. On 1 August, 2012, a supplemental agreement was entered into between our Group and Hainan Xinmei to shorten the credit period from 180 days to 90 days. For the year ended 31 December 2011, the unit prices of 5 out of 26 product specifications we sold to Hainan Xinmei were 10% lower than the unit prices of the same products we sold to other Type 2 Distributor Customers whereas the unit prices of the other 22 products were not 10% lower than or even higher than the unit prices of the same products we sold to other Type 2 Distributor Customers, where the revenue from Hainan Xinmei amounted to approximately HK$12,299,000, representing approximately 7.7% of total revenue. For the year ended 31 December 2012, the unit prices of 8 out of 24 product specifications we sold to Hainan Xinmei were 10% lower than the unit prices of the same products we sold to other Type 2 Distributor Customers whereas the unit prices of the other 16 products were not 10% lower than or even higher than the unit prices of the same products we sold to other Type 2 Distributor Customers, where the revenue from Hainan Xinmei amounted to approximately HK$994,000, representing approximately 0.6% of total revenue. Our Directors consider that Hainan Xinmei mainly distributes our products to smaller medical institutions and thus, it is reasonable to offer lower price as compared to other Type 2 Distributor Customers to Hainan Xinmei for certain products we sold to them. Hainan Xinmei was the only Distributor Customer with the credit period of 180 days during the Track Record Period. We have established the business relationship with Hainan Xinmei since 2010. The outstanding balance of trade receivable from Hainan Xinmei as at 30 June 2013 was approximately HK$97,000.

Before accepting any new customers, the Group assesses the potential customer's credit quality and prescribe the relevant credit limits for the customer. The credit limits attributed to customers are reviewed periodically. A 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 were considered past due as at 31 December 2011, 31 December 2012 and 30 June 2013, respectively. For the provisioning policy of trade and other receivable, 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. During the Track Record Period, the Group has not provided for impairment loss because management is of the opinion the fundamental credit quality of these customers has not been deteriorated. The Group does not hold any collateral over these balances. During the Track Record Period, the average settlement periods for our major Distributor Customers, including state-owned enterprises, were 90 to 120 days. Trade and bill receivables of all Distributor Customers were settled within 60 days after due date during the Track Record Period. Therefore, save for the incident regarding cessation in supply of the Sulbenicillin Sodium for Injection (注射用磺苄西林鈉) from Shenyang Meiluo as disclosed in the section headed, "Products shortage from our suppliers during Track Record Period" under the sub-section headed "Phase 2 – Procurement of Products from our suppliers" under the section headed "Business" of this document, we did not experience any material default and/or delay in settlement by our Distributor Customers.

(ii) Other receivables

Other receivables comprise other prepayments, [●], prepayments to suppliers, deposits to suppliers, and other receivables. Our prepayments, prepayments to suppliers, deposits to suppliers, and other receivables were approximately HK$32,630,000, HK$67,053,000 and HK$[52,172,000] as of 31 December 2011, 31 December 2012 and 30 June 2013, respectively. The increase for the year ended 31 December 2012 was primarily due to (i) [●] of approximately HK$2,383,000 for the year ending 31 December 2013; (ii) an increase in prepayments to suppliers of approximately HK$2,124,000; and (iii) a significant increase in deposits paid to suppliers of approximately HK$29,821,000. For the six months ended 30 June 2013, the decrease was primarily due to the decrease in the deposits paid to suppliers as a result of the reclassification of the deposit to Kaihongxin and Zhongcheng Huida as non-current assets, which was partially offset by the increase in [●].

We will be required to pay deposits to our suppliers in order to guarantee not to breach the contracts, prevent cannibalisation and ensure commitment to the sales targets. We will also be required to pay for the purchases before the delivery as prepayment to secure a stable supply of the products. The pharmaceutical distributors may make deposit and/or prepayment to pharmaceutical manufacturers or the pharmaceutical companies with exclusive distribution rights, especially for the products with market potential. The prepayment will be netted off against the amount of our subsequent purchase. The amount of prepayment has been determined by the recent sales amount, our inventory level and current market conditions. In the event that the distribution agreement entered into between the suppliers and us is due or terminated upon mutual consent and without any violation of the terms as set out in the distribution agreement, the deposits and the unutilised prepayments will be fully returned to our Group within the period of time as set out in the distribution agreement. Please refer to the section headed "Business – Our business model – Phase 1 – Acquisition of distribution rights of pharmaceutical products from our suppliers – Step 3 – Assistance and co-ordination in collective tendering process of the new products for our suppliers – Distribution Agreements between our Group and our suppliers – (c) Deposits and Prepayments" for further details and the safeguard measures for our prepayments and deposits. [During the Track Record Period and as at the Latest Practicable Date, our Group did not experience any confiscation of deposits or unutilised prepayments by our suppliers as a result of violation of the terms as set out in the respective distribution agreements.]

Deposits and prepayments

The following table sets forth a breakdown of deposits to our major suppliers during the Track Record Period.

	As at 31 December		As at 30 June
	2011	2012	2013
	Amount	Amount	Amount
	(RMB'000)	*(RMB'000)*	*(RMB'000)*
Deposits			
Non-current			
Type 1 Supplier A *(Note 1)*	8,000	–	–
Kaihongxin *(Note 2)*	–	–	6,061
Zhongcheng Huida *(Note 2)*	–	–	6,927
Current			
Type 1 Supplier A *(Note 1)*	–	8,000	[8,000]
Kaihongxin *(Note 2)*	–	7,000	–
Zhongcheng Huida *(Note 2)*	–	8,000	–
Guizhou Jingfeng	–	2,000	[2,000]
Xizang Yimingxiya	1,500	450	[–]
Lodays Pharmaceutical (Hubei) Company Limited* (朗天藥業(湖北)有限公司)	1,000	1,000	[1,000]
Beijing Jiacheng Pharmaceutical Company Limited* (北京佳誠醫藥有限公司)	806	806	[–]
Type 1 Supplier B	260	250	[250]
Hainan Noken Pharmaceutical Industry Ltd.* (海南諾爾康藥業有限公司)	–	900	1,000
Beijing Haoyafangda Medicine Co., Ltd.* (北京浩雅方大醫藥有限公司)	–	–	1,000
Others	1,268	378	250
Total current deposits	4,834	28,784	13,500
	(equivalent to approximately HK$5,957,000)	(equivalent to approximately HK$35,778,000)	(equivalent to approximately HK$17,052,000)
Total	12,834	28,784	26,488
	(equivalent to approximately HK$15,817,000)	(equivalent to approximately HK$35,778,000)	(equivalent to approximately HK$33,456,000)

Note 1: The deposit was previously paid to Shenyang Meiluo and transferred to Type 1 Supplier A for supply of Sulbenicillin Sodium for Injection (注射用磺苄西林鈉) pursuant to the tri-partite agreement entered into among Shenyang Meiluo, Type 1 Supplier A and our Group in July 2012.

