Web Proof Information Pack of

New Ray Medicine
新銳醫藥

New Ray Medicine International Holding Limited
新銳醫藥國際控股有限公司
(Incorporated in Bermuda with limited liability)

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CONTENTS

This Web Proof Information Pack contains the following information relating to the Company.

SUMMARY

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

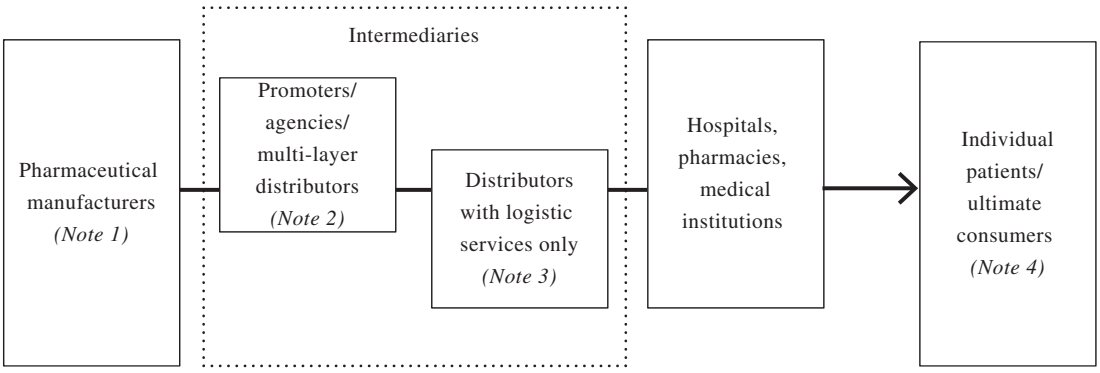
There are risks associated with any investment. Some of the particular risks in [●] are set out in the section headed "Risk Factors" in this document. You should read that section carefully before you [●].

OVERVIEW

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

Our Business Model

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



Notes:

1. "**Pharmaceutical manufacturers**" refers to our Type 1 Suppliers, which comprise pharmaceutical manufactures granting us exclusive national or multiple provincials distribution rights. Our Group is the exclusive national or multiple provincials distributors of the products procured from our Type 1 Suppliers.

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

3. "**Distributors with logistics services only**" refers to our Type 1 Distributor Customers, which are distributors mainly providing logistics functions for our Group. Our Group then distributes the products purchased from Type 1 Suppliers or Type 2 Suppliers to our Type 1 Distributor Customers, which in turn distribute our products to the ultimate customers directly in the designated geographical areas.

4. "**Individual patients/ultimate customers**" refers to the ultimate customers of our products. The products purchased by our Type 1 Distributor Customers and Type 2 Distributor Customers are ultimately delivered to the ultimate customers which comprise hospitals and medical institutions.

Value added services to our suppliers

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

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

Our Products

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

SUMMARY

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

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

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

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

Sales to our Distributor Customers

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

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

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

Price controls

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

RELATIONSHIP WITH THE CONTROLLING SHAREHOLDERS

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

SUMMARY OF HISTORICAL FINANCIAL INFORMATION

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

Segmental information on revenue and gross profit margin

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

Consolidated Statements of Comprehensive Income

	For the year ended 31 December		For the 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
Gross profit	23,286	38,993	20,717	18,455
Gross profit margin	14.6%	22.3%	23.1%	22.1%
Profit before taxation	15,258	22,185	16,747	5,538
Income tax	(4,846)	(6,858)	(5,256)	4,008
Profit for the year/period	10,412	15,327	11,491	1,530
Net profit margin	6.5%	8.8%	12.8%	1.8%

Key Financial Ratios

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

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

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

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

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

Operating cash flow

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

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

Deposit and prepayment to our suppliers

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

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

SUMMARY

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

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

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

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

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

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

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

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

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

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

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

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

OUR COMPETITIVE STRENGTHS

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

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

OUR BUSINESS OBJECTIVES AND STRATEGIES

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

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

RISK FACTORS

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

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

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

LEGAL PROCEEDINGS

On 25 June 2012, a former Distributor Customer (the "**Plaintiff**") instituted legal proceedings against Zhejiang Xin Rui Pharmaceutical at Hangzhou Jianggan District People's Court (杭州市江干區人民法院) (the "**Court**") claiming, among other things, the alleged infringement by our Group of the exclusive right of a pharmaceutical product granted to the Plaintiff in contravention of the exclusivity provision under a distribution agreement entered into between the parties. The Court delivered a judgment dated 7 July 2013 approving withdrawal of the legal proceedings against Zhejiang Xin Rui Pharmaceutical upon application by the Plaintiff. Please refer to the section headed "Business – Legal proceedings and non-compliance – (i) Legal proceedings relating to our Group" in this document for details.