Note 2: As of 1 January 2013, the amount of RMB7 million and RMB8 million represented deposits paid to Kaihongxin and Zhongcheng Huida, respectively to secure the purchase of goods from 1 January 2013 to 31 December 2015 as stated in the renewed contracts, and such deposits of RMB15 million (equivalent to HK$18,645,000), in aggregate, would not be realised within twelve months from 30 June 2013. Accordingly, the amounts were included in the non-current assets as at 30 June 2013. The carrying amounts as at 30 June 2013 are determined based on the present value of future cash flows discounted using an effective interest rate of 6%. The imputed interest adjustment upon initial recognition of approximately HK$3,014,000 was recognised in the finance costs.

The deposit payment is to prevent cannibalisation among the distributors and ensure our commitment to the sales target. Our deposit shall be subject to deduction in the event that (i) our Group does not meet the sales target; (ii) the market cannibalisation among the distributors exists; (iii) our Group fails to assist the suppliers in winning the collective tendering process; and (iv) our Group fails to develop the hospital network within a certain period of time. In addition, the deposit will be returned to our Group if the production permit cannot be granted within a certain period of time.

For the year ended 31 December 2011, our Group paid a deposit of RMB1.5 million (equivalent to approximately HK$1,849,000) to Xizang Yimingxiya Pharmaceutical Technology Company Limited* (西藏易明西雅生物醫藥科技有限公司) to enter into a legally binding contract before acquiring the exclusive distribution right of Lamivudine Tablets (拉米夫定片) in Zhejiang province, Jiangsu province and Shanghai. The agreement was terminated on 21 November 2012, and the deposit has been fully returned to our Group in December 2012 and March 2013, respectively. On the other hand, our Group paid a deposit of RMB1.0 million (equivalent to approximately HK$1,232,000) to Lodays Pharmaceutical (Hubei) Company Limited* (朗天藥業(湖北)有限公司) to acquire the exclusive distribution right of Milrinone Lactate Injection (乳酸米力農注射液) in Zhejiang province.

For the year ended 31 December 2012, the significant increase in deposits paid to suppliers was primarily due to (i) our payment of new deposits as requested by the suppliers to Kaihongxin, Zhongcheng Huida and Guizhou Jingfeng of approximately RMB7 million (equivalent to approximately HK$8,701,000), RMB8 million (equivalent to approximately HK$9,944,000) and RMB2 million (equivalent to approximately HK$2,486,000), respectively, to secure their provision of products with market potentials; and (ii) the reclassification of the deposits paid to Type 1 Supplier A of approximately RMB8 million as current assets. Below is the analysis of the deposits paid to our major suppliers, Zhangcheng Huida and Kaihongxin in 2012:

(i) Deposits paid to Zhongcheng Huida

We commenced the business with Zhongcheng Huida since 2009 and have established 4 years of business relationship with Zhongcheng Huida. Baoding Huida originally did not require us to pay for any deposit of the distribution of its products since we have negotiated with them to waive the payment of deposit of RMB8 million (equivalent to HK$9,944,000) till the year ended 31 December 2011 as that our Group required time to build up the provincial distribution network. In view of (i) there was a change in the ultimate shareholder of Baoding Huida in January 2012; and (ii) Zhongcheng Huida was one of our two largest suppliers including the supply of our 5 major types of products (including 6 specifications) namely, Cefodizime Sodium for Injection (注射用頭孢地嗪鈉), Thoymosin α 1 for Injection (注射用胸腺法新), Ispeamicin Sulfate for Injection (硫酸異帕米星注射液), Alanyl Glutamine for Injection (注射用丙氨醯穀氨醯胺) and Ceftizoxime Sodium for Injection (注射用頭孢唑肟鈉) during the Track Record Period, our sales generated by Zhongcheng Huida's products were approximately HK$[51.9] million, HK$[61.4] million and HK$[30.6] million for each the two years ended 31 December 2011 and 2012 and the six months ended 30 June 2013, respectively, representing approximately [32.5]%, [35.1]% and [36.4]% of our total revenue for the corresponding periods. The sales contributed from the aforesaid major products were approximately HK$43.6 million, HK$57.3 million and HK$[28.7] million, representing approximately 27.3%, 32.7% and [34.4]% of our total revenue for each of the two years ended 31 December 2011 and 2012 and the six months ended 30

June 2013, respectively. We have paid a deposit of RMB8 million to Zhongcheng Huida in January 2012, which is classified as non-current assets, immediately after the renewal of contracts on 7 January 2012 to secure their continual supply of 10 products for the period from 1 January 2012 to 31 December 2012. The contract with Zhongcheng Huida was further renewed on 20 November 2012 for the continual supply of 9 products including those 5 types of major products for the period from 1 January 2012 to 31 December 2015.

The deposit paid to Zhongcheng Huida amounted to RMB$8 million, shall be subject to deduction (i) if the Group could not meet 80% of the prescribed sales target, amounted to RMB40 million each year until the year ending 31 December 2015, the amount of deposits subject to deduction is in proportion to the sales value of the products which the Group did not meet the sales target; and (ii) if the Group canniablise the market in the other provinces, the amount of deposits subject to deduction is in proportion to the sales value of the product which the Group cannibalise the market in the other provinces of Zhongcheng Huida.

During the Track Record Period and as at the Latest Practicable Date, our Group did not experience any confiscation of deposits by Zhongcheng Huida as a result of violation of the terms as set out in the respective distribution agreements.

(ii) Deposits paid to Kaihongxin

We commenced the business with Kaihongxin since 2008 and have established over 5 years of business relationship with Kaihongxin. Kaihongxin originally did not require us to pay for any deposit of the distribution of its products since we have negotiated with them to waive the payment of deposit of RMB7 million (equivalent to HK$8,701,000) till the year ended 31 December 2011 as our Group required time to build up the provincial distribution network. In view that Kaihongxin was one of our two largest suppliers, and the supplier of one of our major products, namely, Levocarnitine Injection (左卡尼汀注射液) during the Track Record Period, our sales generated by Kaihongxin's products were approximately HK$[29.4] million, HK$[55.1] million and HK$[33.2] million for the year ended 31 December 2011 and 2012 and the six months ended 30 June 2013, respectively, representing approximately [18.4]%, [31.5]% and [39.4]% of our total revenue for the corresponding periods. The sales contributed from Levocarnitine Injection (左卡尼汀注射液) was approximately HK$20.1 million, HK$52.2 million and HK$[28.3] million, representing approximately 12.6%, 29.8% and [33.8]% of our total revenue for each of the two years ended 31 December 2011 and 2012 and the six months ended 30 June 2013, respectively. We have paid a deposit of RMB7 million to Kaihongxin in May 2012, which is classified as non-current assets, for the renewal of contracts on 22 November 2012 to secure their continual supply of 8 products for the period from 1 January 2013 to 31 December 2015.

The deposits paid to Kaihongxin amounted to RMB$7 million, shall be subject to deduction if the Group canniablise the market in the other provinces, the amount of deposits subject to deduction is in proportion to the sales value of the product which the Group cannibalise the market in the other provinces of Kaihongxin.

During the Track Record Period and as at the Latest Practicable Date, our Group did not experience any confiscation of deposits by Kaihongxin as a result of violation of the terms as set out in the respective distribution agreements.

Our Directors are of the view that payment of the deposits in the amounts of RMB8 million and RMB7 million to Zhongcheng Huida and Kaihongxin, respectively, is justifiable since (i) the increasing popularity of the product from Zhongcheng Huida and Kaihongxin during the period which can be reflected from its sales performance; and (ii) the deposits will be returned to our Group of the contract if our Group does not violate any of the terms as set out in the distribution agreement. Please refer to the section headed "Business – Our business model – Phase 2 – Procurement of products from our suppliers - Distribution Agreements on our major products with our top five suppliers" for details of our distribution agreements with Zhongcheng Huida and Kaihongxin, respectively.

In addition, our Group paid a deposit of RMB2 million (equivalent to approximately HK$2,486,000) to Guizhou Jingfeng as stated in the distribution agreement entered into between Guizhou Jingfeng and us on 2 July 2012 to acquire the exclusive distribution right of Salviae Miltiorrhizae Liguspyragine Hydrochloride and Glucose Injection (參芎葡萄糖注射液) in Zhejiang province for our business expansion.

For the six months ended 30 June 2013, we paid (i) a new deposit of RMB10 million (equivalent to approximately HK$12,587,000) to Hainan Noken Pharmaceutical Industry Ltd.* (海南諾爾康藥業有限公司) as stated in the legally binding contract entered into between Hainan Noken Pharmaceutical Industry Ltd.* (海南諾爾康藥業有限公司) and us on January 2013 to secure the potential national exclusive distribution right of one of two products, namely, Multiple Electrolytic and Invert Sugar Injection (轉化糖注射液) and Ozagrel of Sodium for Injection (注射用奧紮格雷鈉), which was subsequently returned to us on 28 June 2013 as both Multiple Electrolytic and Invert Sugar Injection (轉化糖注射液) and Ozagrel of Sodium for Injection (注射用奧紮格雷鈉) failed to obtain the separate pricing status before 30 June 2013; and (ii) a deposit of RMB1 million (equivalent to approximately HK$1,259,000) to Beijing Haoyafangda Pharmaceutical Company Limited* (北京浩雅方大醫藥有限公司) as stated in two distribution agreements entered into between Beijing Haoyafangda Pharmaceutical Company Limited* (北京浩雅方大醫藥有限公司) and us on 21 January 2013 and 28 April 2013, respectively, to acquire two exclusive distribution rights of products, namely Cervus and Cucumis Polypeptide for Injection (骨瓜提取物注射液) and Desmopressin Accetate Injection (醋酸去氧加壓素注射液) in Zhejiang province. We had ceased business relationship with Beijing Jiacheng Pharmaceutical Company Limited* (北京佳誠醫藥有限公司), and the deposit and prepayment paid to such supplier were returned to us in March 2013.

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

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.

The following table sets forth an aging analysis of our deposits as at 31 December 2011, 31 December 2012 and 30 June 2013, respectively:

	As at 31 December				As at 30 June	
	2011		2012		2013	
	Amount		**Amount**		**Amount**	
	RMB'000	*(%)*	*RMB'000*	*(%)*	*RMB'000*	*(%)*
Less than 1 year	2,918	22.7	18,010	62.5	3,110	11.8
1 year to 2 years	9,916	77.3	1,518	5.3	13,881	52.4
Over 2 years	–	–	9,256	32.2	9,480	35.8
Total	12,834	100.0	28,784	100.0	26,471	100.0

The deposits for 1 year to 2 years as at 31 December 2011 and the deposits over 2 years as at 31 December 2012 and 30 June 2013 was mainly attributable to the deposits paid to Type 1 Supplier A. The deposit to Type 1 Supplier A will be subject to deduction if we cannibalise the market in the other provinces of our suppliers The Directors are of the view that the deposit to Type 1 Supplier A is recoverable with the consideration that (i) our Group tends to renew contract with Type 1 Supplier A upon expiry of the existing contract on 1 July 2013 as the revised GMP status of Type 1 Supplier A would enhances its chance to win in the upcoming tendering process; (ii) the improved sales performance of Sulbenicillin Sodium for Injection as disclosed in the paragraph headed "Inventory" of the "Financial Information" Section; and (iii) the ability of Type 1 Supplier A to repay the deposit given that the deposit is immaterial to the net asset value of Type 1 Supplier A as at 31 December 2012. In addition, the deposit to Type 1 Supplier A will be fully returned to the Group upon the end of the distribution agreement. The revenue generated by Sulbenicillin Sodium for Injection (注射用磺苄西林鈉), which was currently distributed by Type 1 Supplier A, amounted to approximately HK$10.4 million, HK$0.6 million and HK$[4.0] million for each of the two years ended 31 December 2011 and 2012, and the six months ended 30 June 2013, respectively.

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

	As at 31 December		As at 30 June
	2011	2012	2013
	Amount	Amount	Amount
	RMB'000	*RMB'000*	*RMB'000*
Prepayment			
Kaihongxin	3,512	13,417	[15,308]
Baoding Huida and/or Zhongcheng Huida	6,282	6,161	[6,282]
Shenyang Meiluo and/or Type 1 Supplier A	1,669	–	[–]
Beijing Jiacheng Pharmaceutical Company Limited* (北京佳誠醫藥有限公司)	1,479	1,479	[–]
Xizang Linzhibaisheng Pharmaceutical Co., Ltd (西藏林芝百盛藥業有限公司)	3,588	–	–
Type 3 Supplier A	3,300	25	–
Type 1 Supplier B	114	746	[–]
Xizang Yimingxiya	51	–	–
Lodays Pharmacentical (Hubai) Company Limited* (朗天藥業(湖北)有限公司)	–	34	–
Others	1,168	830	[413]
Total	21,163	22,692	[22,003]
	(equivalent to approximately HK$26,082,000)	(equivalent to approximately HK$28,206,000)	(equivalent to approximately HK$[27,792,000])

Note: The prepayments paid to each supplier included in "Others" contributed less than 2% of the total prepayments for the year ended 31 December 2012.

The prepayment will be netted off against the amount of subsequent purchase. There is no minimum requirement to maintain the prepayment amount with our suppliers.

An increase in sales amount would correspond with an increase in purchase from the suppliers, which would in turn increase prepayments made payable to the suppliers at the same time. For the year ended 31 December 2012, a substantial increase of sales led to an increase in prepayments to certain suppliers. The sales amount of Levocarnitine Injection (左卡尼汀注射液) as supplied by Kaihongxin increased from approximately HK$20,072,000 for the year ended 31 December 2011 to approximately HK$52,227,000 for the year ended 31 December 2012, representing an increase of approximately 160.2%. The monthly sales amount of Levocarnitine Injection (左卡尼汀注射液) has been expected to continue to be significant, and thus our Group made a large amount of prepayment to secure the supply.