RECENT DEVELOPMENT

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

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

	Product name	Deposit as at the [Latest Practicable Date]	Contract period	Sales of the year ended 31 December 2012		Sales of the six months ended 30 June 2013		Sales of the period from 1 January 2013 to the [Latest Practicable Date]	
				HK$'000	*% of revenue*	*HK$'000*	*% of revenue*	*HK$'000*	*% of revenue*
1.	Milrinone Lactate Injection	RMB1,000,000	6 January 2012 – end of next tender period	46	0.03	167	0.2	[298]	[0.3]
2.	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]	[0.08]
4.	Clostridium butyricum Capsule 0.2g x 24 pcs 0.2g x 36 pcs	No deposits are needed	25 September 2012 – end of next tender period	1,679	0.96	2,860	3.4	[3,759]	[3.4]
5.	Cervus and Cucumis Polypeptide for Injection *(Note 3)*	RMB500,000	21 January2013 – end of next tender period	–	–	–	–	–	–
6.	Desmopressin Acetate for Injection *(Note 3)*	RMB500,000	28 April 2013 – 30 April 2014	–	–	–	–	–	–
7.	Kangfuxin Ye 30ml x 2 pcs 30ml x 4 pcs *(Note 3)*	RMB1,000,000	1 July 2013 – 30 June 2016	–	–	–	–	–	–
				2,385	1.37	7,119	8.50	9,937	9.08

Note 1: Our Group is the exclusive national distributors of 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.

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

DEFINITIONS

Unless the context otherwise requires, the following expressions have the following meanings in this document.

"Accountants' Report"	the accountants' report on the Group set out in Appendix I to this document
"associate(s)"	has the meaning ascribed to it under the relevant rules
"Audit Committee"	the audit committee of the Board
"Board" or "Board of Directors"	the board of Directors
"Business Day"	a day (other than a Saturday, Sunday or public holiday) in Hong Kong on which banks in Hong Kong are normally open for business
"BVI"	the British Virgin Islands
"Bye-laws"	the bye-laws of our Company conditionally adopted on 26 September 2013 with effect from [●] and as amended from time to time, a summary of which is set out in Appendix IV to this document
"CAGR"	compound annual growth rate
"CFDA"	China Food and Drug Administration of the PRC (中華人民共和國國家食品藥品監督管理總局, formerly known as the State Food and Drug Administration (中華人民共和國國家食品藥品監督管理局), or SFDA)
"Companies Act" or "Bermuda Companies Act"	the Companies Act 1981 of Bermuda, as amended, supplemented or otherwise modified from time to time
"Companies Ordinance"	the Companies Ordinance (Chapter 32 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
"Company" or "our Company"	New Ray Medicine International Holding Limited (新銳醫藥國際控股有限公司), a company incorporated in Bermuda on 9 August 2012 as an exempted company with limited liability
"connected transactions"	the transactions stipulated and specified in the relevant rules
"Controlling Shareholder(s)"	has the meaning ascribed to it under the relevant rules and, in the context of this document, means the controlling shareholders of the Company, namely, Town Health Pharmaceutical, Town Health (BVI) and Town Health International

"Deed of Indemnity"	a deed of indemnity dated [●] 2013 entered into between [Town Health International] and our Company, pursuant to which [Town Health International] has given certain indemnities in favour of our Company (for itself and as trustee for each of its subsidiaries) subject to and in accordance with the terms and conditions of the Deed of Indemnity, further particulars of which are set out in the sub-paragraph headed "Estate duty, tax indemnity and other indemnities" under the paragraph headed "Other Information" in Appendix V to this document
"Director(s)"	director(s) of the Company
"Distributor Customer"	distributor and/or customer (as the case may be) which has a contractual relationship with the Group for purchase of the products distributed by the Group
"GDP"	gross domestic product
"Group", "our Group", "we" or "us"	the Company, its subsidiaries and its joint venture, where the context so requires, in respect of the period before the Company became the holding company of its present subsidiaries and its joint venture
"Haikou Xin Lang"	Haikou Xin Lang Pharmaceutical Technology Co. Ltd.* (海口新朗醫藥科技有限公司), a company incorporated in the PRC with limited liability on 18 May 2011 and owned as to 50.1% by Zhejiang Xin Rui Pharmaceutical and 49.9% by an Independent Third Party, Lodays Pharmaceutical (Hubei) Company Limited* (朗天藥業(湖北)有限公司), respectively
"Hangzhou Xin Hong"	Hangzhou Xin Hong Bio-medical Technology Co. Ltd.* (杭州新泓生物醫藥科技有限公司) (formerly known as Hangzhou Rich Medical Technology Co. Ltd.* 杭州銳琪醫藥科技發展有限公司), a company incorporated in the PRC with limited liability on 14 March 2001 which was deregistered on 19 June 2012
"HK" or "Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"HKFRSs"	Hong Kong Financial Reporting Standards (including Hong Kong Accounting Standards and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants
"HK$" or "HK dollars"	Hong Kong dollars, the lawful currency of Hong Kong