We ceased business relationship with Xizang Linzhibaisheng Pharmaceutical Co., Ltd* (西藏林芝百盛藥業有限公司) in 2012 due to the changes on its shareholding. The prepayment paid to such supplier was fully returned to us in April 2012. The decrease in the prepayment to Type 3 Supplier A for the year ended 31 December 2012 was mainly due to our use of the prepayment for purchase of raw materials for Sulbenicillin Sodium for Injection (注射用磺苄西林鈉) upon resumption of its production of such product, and we did not make further prepayment considering the current production plan of Sulbenicillin Sodium for Injection (注射用磺苄西林鈉) and we will continue to purchase the raw materials from Type 3 Supplier A after the renewal of distribution agreement with Type 1 Supplier A.

For the six months ended 30 June 2013, the increase in prepayment paid to Kaihongxin was due to the increase in the sales amount of Levocarnitine Injection (左卡尼汀注射液), while the prepayment paid to Zhongcheng Huida was generally stable. We had ceased business relationship with Beijing Jiacheng Pharmaceutical Company Limited* (北京佳誠醫藥有限公司), and the deposit and prepayment paid to such supplier were returned to us in March 2013.

Under usual circumstances, the amount of prepayment paid to our suppliers varies with the terms of the supplier contracts entered with our different suppliers, which is determined based on the amount of purchase of goods and set off against the trade payable of our Group upon the delivery of goods to our Group. However, during the Track Record Period, our Group has ceased business relationship with two of our suppliers, namely Beijing Jiacheng Pharmaceutical Company Limited (北京佳誠醫藥有限公司) and Xizang Linzhibaisheng Pharmaceutical Co., Ltd (西藏林芝百盛藥業有限公司). Each of them has subsequently returned the prepayments of approximately HK$1,479,000 and HK$3,588,000 to our Group, respectively, upon the cessation of business. Save as disclosed above, our Directors confirmed that our Group has not received any return of prepayments from any of our suppliers during the Track Record Period and as at the Latest Practicable Date.

The following table sets forth an aging analysis of our prepayments as at 31 December 2011, 31 December 2012 and 30 June 2013, respectively:

	As at 31 December				**As at 30 June**	
	2011		**2012**		**2013**	
	Amount *RMB'000*	*(%)*	**Amount** *RMB'000*	*(%)*	**Amount** *RMB'000*	*(%)*
0-30 days	15,966	75.4	13,169	58.0	14,006	63.6
31-60 days	3,528	16.7	2,940	13.0	2,982	13.6
61-240 days	–	–	–	–	–	–
241-365 days	1,669	7.9	6,583	29.0	5,015	22.8
Over 365 days	–	–	–	–	–	–
Total	21,163	100.0	22,692	100.0	[22,003]	100.0
	(equivalent to approximately HK$26,082,000)		(equivalent to approximately HK$28,206,000)		(equivalent to approximately HK$[27,792,000])	

The prepayments for 241-365 days as at 31 December 2011 referred to the prepayment paid to Shenyang Meiluo/Type 1 Supplier A, and the prepayments for 241-365 days as at 31 December 2012 referred to the prepayment paid to Kaihongxin for a batch of our returned products. As at 30 June 2013, Kaihongxin has fully resumed the supply of the product and the first batch of the product has arrived at our warehouse on 24 May 2013. Please refer to the section headed "Business – Our business model - Phase 2 – Procurement of products from our suppliers - Products shortage from our suppliers during Track Record Period" for further details.

As of 31 August 2013, we utilised prepayments to suppliers of approximately HK$[18,651,000], representing approximately [84.8]% of outstanding balance amount of our prepayments to suppliers as of 30 June 2013 as our inventory.

Amount due from (to) related parties

The following table sets forth amount due from (to) related parties as of the dates indicated:

	As of 31 December		As of 30 June
	2011	**2012**	**2013**
	HK$'000	*HK$'000*	*HK$'000*
Amount due from related parties			
Mr. Zhou *(note a)*	33	33	[33]
Mr. Dai *(note a)*	24	24	[24]
Ms. Yang *(note a)*	23	23	[23]
Total	80	80	[80]
Amount due to related parties			
Subsidiaries of Town Health International *(note b)*	(360)	–	[–]
Yang Qi *(note c)*	(1,187)	(554)	[–]
Total	(1,547)	(554)	[–]

Notes:

(a) The amounts were unsecured, non-interest bearing and repayable on demand.

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

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

[As confirmed by our Directors, all balances with related parties and a joint venture had been settled as at the Latest Practicable Date.]

Bank balance and cash/pledge on bank deposits

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 two years ended 31 December 2011 and 2012 and the six months ended 30 June 2013, respectively.

Pledge on bank deposits in the amount of approximately HK$1,849,000 represented deposit pledged to a bank to secure general short-term banking facilities granted to the Group. The deposit carried fixed interest rate of 0.01% per annum as at 31 December 2011. The pledged bank deposit had been released during the year ended 31 December 2012.

Trade, bills and other payables

Trade, bills and other payables are comprised of trade payables, bills payables, deposits received, receipt in advance, VAT payables, other tax payables and accruals. The following table sets forth our trade payables as of the dates indicated:

	As of 31 December		As of 30 June
	2011	**2012**	**2013**
	HK$'000	*HK$'000*	*HK$'000*
Trade payables	7,396	7,214	[6,854]
Bills payables	3,697	–	–
Sub-total	11,093	7,214	[6,854]
Other payables			
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]
Subtotal	10,284	7,715	[12,402]
Total	21,377	14,929	[19,256]

(i) Trade and bills payables

As of 31 December 2012, our trade and bills payables decreased by approximately 35.0%, to approximately HK$7,214,000 from approximately HK$11,093,000 as of 31 December 2011. This decrease was primarily due to the repayment of bill payables under a banking facility granted by the Agricultural Bank of China Limited Hangzhou Jiefang Road branch* (中國農業銀行股份有限公司杭州解放路支行) on 15 May 2011. The bill payables as at 31 December 2011 is for the payment made to Zhangcheng Huida and it is the only time that Zhangcheng Huida accept the settlement in bill payables instead of cash. Please refer to the section headed "Financial information – Liquidity and capital resources - Loan and banking facilities" for the details of such banking facility.

As of 30 June 2013, our trade and bills payables remained stable as compared to the trade payable as at 31 December 2012 and recorded HK$6,854,000 as at 30 June 2013.

The following table sets forth an aging analysis of trade and bills payables presented based on the received date or issue date, respectively, at the end of the Track Record Period as of the dates indicated:

	As of 31 December				As of 30 June	
	2011		2012		2013	
	Amount		Amount		Amount	
	HK$'000	*(%)*	*HK$'000*	*(%)*	*HK$'000*	*(%)*
0 – 30 days	4,350	39.2	1,807	25.0	1,360	19.8
31 – 60 days	12	0.1	4,195	58.2	[–]	[–]
61 – 90 days	7	0.1	1,212	16.8	[–]	[–]
Over 90 days	6,724	60.6	–	–	5,494	80.2
Total	11,093	100.0	7,214	100.0	[6,854]	100.0

For those suppliers which have granted credit period to us, the average credit period on purchase of goods is 30-60 days. For certain suppliers, the Group is required to make prepayment for the purchase of goods. For the six months ended 30 June 2013, the trade payables over 90 days were payable to Type 1 Supplier A. We subsequently paid approximately HK$5,297,000 to Type 1 Supplier A in July 2013.

The following table sets forth the turnover days of our trade and bills payables for the periods indicated:

	Year ended 31 December		Six months ended 30 June
	2011	2012	2013
Turnover days of trade and bills payables	27	24	[20]

Note: Turnover days of trade payables is derived by dividing the average of the opening and closing balances of trade payables for the relevant period by total supplier purchase and multiplying this figure by 365 days for a year or 183 days for six months. As of 31 December 2010, we had trade payables of approximately HK$8,193,000.

Our trade payables turnover days slightly decreased from 27 days for the year ended 31 December 2011 to 24 days and 20 days for the year ended 31 December 2012 and the six months ended 30 June 2013. This was primarily due to (i) a shorter period of time required by our suppliers for payment collection; and (ii) the settlement of bills payables. During the Track Record Period, we had increased the purchases from Baoding Huida and Kaihongxin. These two suppliers did not grant credit period to our Group. The decrease in our trade payable turnover days during the Track Record Period was in line with the aforesaid situation, and is not an implication on the change in our credit profile.

As of 31 August 2013, we paid trade and bills payable of approximately HK$[5,681,000], representing approximately [82.9]% of our trade and bills payables outstanding balance amount as of 30 June 2013.

Our Directors confirm that there has been no material defaults by our Group in payments of its trade payable during the Track Record Period.

Other payables comprise deposits received from customers, receipt in advance from customers, VAT payables, other tax payables and accruals. Our other payables were approximately HK$10,284,000, HK$7,715,000 and HK$[12,402,000] as of 31 December 2011, 31 December 2012 and 30 June 2013, respectively. The decrease from 31 December 2011 to 31 December 2012 was mainly due to (i) a decrease in deposits received in the amount of approximately HK$1,161,000 since some Type 2 Distributor Customers terminated business relationship with us due to the expiration of the tender period of certain products; (ii) a decrease in receipt in advance in the amount of approximately HK$1,470,000 since we intentionally reduced the number of Type 3 Distributor Customers, which paid in advance, due to our business concentration; and (iii) a decrease in VAT payables in the amount of approximately HK$1,146,000. The decrease was partially offset by the increase in accruals in the amount of HK$1,076,000 for the year ended 31 December 2012. The increase from 31 December 2012 to 30 June 2013 was mainly due to (i) an increase in VAT payables in the amount of HK$2,566,000; and (ii) an increase in accruals in the amount of HK$2,050,000.

The Directors confirm that there has been no material defaults by our Group in repayment of its other payables during the Track Record Period.

Bank and other borrowings

The following table set forth our bank and other borrowings as of the dates indicated:

	As at 31 December		**As at 30 June**
	2011	**2012**	**2013**
	HK$'000	*HK$'000*	*HK$'000*
Secured bank loan	–	–	10,736
Unsecured other loan	–	12,000	18,000
Total	–	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 E Finance Limited 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 raised from Agricultural Bank of China Limited – Hangzhou Jiefang Road branch during the six months ended 30 June 2013 and repayable in one year. The proceeds of the aforesaid loans were used for general working capital of our Group.

The following table illustrates our indebtedness position during the Track Record Period and up to the Latest Practicable Date.

Date of facility available	Status	Lender	Amount of the facility	Interest rate	Unutilised amount available for drawdown as at the Latest Practicable Date
Banking Facilities in PRC					
15 May 2011	Released on 3 September 2012	Agricultural Bank of China Limited – Hangzhou Jiefang Road branch	RMB9,500,000 (equivalent to approximately HK$11,708,000)	N/A *(Note 1)*	–
10 January 2013	Still valid	Agricultural Bank of China Limited – Hangzhou Jiefang Road branch	RMB8,500,000 (equivalent to approximately HK$10,566,000)	6.9% per annum	–
Banking Facilities in Hong Kong					
22 November 2012	Still valid	E Finance Limited	HK$18 million	6% per annum	–
9 May 2013	Still valid	a money lending company in Hong Kong	HK$12,000,000	6% per annum	HK$12,000,000
17 June 2013	Still valid	[Dah Sing Bank]	Overdraft of HK$5,000,000; and revolving loan of HK$15,000,000	1.5% per annum over Dah Sing Bank's fixed deposit rate or 1% per annum over HK Inter-Bank Offered Rate, whichever is higher for the overdraft; Dah Sing Bank's HKD Prime Rate per annum for the revolving loan	Overdraft of HK$5,000,000; and revolving loan of HK$15,000,000

Note 1: Under such banking facility, our Group used bills payable, which was interest-free, and did not draw down any loan.

(i) Banking Facilities in PRC

On 15 May 2011, the Agricultural Bank of China Limited Hangzhou Jiefang Road branch* (中國農業銀行股份有限公司杭州解放路支行) granted our Group a banking facility, which was personally guaranteed by one of the senior management of our Group, Mr. He and pledged with our Group's self-owned property located at Room 3702, Dikai International Centre, Jianggan District, Hangzhou City, Zhejiang province, the PRC as collateral. The maximum credit amount of such banking facility was RMB9,500,000 (equivalent to approximately HK$11,708,000) for the period from 17 January 2011 to 16 January 2014. During the Track Record Period, our Group used bills payable, which was interest-free, under such banking facility, and did not draw down any loan. Our Group subsequently released such banking facility on 3 September 2012 in the view that (i) one of our suppliers, Type 3 Supplier A, refused the payment by bills payable for settlement of any future purchases, to provide longer credit terms to our Group due to no purchases by our Group in the year of 2011 following the cessation in supply of Sulbenicillin Sodium for Injection in January 2011, whose the purchase amount was approximately HK$[5.9] million for the year ended 31 December 2010; and (ii) we had no urgent funding needs at that time.

We entered into a maximum amount mortgage contract on 29 November 2012 in the maximum amount of RMB12,510,000 (equivalent to approximately HK$15,550,000) with Agricultural Bank of China Limited Hangzhou Jiefang Road branch* (中國農業銀行股份有限公司杭州解放路支行) with our self-owned property located at Room 3702, Dikai International Centre, Jianggan District, Hangzhou City, Zhejiang Province, the PRC pledged as collateral. On 10 January 2013, a loan of RMB8,500,000 (equivalent to approximately HK$10,566,000) was advanced to our Group at the interest rate of 6.9% per annum. Our Group utilised such loan to pay deposit to a supplier to acquire new exclusive national distribution right of one of two products, namely (i) Multiple Electrolytic and Invert Sugar Injection (轉化糖注射液); and (ii) Ozagrel of Sodium for Injection (注射用奧紮格雷鈉).