"Hong Kong New Rich"	China New Rich Medicine Holding Co. Limited (中國新銳醫藥控股有限公司) (formerly known as Rich (Hongkong) Holding Co., Limited (銳琪(香港)控股有限公司), a company incorporated in Hong Kong with limited liability on 7 February 2005 and an indirect wholly-owned subsidiary of our Company
"Hong Rui Bio-medical"	Hong Rui (Hangzhou) Bio-medical Technology Co. Ltd.* (泓銳(杭州)生物醫藥科技有限公司), a company incorporated in the PRC with limited liability on 8 July 2008 and an indirect wholly-owned subsidiary of our Company
"Hong Rui Trading"	Zhejiang Hong Rui Trading Co., Ltd* (浙江泓銳貿易有限公司) (formerly known as Zhejiang Rich Medicine Co., Ltd.* 浙江銳琪醫藥有限公司), a company incorporated in the PRC with limited liability on 6 September 2005 and an indirect wholly-owned subsidiary of our Company
"Independent Third Party(ies)"	(an) individual(s) or (a) company(ies) who or which is/are not connected with (within the meaning of the relevant rules) any Director, chief executive or substantial shareholder of the Company, or any of its subsidiaries and/or their respective associates
"Latest Practicable Date"	[●] 2013, being the latest practicable date prior to the printing of this document for ascertaining certain information contained in this document
"Lodays Pharma (Hubei)"	Lodays Pharmaceutical (Hubei) Company Limited* (朗天藥業(湖北)有限公司), a company incorporated in the PRC with limited liability and an Independent Third Party, which owns 49.9% equity interest in Haikou Xin Lang
"Max Goodrich"	Max Goodrich International Limited, a company incorporated in the BVI with limited liability on 21 September 2007 and a direct wholly-owned subsidiary of our Company
"Max Goodrich Shareholders"	all the shareholders of Max Goodrich immediately prior to the signing of the deed of sale and purchase dated 26 September 2013 referred to in the section headed "Summary of material contracts" in Appendix V to this document, namely, Town Health Pharmaceutical, Mr. Zhou, Mr. Dai, Ms. Yang, Mr. He and Festive Mood Group Limited, who became our Shareholders pursuant to the Reorganisation

"Medical Insurance Drugs Catalogs"	the National Medical Insurance Drugs Catalog and the Provincial Medical Insurance Drugs Catalogs
"Memorandum" or "Memorandum of Association"	the memorandum of association of the Company adopted upon the incorporation of the Company and as amended, supplemented or modified from time to time, a summary of the current version of which is set out in Appendix IV to this document
"Ministry of Human Resources and Social Security"	the Ministry of Human Resources and Social Security of the PRC (中華人民共和國人力資源和社會保障部)
"MOFCOM"	the Ministry of Commerce of the PRC (中華人民共和國商務部)
"Mr. Dai"	Dai Haidong (戴海東), an executive Director, the chief executive officer of our Company, one of the founding members of our Group and a Shareholder
"Mr. He"	Mr. He Linxing, one of the members of our senior management
"Mr. Zhou"	Zhou Ling (周凌), the chairman of our Company, an executive Director and one of the founding members of our Group, a substantial Shareholder and the spouse of Ms. Yang
"Ms. Yang"	Yang Fang (楊芳), an executive Director and the spouse of Mr. Zhou
"National Bureau of Statistics"	the National Bureau of Statistics of China (中華人民共和國國家統計局)
"National List of Essential Drugs"	the National Essential Drugs List (國家基本藥物目錄), issued by the Ministry of Health in 2013
"National Medical Insurance Drugs Catalog"	the State Basic Medical Insurance, Work Injury Insurance and Maternity Insurance Drugs Catalog (國家基本醫療保險、工傷保險和生育保險藥品目錄), issued by the Ministry of Human Resources and Social Security in 2009, as amended
"NDRC"	the National Development and Reform Commission of the PRC (中華人民共和國國家發展和改革委員會)
"NHFPC"	the National Health and Family Planning Commission of the PRC (中華人民共和國國家衛生和計劃生育委員會, the successor of the Ministry of Health of the PRC (中華人民共和國衛生部))

"PRC" or "China"	the People's Republic of China excluding, for the purpose of this document only, Hong Kong, the Macao Special Administrative Region of the People's Republic of China and Taiwan
"Province" or "province"	each being a province or, where the context requires, a provincial level autonomous region or municipality under the direct supervision of the central government of the PRC
"Provincial Medical Insurance Drugs Catalogs"	the list of pharmaceutical products under Grade B of the National Medical Insurance Drugs Catalog as varied with limited changes by different provincial level authorities with respect to the medicines that are included in that grade, which results in some regional variations between different provinces with respect to the medicines that are included under the Provincial Medical Insurance Drugs Catalogs of the respective provinces
"Reorganisation"	the reorganisation arrangements undergone by our Group, which are more particularly described in the section headed "History and development" in this document
"RMB" or "Renminbi"	Renminbi, the lawful currency of the PRC
"SAFE"	the State Administration of Foreign Exchange of the PRC (中華人民共和國國家外匯管理局)
"SAIC"	the State Administration for Industry and Commerce of the PRC (中華人民共和國國家工商行政管理總局)
"Share(s)"	ordinary share(s) of nominal value HK$0.01 each in the share capital of the Company
"Shareholder(s)"	holder(s) of the Share(s)
"State Council"	the State Council of the PRC (中華人民共和國國務院)
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"subsidiary(ies)"	has the meaning ascribed to it in section 2 of the Companies Ordinance
"substantial shareholder(s)"	has the meaning ascribed to it under the relevant rules