(ii) Banking Facilities in Hong Kong

For the year ended 31 December 2012, our Group obtained a loan facility in the maximum amount of HK$18 million on 22 November 2012. During the Track Record Period, an unsecured loan of HK$12 million under such loan facility was advanced to our Group. The remaining amount of HK$6 million has been drawn down on [8 February] 2013. The unsecured loan, which is denominated in HK$ and carries interest at fixed interest rate of 6% per annum has been raised from [E Finance Limited], an Independent Third Party, which is a licensed money lender in Hong Kong and repayable in one year from the relevant drawdown dates. The proceeds were used to settle [●] of our Group. E Finance Limited is an indirect wholly-owned subsidiary of Jun Yang Solar Power Investments Limited (formerly known as China Gogreen Assets Investment Limited), whose shares are currently listed on the Stock Exchange (Stock code: 397) ("**Jun Yang**"). The ultimate controlling shareholder of our Group, Town Health International, held approximately 7.09% of Jun Yang as at the Latest Practicable Date. At the time when our Group obtained such facility from E Finance Limited, Town Health International only held less than 5% of the issued share capital of Jun Yang. The loan with [E Finance Limited] complied with all the relevant laws and regulations in Hong Kong.]

On 9 May 2013, our Group was granted a loan facility of HK$12,000,000 by a money lender company in Hong Kong, which is a licensed money lender in Hong Kong and an Independent Third Party. The unsecured loan, which is denominated in HK$ and carries interest at fixed interest rate of 6% per annum will be repayable in six months from the relevant drawdown dates. The unutilised loan facility from [a money lender company in Hong Kong] was intended to settle the potential payment of deposits and/or prepayment to acquire potential distribution rights in cash when such business opportunities arise in the future.

On 17 June 2013, [Dah Sing Bank] provided a banking facility to our Group of an overdraft of HK$5,000,000 and a revolving loan of HK$15,000,000 with the interest rate of (a) 1.5% per annum over Dah Sing Bank's fixed deposit rate or 1% per annum over HK Inter-Bank Offered Rate, whichever is higher for the overdraft; and (b) Dah Sing Bank's HKD Prime Rate per annum for the revolving loan. The banking facility is secured by charge to Dah Sing Bank of a fixed deposit of not less than HK$5 million or its 110% equivalent in foreign currency by our Group, and corporate guarantee executed by Max Goodrich for unlimited amount.

In respect of the unsecured loan raised from E Finance Limited and a money lender company in Hong Kong, our Group opted to obtain the loan from a licensed money lender and the secured loan raised from bank in Hong Kong instead of banks in the PRC due to the following reasons:

(i) **Interest rate:** the interest rate from a licensed money lender in Hong Kong is 6% per annum and Dah Sing Bank's HKD Prime Rate is 5.25% as compared to the interest rate from Agricultural Bank of China Limited – Hangzhou Jiefang Road branch that is 6.9% per annum;

(ii) **RMB is anticipated to appreciate in value:** it would be financially favourable to our Group to acquire the distribution right in PRC (i.e. buying RMB at a lower exchange rate), and repay the loan by using RMB cashflow generated in the future (i.e. selling RMB at a higher exchange rate); and

(iii) **Fund transferring process:** our Directors do not foresee any material difficulty in transferring the fund raised in Hong Kong to the PRC.

During the Track Record Period and up to the Latest Practicable Date, our Group [had not] experienced any difficulty in obtaining banking and unsecured loan facilities.

The Directors confirm that there had been no material defaults by our Group in payments of our banking facilities and borrowings during the Track Record Period.

Contingent liabilities

During the Track Record Period, our Group faced a litigation with one of our former Distributor Customer. On 25 June 2012, a former Type 2 Distributor Customer (the "**Plaintiff**") (which failed to commit the agreed minimum order quantity requirement under our distribution agreement) 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, damages in (i) the total amount of approximately RMB1,018,000 (equivalent to approximately HK$1,249,000) together with accrued interests thereof; (ii) the deposit paid by the Plantiff 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 that former Type 2 Distributor Customer in contravention of the exclusivity provision under the distribution agreement in question. Please refer to the section headed "Business – Legal proceedings and non-compliance" for details. On 7 July 2013, the Plaintiff withdrew the claim on the alleged infringement from the Court and the Court ordered that the costs of the matter are borne by the Plaintiff. In this connection, given the exclusivity provision contained in the distribution agreement we generally enter into with our Distributor Customers, even if a Distributor Customer fails to satisfy the required minimum order quantity commitment provided under the distribution agreement, we may face claims from time to time initiated by our Distributor Customers for the alleged breach of the terms of the distribution agreements by us despite the fact that we are entitled, under the distribution agreement in question, to exercise our right to forfeit distribution right of the defaulting Distributor Customer and to grant the distribution right to a third party in those markets not yet explored by that defaulting Distributor Customer.

Having sought advice from the legal advisers acting for Zhejiang Xin Rui Pharmaceutical in the aforesaid legal proceedings, our Directors are of the view that the Plaintiff did not have any valid claim against Zhejiang Xiu Rui Pharmaceutical and therefore it is unlikely to have any adverse financial impact on our Group. Therefore, no provision for any losses on litigation was made in the consolidated financial information for the year ended 31 December 2012 and the six months ended 30 June 2013.

Off-balance sheet commitments and arrangements

As at 31 December 2011, 31 December 2012, 30 June 2013, and the Latest Practicable Date, the Group had no off-balance sheet commitments or arrangements.

INDEBTEDNESS

At the close of business on 31 August 2013, being the date for determining the Group's indebtedness, the Group had outstanding (i) bank borrowing of HK$10,788,000 which were secured by fixed charges on the Group's buildings and prepaid lease payments with aggregate carrying values of approximately HK$12,750,000 and (ii) other unsecured loan of HK$18,000,000.

Apart from intra-group liabilities and the liabilities disclosed in the section headed "Financial information – Contingent liabilities", as at 31 August 2013, the Group did not have any outstanding loan capital issued or agreed to be issued, bank overdrafts, loans, debt securities, borrowings or other similar indebtedness, liabilities under acceptance (other than normal trade bills) or acceptance credits, debentures, mortgages, charges, finance leases, hire purchase commitments, guarantees or other material contingent liabilities.

DISTRIBUTABLE RESERVES

There was no reserve available for distribution to the Shareholders as at [the Latest Practicable Date], as our Company was incorporated on 9 August 2012. It has not carried out any business since the date of incorporation, save for the transactions related to the Reorganisation.