"Town Health (BVI)"	Town Health (BVI) Limited, a company incorporated in the BVI with limited liability and a wholly-owned subsidiary of Town Health International, which is a Controlling Shareholder
"Town Health International"	Town Health International Investments Limited (康健國際投資有限公司) (formerly known as Town Health International Holdings Company Limited), a company incorporated in the Cayman Islands and continued in Bermuda as an exempted company with limited liability, whose issued shares are listed on the Main Board of the Stock Exchange (stock code: 3886, being transferred from GEM (stock code: 8138) on 12 August 2008) and one of the Controlling Shareholders
"Town Health Pharmaceutical"	Town Health Pharmaceutical Limited (康健藥業有限公司) (formerly known as Sino Allied Development Limited), a company incorporated in the BVI with limited liability and a wholly-owned subsidiary of Town Health International through Town Health (BVI), which is a Controlling Shareholder
"Track Record Period"	the period comprising each of the two years ended 31 December 2011 and 2012 and the six months ended 30 June 2013
"US$" or "U.S. dollars"	United States dollars, the lawful currency of the United States of America
"Zhejiang Xin Rui Pharmaceutical"	Zhejiang Xin Rui Pharmaceutical Co., Ltd* (浙江新銳醫藥有限公司) (formerly known as Zhejiang Yangtze River Delta Pharmaceutical Co., Ltd* 浙江長三角醫藥有限公司), a company incorporated in the PRC with limited liability on 26 April 2006 and an indirect wholly-owned subsidiary of our Company
"%"	per cent.

* *The English names of the PRC entities mentioned in this document are translations from their Chinese names. If there is any inconsistency, the Chinese names shall prevail.*

Unless otherwise expressly stated or the context otherwise requires, all data in this document is as at the date of this document.

Certain amounts and percentage figures included in this document have been subject to rounding adjustments. Accordingly, figures shown as totals in certain tables may not be an arithmetic aggregation of the figures preceding them.

For the purpose of illustration only and unless otherwise specified in this document, amounts denominated in RMB have been translated into HK$ at the rate of RMB0.8152 = HK$1. No representation is made that the RMB amounts could have been, or could be, converted into HK$ at such rates or at any other rate on such date or on any other date.

GLOSSARY OF TECHNICAL TERMS

This glossary of technical terms contains explanations of certain terms and definitions used in this document in connection with our Company and our business. These terms and their meanings may not correspond to the standard industry meaning and usage of these terms.

"acute bronchitis"	an inflammation of the large bronchi (medium-size airways) in the lungs that is usually caused by viruses or bacteria and may last several days or weeks
"acute myocardial infarction (AMI)"	commonly known as a heart attack, resulting from the continuous interruption of blood supply to a part of the heart, causing heart cells to die acutely. This is most commonly due to occlusion (blockage) of a coronary artery following the rupture of a vulnerable atherosclerotic plaque, which is an unstable collection of lipids (cholesterol and fatty acids) and white blood cells (especially macrophages) in the wall of an artery
"acute thrombotic cerebral infraction"	an ischemic stroke resulting from a disturbance in the blood vessels supplying blood to the brain as a result of thrombi (blood clots)
"amino acid"	a biologically important molecule made from amine (-NH2) and carboxylic acid (-COOH) functional groups, along with a side-chain specific to each amino acid. The key elements of an amino acid are carbon, hydrogen, oxygen, and nitrogen
"aminoglycoside antibiotics"	a group of aminoglycosides, molecules or portions of a molecule composed of amino-modified sugars, functioning as antibiotics that are effective against certain types of bacteria
"angina pectoris"	commonly known as angina, is chest pain due to ischemia of the heart muscle, generally due to obstruction or spasm of the coronary arteries. The main cause of angina pectoris is Coronary Artery Disease, due to atherosclerosis of the arteries feeding the heart
"antiplatelet"	something (a drug) with the function of decreasing platelet aggregation and inhibiting thrombus formation
"biliary tract system"	a system mainly composed of gallbladder, common bile duct and common hepatic duct, by which bile is secreted by the liver and then transported to the first part of the small intestine

GLOSSARY OF TECHNICAL TERMS

"capsule(s)"	a form in which medicines may be delivered for oral ingestion, produced by mixing extracted active medicinal ingredients with supplemental materials which are sealed in a gelatin capsule
"cardiomyopathy"	literally "heart muscle disease", is the measurable deterioration of the function of the myocardium (the heart muscle) for any reason, usually leading to heart failure; common symptoms are dyspnea (breathlessness) and peripheral edema (swelling of the legs)
"catabolism"	the set of metabolic pathways that break down molecules into smaller units and release energy
"cephalosporin antibiotics"	a class of β-lactam antibiotics originally derived from the fungus Acremonium, and indicated for the prophylaxis and treatment of infections caused by bacteria susceptible to this particular form of antibiotic
"cerebral angiospasm"	the spasm of the blood vessels in the brain spasm that leads to vasoconstriction, thus leading to tissue ischemia and death (necrosis)
"cerebral ischemia"	a condition in which there is insufficient blood flow to the brain to meet metabolic demand, leading to poor oxygen supply or cerebral hypoxia and thus to the death of brain tissue or cerebral infarction/ischemic stroke
"chemotherapy"	the treatment of cancer with an antineoplastic drug or with a combination of such drugs into a standardized treatment regimen
"cholangitis"	an infection of the bile duct, usually caused by bacteria ascending from its junction with the duodenum (first part of the small intestine)
"cholecystitis"	an inflammation of the gallbladder that is caused by bacteria or chemical irritation
"chronic bronchitis"	a chronic inflammation of the bronchi (medium-size airways) in the lungs
"chronic myocardial infraction"	has the similar pathogenesis with acute myocardial infarction but affects a smaller part of the heart and lasts longer
"cystitis"	a urinary bladder inflammation mainly caused by bacteria of specificity and non-specificity

GLOSSARY OF TECHNICAL TERMS

"dyskinesia"	a movement disorder which consists of adverse effects including diminished voluntary movements and the presence of involuntary movements, similar to tics or chorea
"genitourinary system infection"	a collective of the infections on the organ system of the reproductive organs and the urinary system
"GMP"	acronym for "Good Manufacturing Practices". A set of guidelines and regulations, issued from time to time pursuant to the Law of the PRC on the Administration of Pharmaceuticals (中華人民共和國藥品管理法) as part of quality assurance which is designated to ensure that pharmaceutical products subject to these guidelines and regulations are consistently produced and controlled with conformity to the quality and standards appropriate for their intended use
"gonococcal urethritis"	an inflammation of the urethra that is caused by gonorrheal infection
"gonorrhea"	a common human sexually transmitted infection caused by the bacterium Neisseria gonorrhoeae
"GSP"	acronym for "Good Supply Practices", a set of management procedures and standards regulating the pharmaceutical products supply chain
"gynecologic infection"	a collective of the infections on the reproductive organs of women
"HBe antiogen-positive"	a stage of hepatitis B where HBeAb, the fourth inspection item of the five inspection items for hepatitis B, becomes positive, which indicates that hepatitis B viruses are in the process of inactive reproduction and have low infectivity
"hepatitis"	a medical condition defined by the inflammation of the liver and characterized by the presence of inflammatory cells in the tissue of the organ
"hepatitis B"	an infectious inflammatory illness of the liver caused by the hepatitis B virus (HBV) that affects hominoidea, including humans
"hepatitis C"	an infectious disease affecting primarily the liver, caused by the hepatitis C virus (HCV), the infection is often asymptomatic, but chronic infection can lead to scarring of the liver and ultimately to cirrhosis

GLOSSARY OF TECHNICAL TERMS

"hypermetabolism"	the physiological state of increased rate of metabolic activity
"immunomodulator"	also known as an immunotherapy, is a substance (e.g. a drug) which has an effect on the immune system
"injectable(s)"	a medicine in liquid form for injection
"Intestinal diseases"	the diseases on any segment of the intestine from duodenum to rectum, including gastroenteritis, ileus, ileitis, colitis, appendicitis, coeliac disease, inflammatory bowel disease, enteroviruses, etc.
"liver cirrhosis"	a consequence of chronic liver disease characterized by replacement of liver tissue by fibrosis, scar tissue and regenerative nodules (lumps that occur as a result of a process in which damaged tissue is regenerated), leading to loss of liver function
"malignant tumor"	the tumor inside of which cells divide and grow in an extraordinarily fast way with the possibilities of proliferation and spreading
"muscular dystrophy (MD)"	a group of muscle diseases that weaken the musculoskeletal system and hamper locomotion, with the characteristics of progressive skeletal muscle weakness, defects in muscle proteins, and the death of muscle cells and tissue
"nasosinusitis"	an inflammation of the mucous membrane that lines the paranasal sinuses, which may be due to infection, allergy, or autoimmune issues
"otitis media"	inflammation of the middle ear
"peritonitis"	an inflammation of the peritoneum, the thin tissue that lines the inner wall of the abdomen and covers most of the abdominal organs
"pneumococcus"	a Gram-positive, alpha-hemolytic, aerotolerant anaerobic member of the genus Streptococcus
"pneumonia"	an inflammatory condition of the lung – especially affecting the microscopic air sacs (alveoli) – associated with fever, chest symptoms, and a lack of air space (consolidation) on a chest X-ray
"pyelonephritis"	an ascending urinary tract infection that has reached the pyelum or pelvis of the kidney