KEY FINANCIAL RATIOS

The following table sets forth a summary of our key financial ratios during the Track Record Period:

Financial Ratios			Formulae		For the year ended 31 December		For the six months ended 30 June	
					2011	2012	2012	2013
Profitability ratios:								
1.	Growth							
	a.	Turnover growth			0.4%	9.6%	23.9%	(6.9%)
	b.	Net profit growth			85.7%	47.2%	108.7%	(86.7%)
2.	Profit margins							
	a.	Gross margin	a.	Gross profit/ Sales x 100%	14.6%	22.3%	23.1%	[22.1%]
	b.	Net profit margin before interest expenses and tax	b.	Net profit before interest expenses and taxes/Sales x 100%	9.7%	12.7%	18.6%	[7.6%]
	c.	Net profit margin	c.	Net profit after taxes/Sales x 100%	6.5%	8.8%	12.8%	[1.8%]
3.	Return on equity							
	a.	Return on equity	a.	Net profit/Average Shareholders' equity x 100% *(Note 1)*	9.4%	12.1%	18.7%	[2.2%]
	b.	Return on total assets	b.	Net profit/Average total assets x 100% *(Note 1)*	7.4%	9.8%	15.7%	[1.7%]
Capital adequacy ratio								
1.	Interest coverage		Profit before interest and tax/interest		82.6	584.8	N/A *(Note 2)*	[7.6]

Note 1: The net profit for each of the six months ended 30 June 2012 and 2013 is annualised.

Note 2: For the six months ended 30 June 2012, our Group did not incur any interest expense.

				As at 31 December		As at 30 June
				2011	2012	2013
Liquidity ratios:						
1.	Liquidity ratios					
	a. Current ratio	a.	Current assets/ Current liabilities	5.0	5.2	[3.1]
	b. Quick ratio	b.	Current assets – Inventories/ Current liabilities	4.4	4.6	[2.8]
2.	Turnover ratios					
	a. Inventories turnover days	a.	Average inventories/ Cost of sales x 365 days/183 days	47	42	[45]
	b. Receivables turnover days (average collection period)	b.	Average trade and bills receivables/ Sales x 365 days/ 183 days	107	94	[95]
	c. Payables turnover days (average payment period)	c.	Average trade and bills payables/total supplier purchase x 365 days/183 days	27	24	[20]
Capital adequacy ratio:						
1.	Gearing ratio(i)		Total debt/Total assets x 100%	1.1%	7.6%	[15.0%]
2.	Debt to net worth ratio(i)					
	a. Debt to equity ratio	a.	Net debt (ii)/ (Total assets – Total liabilities) x 100%	Net cash position	Net cash position	Net cash position

(i) Debts are defined to include payables incurred not in the ordinary course of business.

(ii) Net debts are defined to include all borrowings net of cash and cash equivalents.

Gross margin

Our gross margin increased from 14.6% for the year ended 31 December 2011 to 22.3% for the year ended 31 December 2012. The increase in gross profit margin of injection drugs was mainly attributable to the increase in gross profit of (i) Levocarnitine Injection (左卡尼汀注射液); (ii) Ozagrel Sodium for Injection (注射用奧紮格雷鈉); and (iii) Mezlocillin Sodium and Sulbactam Sodium for Injection (注射用美洛西林鈉舒巴坦鈉). The increase in gross profit margin of capsule drugs was mainly attributable to the introduction of Clostridium butyricum Capsule (酪酸梭菌活菌膠囊) in 2012.

Our gross margin decreased from 23.1% for the six months ended 30 June 2012 to 22.1% for the six months ended 30 June 2013. The decrease in gross profit margin was mainly attributable to (a) the decrease in the gross profit margin of injection drugs, as a result of the cessation in the sales of Ozagrel Sodium for Injection (注射用奧紮格雷鈉), and (b) the decrease in the gross profit margin of tablet drugs as a result of the decrease in sales amount of Cefixime Dispersible Tablet (頭孢克肟分散片). The decrease in the gross profit margin was partially offset by the increase of the gross profit margin in capsule drugs, [as a result of the increase in sales of a product with high gross profit margin, namely, Clostridium butyricum Capsule (酪酸梭菌活菌膠囊).]

Net profit margin before interest and tax

Net profit margin before interest and tax increased from 9.7% for the year ended 31 December 2011 to 12.7% for the year ended 31 December 2012. The increase in net profit margin before interest and tax was primarily due to (i) the increase in gross profit margin; and (ii) an increase in imputed interest and adjustment on deposit paid to a supplier, Shenyang Meiluo.

Net profit margin before interest and tax decreased from 18.6% for the six months ended 30 June 2012 to 7.6% for the six months ended 30 June 2013. Such decrease was primarily due to (i) the decrease in gross profit margin; (ii) the increase in the percentage of [●] over revenue; and (iii) the imputed interest adjustment on deposit paid to suppliers upon initial recognition.

Net profit margin

Net profit margin increased from 6.5% for the year ended 31 December 2011 to 8.8% for the year ended 31 December 2012. The increase in net profit margin was mainly attributable to (i) the increase in net profit margin before interest and tax as mentioned above; (ii) the lower level of finance costs; and (iii) the lower effective tax rate from 31.8% in 2011 to 30.9% in 2012.

Net profit margin decreased from 12.8% for the six months ended 30 June 2012 to 1.8% for the six months ended 30 June 2013. Such decrease in net profit margin was mainly attributable to (i) the decrease in net profit margin before interest and tax as mentioned above; (ii) the higher level of finance costs resulted from the imputed interest adjustment upon initial recognition; and (iii) the higher effective tax rate resulted from the tax effect of the payment of [●].

Return on equity

Return on equity increased from 9.4% for the year ended 31 December 2011 to 12.1% for the year ended 31 December 2012. Such increase was mainly due to the increase in net profit for the year ended 31 December 2012 along with the limited usage of liability and borrowings.

Return on equity decreased from 18.7% for the six months ended 30 June 2012 to 2.2% for the six months ended 30 June 2013. Such decrease was mainly due to the decrease in net profit for the six months ended 30 June 2013.

Return on total assets

Return on total assets increased from 7.4% for the year ended 31 December 2011 to 9.8% for the year ended 31 December 2012. Such increase was mainly due to the increase in net profit for the year ended 31 December 2012 along with the limited size of assets and operation scale.

Return on total assets decreased from 15.7% for the six months ended 30 June 2012 to 1.7% for the six months ended 30 June 2013. Such decrease was mainly due to the decrease in net profit for the six months ended 30 June 2013.

Interest coverage

Interest coverage increased from 82.6 for the year ended 31 December 2011 to 584.8 for the year ended 31 December 2012 as the interests were limited compared to the profit before interest and tax. Interest coverage was 7.6 for the six months ended 30 June 2013 due to the decrease in net profit before interest and tax for the six months ended 30 June 2013 and the increase in the interest expenses as a result of the imputed interested adjustment on deposit paid to suppliers upon initial recognition and the increase in bank and other borrowings repayable within one year.

Current ratio

Current ratio increased from 5.0 as at 31 December 2011 to 5.2 as at 31 December 2012. Such increase was primarily due to (i) the increase in bank balances and cash, inventory and trade and other receivables due to the increase in operation scale; and (ii) the settlement of payables in an efficient manner.

Current ratio decreased from 5.2 as at 31 December 2012 to 3.1 as at 30 June 2013. Such decrease was primarily due to the increase in bank and other borrowings repayable within one year.