GLOSSARY OF TECHNICAL TERMS

"radiotherapy"	the medical use of ionizing radiation, generally as part of cancer treatment to control or kill malignant cells
"respiratory tract"	the part of the anatomy involved with the process of respiration divided into three segments which include upper respiratory tract, respiratory airways and lungs
"respiratory tract infection"	an infection affecting the respiratory tract
"rheumatism"	a medical problem affecting the points and corrective tissues
"scarlet fever"	an infectious disease caused by erythrogenic toxin, a substance produced by the bacterium Streptococcus pyogenes when infected by a certain bacteriophage
"SCM Software"	supply chain management software
"semisynthetic cephalosporin antibiotics"	the antibiotics made from cephalosporin through chemical synthesis for the treatment of the infectious caused by indefinite or mixed pathogenic bacteria
"septicemia"	a disease caused by the invasion of virulent microorganisms from a focus of infection to the bloodstream
"severe hepatitis"	a severe disease on the liver mainly characterized by the meronecrobiosis of most of the hepatic cells, which may cause hepatic failure or even death
"sinusitis"	inflammation of the paranasal sinuses, which may be due to infection, allergy, or autoimmune issues
"streptococcus"	a genus of spherical Gram-positive bacteria belonging to the phylum Firmicutes and the lactic acid bacteria group
"subarachnoid hemorrhage"	bleeding into the subarachnoid space – the area between the arachnoid membrane and the pia mater surrounding the brain, which may occur spontaneously, usually from a ruptured cerebral aneurysm, or may result from head injury
"tablets"	a medicine in tablet form for oral administration
"tumor"	a solid or fluid-filled cystic lesion that appears enlarged in size and may or may not be formed by an abnormal growth of neoplastic cells

GLOSSARY OF TECHNICAL TERMS

"TXA 2 synthetase inhibitor"	an inhibitor for the final enzyme (thromboxane synthase) in the synthesis of thromboxane, which is a member of the family of liquids known as eicosanoids and can be divided into thromboxane A2 (TXA2) and thromboxane B2
"urinary tract"	a continuous anatomical tract, including the kidneys, ureters, and urethra, involved in the formation and excretion of urine
"urinary tract infection"	an infection affecting part of the urinary tract

FORWARD-LOOKING STATEMENTS

This document contains, and the documents incorporated by reference herein may contain, forward-looking statements representing our goals, and actual results or outcomes may differ materially from those expressed or implied. Such forward-looking statements are subject to certain risks, uncertainties and assumptions. Forward-looking statements typically can be identified by the use of words such as "will", "expect", "anticipate", "plan", "believe", "may", "intend", "ought to", "continue", "project", "should", "seek", "potential" and other similar terms. Although we believe that our expectations are reasonable, we can give no assurance that these expectations will prove to have been correct, and actual results may vary materially. These forward-looking statements include, but are not limited to, statements relating to:

- our business and operating strategies and the various measures we use to implement such strategies;
- our dividend distribution plans;
- our capital commitment plans;
- our operations and business prospects, including development plans for our existing and new businesses;
- the future competitive environment for the industries in which we operate;
- the regulatory environment as well as the general industry outlook for the industries in which we operate; and
- future developments in the industries in which we operate.

Should one or more of these risks or uncertainties materialise, or should the underlying assumptions prove to be incorrect, our financial condition may be adversely affected and may vary materially from the goals we have expressed or implied in these forward-looking statements. Except as required by applicable law, we undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. Accordingly, you should not place undue reliance on any forward-looking information.

In this document, statements of or references to our intentions or those of our Directors are made as at the date of this document. Any such intentions may change in light of future developments. Our Directors confirm that any forward-looking statements contained in this document are made after due and careful consideration.

RISK FACTORS

If any of the possible events described below occurs, the business operation, financial condition or results of operation of the Group could be materially and adversely affected and the market price of the Shares could fall significantly.

We are principally engaged in pharmaceutical distribution businesses in the PRC. Please refer to the section headed "Business – Our business model" for details. In this relation, we believe that there are certain risks involved in our operations. Many of these risks are beyond our control and can be categorised into: (i) risks relating to the business; (ii) risks relating to the industry; and (iii) risks relating to the PRC. Particularly in light of our business model, the most significant risk factors we face are highlighted as below, which may impair our business operation and profitability, and our business and growth may thereby not be sustainable:

- we rely on our suppliers to provide us the pharmaceutical products with market potential for distribution to Distributor Customers, and also rely on our major Distributor Customers to sell the products, whose ultimate customers mainly comprise hospitals and medical institutions in the PRC in accordance with the geographical exclusivity of our products, where we however do not have any long-term agreement or commitment with such suppliers and Distributor Customers;

- a majority of our products are subject to the up-coming collective tendering process and our supplies may fail to win the collective tendering process for securing orders from public hospitals and medical institutions, which may result in a significant impact on our future profit;

- the pharmaceutical industry in the PRC is highly regulated, for example, a substantial amount of the products distributed by us are subject to government price controls or other price restrictions in the PRC;

- certain of the major products we distributed during the Track Record Period and as at the Latest Practicable Date were antibiotics, and our business and results of operation may be adversely affected by any government control over the use of antibiotics and hence the resultant decrease in demand for such products;

- a substantial amount of deposits and prepayments were made to suppliers for securing the exclusive distribution rights of those products with market potential, and we may not be able to recover any or all of the deposit amount paid to suppliers if we act in breach of our obligations provided in the distribution agreements, or if our suppliers' financial condition deteriorates or there is any dispute between our suppliers and us;

- being merely a pharmaceutical distributor, the quality of the products distributed by us is beyond our control and we may face legal or administrative proceedings as a result of any alleged inferior quality of the products we distribute; and

- we may face the claim from any of our suppliers or Distributor Customers for any liability and hence any resultant negative publicity on our Group if we fail to perform the obligations under the distribution agreement.

RISKS RELATING TO THE BUSINESS

We do not enter into any long-term agreement with our suppliers, and may be materially and adversely affected if we fail to maintain or establish business relationships with suppliers (particularly where we rely on our key suppliers) in the pharmaceutical distribution operations

We typically distribute products pursuant to distribution agreements entered into between our Group and our suppliers. However, we do not enter into any long-term contractual agreement with our suppliers, where the term of the agreements with our suppliers generally ranges from one year to three years. Accordingly, we cannot assure you that the existing suppliers will continue to sell products to us on commercially reasonable terms, or at all. We also cannot assure you that we will be able to maintain or extend relationships with existing suppliers when the agreements with them expire. Our distribution agreements with suppliers may be terminated from time to time due to various reasons beyond our control.

During the Track Record Period, our purchases from our top five suppliers amounted to approximately HK$111.7 million, HK$125.9 million and HK$60.3 million, respectively, which represented approximately 85.9%, 91.8% and 92.9% of our total purchases during the corresponding periods. In particular, purchases from our single largest supplier for each of the two years ended 31 December 2011 and 2012 and the second largest supplier for the six months ended 30 June 2013, namely, Baoding Huida Pharmaceutical Company Limited (保定滙達醫藥有限公司) (whose business relationship with our Group has been replaced by Baoding Zhongcheng Huida Pharmaceutical Trading Company Limited (保定中誠匯達醫藥貿易有限公司) since March 2012), accounted for approximately 39.9%, 50.5% and 33.7%, respectively, of our total purchases for each of the two years ended 31 December 2011 and 2012 and for the six months ended 30 June 2013. If we fail to maintain or extend our relationships with the existing suppliers (particularly where our business is dependent on the purchase of pharmaceutical products from our key suppliers) and may not be able to establish relationships with new suppliers, our revenue and profitability could significantly decrease, and our financial condition and results of operations could be materially and adversely affected.

We are in lack of long-term agreements with or commitments from the Distributor Customers, any disruption or termination of business relationships with our major Distributor Customers especially Type 1 Distributor Customers may have a material adverse on our business and operating results

We generally sell the pharmaceutical products to the Distributor Customers which then distribute or on-sell those products to sub-distributors and/or ultimate customers which mainly comprise hospitals and medical institutions in the PRC in accordance with the geographical exclusivity of our products. For each of the two years ended 31 December 2011 and 2012 and for the six months ended 30 June 2013, our top five Distributor Customers collectively accounted for approximately 58.4%, 69.4% and 70.9%, respectively, of our total revenue. In particular, our Type 1 Distributor Customers generated the largest proportion of our total revenue. The number of Type 1 Distributor Customers increased from 25 to 34 during the Track Record Period. For each of the two years ended 31 December 2011 and 2012 and for the six months ended 30 June 2013, the revenue generated from Type 1 Distributor Customers represented approximately 73.6%, 87.5% and 91.0%, respectively, of our total revenue.

Whereas we do not enter into any distribution agreement with Type 3 Distributor Customers, we normally enter into distribution agreement with our Type 1 Distributor

Customers and Type 2 Distributor Customers for a term ranging from one year to two years. In other words, we merely enter into short-term agreements or commitments with the Distributor Customers, which may fail to protect us from the impact of a reduction in the demand for the products we distribute as a result of various reasons beyond our control. We cannot assure you that these Distributor Customers will renew their agreements with us, or otherwise retain their business relationships with us, and that these Distributor Customers will continue to purchase our products at current volume or prices in the future. In the event that any of these Distributor Customers decide to choose our competitors and terminate their business relationships with us and we fail to expand our business with the existing Distributor Customers or to attract new customers, we may experience no growth or even decrease in our revenue, and hence our business, financial condition and results of operations could be materially and adversely affected. Furthermore, any significant change in the business developments or financial condition of any of these key Distributor Customers may require us to assume more credit risk relating to receivables from that Distributor Customer, or make us restrict or terminate business with that Distributor Customer, which could also result in a material adverse effect on our business operation and financial condition.

Our suppliers may not be always successful in winning the tendering process which may hence affect our product penetration to the public hospitals in the PRC

A majority of our products are distributed through our Distributor Customers to the ultimate customers which are mainly public hospitals and medical institutions in the PRC. According to the relevant PRC laws and regulations, public hospitals and other public healthcare institutions are required to purchase substantially all pharmaceutical products through a collective tendering process, which is operated and organised by the provincial government agencies. Pharmaceutical products that have previously been selected in the collective tendering processes must participate and win in the collective tendering processes in the subsequent tender period before new purchase orders can be issued. Factors considered in assessing tenders include, among other things, the quality and price of the products and the service and reputation of the manufacturers. We normally enter into distribution agreement with our Type 1 Distributor Customers and Type 2 Distributor Customers for a term ranging from one year to two years, which may depend on the tender period of the relevant pharmaceutical product(s). In addition, assisting our suppliers to win the collective tendering process is one of the crucial elements to our business. During the Track Record Period, the revenue generated from our products that have won the collective tendering process represented approximately 97.7%, 98.2% and 96.8% of our total revenue for the corresponding periods and those products are subject to the upcoming collective tendering. If our suppliers were unsuccessful in these collective tendering processes, our sales to public hospitals through the Distributor Customers would inevitably decrease, which could result in a material adverse effect on our business, financial condition and results of operations.