Quick ratio

Quick ratio increased from 4.4 as at 31 December 2011 to 4.6 as at 31 December 2012. Such increase was primarily due to (i) the increase in bank balances and cash and trade and other receivables due to the increase in operation scale; and (ii) the settlement of payables in an efficient manner.

Quick ratio decreased from 4.6 as at 31 December 2012 to 2.8 as at 30 June 2013. Such decrease was primarily due to the increase in bank and other borrowings repayable within one year.

Stock turnover days

Stock turnover days decreased from 47 days for the year ended 31 December 2011 to 42 days for the year ended 31 December 2012, and then slightly increased to 45 days for the six months ended 30 June 2013 as the inventory has been managed efficiently through our inventory management system.

Debtors' turnover days

Debtors' turnover days decreased from 107 days for the year ended 31 December 2011 to 94 days for the year ended 31 December 2012, and then slightly increased to 95 days for the six months ended 30 June 2013. Debtors' turnover days are general in line with the credit period the Group has granted to its customers. The Group granted a credit period of 180 days for business transactions with Hainan Xinmei, which mainly distributed our products to smaller medical institutions with longer debt collection periods during the Track Record Period. On 1 August, 2012, a supplemental agreement was entered into between the Group and Hainan Xinmei to shorten the credit period from 180 days to 90 days.

Creditors' turnover days

Creditors' turnover days slightly decreased from 27 days for the year ended 31 December 2011 to 24 days for the year ended 31 December 2012, and then decreased to 20 days for the six months ended 30 June 2013. The decrease was primarily due to (i) a shorter period of time required by our suppliers for payment collection; and (ii) the settlement of bills payables of approximately HK$3,697,000 in 2012. During the Track Record Period, we increased the purchases from Zhongcheng Huida and Kaihongxin, both of which did not grant credit period to our Group.

Gearing ratio

Gearing ratio increased from 1.1% as 31 December 2011 to 7.6% as at 31 December 2012, and then increased to 15.0% as at 30 June 2013. The increase in gearing ratio were attributable to a new raised borrowing of approximately HK$12 million in 2012, and the increase in bank and other borrowings of approximately HK$16.7 million in 2013.

Debt to net worth ratio

The group maintained the net cash position as at 31 December 2011, 31 December 2012 and 30 June 2013 due to our abundant bank balance and cash.

QUANTITATIVE AND QUALITATIVE INFORMATION ABOUT MARKET RISKS

We are exposed to various types of market risks in the ordinary course of our business, including interest risk, credit risk, and liquidity risk. We manage our exposure to these and other market risks through regular operating and financial activities.

Interest risk

We are 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.

Our 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.

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

Credit risk

Our credit risk is primarily attributable to trade and other receivables. In order to minimise the credit risk, our management has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, we review the recoverable amount of each individual trade debt at each reporting date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, our Directors consider that our credit risk is significantly reduced.

The Group has concentration of credit risk on bank balances as approximately 86%, 92% and 87% of balances are all placed with 2 banks located in the PRC as at 31 December 2011, 31 December 2012 and 30 June 2013, respectively.

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

In addition, we have concentration of credit risks on the outstanding trade and bills receivables and other receivables as 80%, 71% and [67]% of the trade and other receivables were due from top five customers in aggregate as at 31 December 2011 and 2012 and 30 June 2013, respectively. Those top five customers were distributors engaged in trading and wholesaling of drugs in Zhejiang province and Shanghai during the Track Record Period with good credit quality. In addition, we also have concentration of credit risks on the deposits paid to suppliers as 59%, 80% and [79]% of the deposits paid to suppliers were paid to one and three suppliers in aggregate as at 31 December 2011, 31 December 2012 and 30 June 2013, respectively. Such suppliers are also principally engaged in pharmaceutical trading and distribution in the PRC. We have delegated a team responsible for determination of credit limits and monitoring procedures to ensure that follow-up action to recover overdue debts.

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

Liquidity risk

In the management of the liquidity risk, we monitor and maintain a level of cash and cash equivalent deemed adequate by the management to finance our operations and mitigate the effects of fluctuations in cash flow.

DIVIDEND POLICY

The dividend policy of our Company will be reviewed from time to time by the Board. The dividend that our Directors may recommend or declare in respect of any particular financial year or period will be subject to the factors outlined below as well as any other factors deemed relevant by the Board:

- the level of cash and retained earnings;
- the actual and projected financial performance;
- the projected levels of capital expenditure and other investment plans; and
- restrictions on payment of dividends imposed on our Group by its financing arrangement (if any).

Our Company may declare dividends with the approval of our Shareholders in a general meeting, and subject to our constitutional documents and the Bermuda Companies Act, the amount of such dividend shall not exceed the amount recommended by our Directors. Our Directors may also declare an interim dividend.

Dividends are paid by our Company as and when approved by our Shareholders and Directors. Any such dividend payments will be subject to the level of future earnings, cash flow, financial condition and other factors, including such legal or contractual restrictions as may apply from time to time. Past dividends paid are not necessarily indicative of future dividend payments.

During the period from the date of its incorporation on 9 August 2012 to [the Latest Practicable Date], our Company had not declared and paid any dividends to the Shareholders.

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 for 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.	Sulbenicillin 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]	[5.3]
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 January2013 – end of next tenderperiod	–	–	–	–	–	–
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 Sulbenicillin 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 Gloucose 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.

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.

PROPERTY INTEREST AND PROPERTY VALUATION

Ascent Partners Valuation Service Limited, an independent property valuer, has valued the property interests of our Group, comprising the operations, as at [30 June 2013]. Text of its letters, summary of valuation and valuation certificates issued by Ascent Partners Valuation Service Limited are included in "Appendix III – Property Valuation" to this [●].

The table below sets forth the reconciliation of the aggregate amount of net book value of our Group's property interests from our combined financial information as of 30 June 2013 to the valuation of property interests as of [30 June 2013]:

	HK$'000
Valuation of properties of RMB[12,400,000] as of [30 June 2013] as set out in Appendix III of this document *(Note 1)*	[15,662]
Prepaid lease payments *(Note 2)*	[8,756]
Property, plant and equipment *(Note 2)*	[3,994]
Net book value of property interests of our Group as at [30 June 2013]	[12,750]
Valuation surplus	[2,912]

Notes:

(1) The valuation includes the market value of the property no.2 assuming that the relevant title certificates have been obtained and the property is freely disposed of in the market.

(2) The net book values of buildings and prepaid lease payments are extracted from the accountants' report set out in Appendix I to this document.

NO MATERIAL ADVERSE CHANGES

The Directors have confirmed that there has been no material adverse changes in the financial or trading position of the Group since 30 June 2013 (being the date to which the latest combined financial statements of the Group were prepared as set in the "Appendix I – Accountants' Report" to this document) and there is no event or event since 30 June 2013 which would materially affect the information as shown in the Accountants' Report, in each case except as otherwise disclosed in this document.