Our products are subject to price controls and we do not have full discretion over the pricing of such products, where such price controls or other price restrictions may affect our revenue and gross profit margin of the affected products

Downward adjustment to the maximum product price may adversely affect our revenue

Pharmaceutical products that are included in the Medical Insurance Drugs Catalogs are subject to government price control in the form of fixed retail prices or maximum retail prices and periodic downward adjustments in the pricing. As at the Latest Practicable Date, 42 out of our 55 products were included in the Medical Insurance Drugs Catalogs, and were therefore

subject to price control in the PRC. Sales of products included in the Medical Insurance Drugs Catalogs, which comprise one of our major products, Levocarnitine Injection (左卡尼汀注射液), accounted for approximately 85.0%, 93.7% and 93.0% of our total revenue for each of the two years ended 31 December 2011 and 2012 and for the six months ended 30 June 2013, respectively. Please refer to the section headed "Business – Price controls" showing the impact on our major products as a result of the imposition of the retail price ceiling by NDRC or Zhejiang Provincial Price Bureau with effect from 25 February 2011, 28 March 2011, 21 March 2012, 8 October 2012 and 6 February 2013, respectively.

Further, pursuant to the Circular on Strengthening the Reform of Pricing for Medicines and Medical Services in County Level Public Hospitals (關於推進縣級公立醫院醫藥價格改革工作的通知) jointly issued by NDRC, the Ministry of Health and the Ministry of Human Resources and Social Security on 3 September 2012, the prices of medicines sold by the selected pilot hospitals shall be reduced by approximately 15% after the reform. In the event that there is a hypothetical downward adjustment to the pricing of the products we distribute by 15% and we fail to renegotiate with the relevant suppliers to lower the purchase prices and/or renegotiate with the relevant Distributor Customers to reset the selling prices to mitigate the impact of price adjustments on our products, our revenue may be reduced by 15% accordingly, which may, in turn, result in a gross loss of our Group. Therefore, any control over and adjustment to the maximum retail price of a pharmaceutical product by the PRC government authorities, if significant, could have a corresponding impact on the wholesale price of that pharmaceutical product and our revenue as a whole. 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. Such trend of price adjustments may continue in the future as a result of the PRC government's imposition of any further regulatory control measure on the price of the products our Group distribute, which may adversely affect the retail price of such products and hence our profitability.

Demand for the products we distribute may decline if such products are no longer under price control or the scope of reimbursement is to be limited

Patients in the PRC purchasing pharmaceutical products that are listed in the Medical Insurance Drugs Catalogs are eligible for full or partial reimbursement under national and provincial medical insurance, work injury insurance and maternity insurance programs. However, the PRC state and provincial authorities may review the National Medical Insurance Drugs Catalog and the Provincial Medical Insurance Drugs Catalogs periodically and may remove a listed product based on various factors, including treatment requirements, frequency of use, efficacy and price. In addition, some of our products listed on the Medical Insurance Drugs Catalogs are subject to limitation on the scope of reimbursement such as the type of diseases or insurance that the patients may claim for. Subject to adjustment by the relevant state and provincial regulators, if the scope of reimbursement is further limited by the types of diseases or insurance that the patients may claim for, it may affect the demand for our products that are subject to such limitation and subsequently affect the sales volume and retail prices of such products.

Certain of the major products we distributed during the Track Record Period and as at the [Latest Practicable Date] were antibiotics, and our business and results of operation may be adversely affected by any government control over the use of antibiotics

NHFPC issued the Campaign Schemes to Regulate the Use of Antibiotics for the Years of 2011, 2012 and 2013 (2011年全國抗菌藥物臨床應用專項整治活動方案, 2012年全國抗菌藥物臨床應用專項整治活動方案 and 2013年全國抗菌藥物臨床應用專項整治活動方案), respectively, on 18 April 2011, 5 March 2012 and 6 May 2013, and the Administrative

Measures on the Clinical Use of Antibiotics (抗菌藥物臨床應用管理辦法) on 24 April 2012, which, among other things, (i) classify antibiotics into three categories, including non-limited use, limited use and special use, (ii) limit the number of antibiotics used by hospitals on different levels; and (iii) require the provincial health authorities to formulate their catalogues of the antibiotics on their own. According to the Administrative Catalogue of the Clinical Use of Antibiotics of Zhejiang Province (2012 version) (浙江省抗菌藥物臨床應用分級管理目錄(2012版)) issued by Zhejiang Provincial Health Bureau on 19 July 2012, certain of the major products distributed by us during the Track Record Period and as at the [Latest Practicable Date], including Cefoxitin Sodium for Injection (注射用頭孢西丁鈉), Cefodizime Sodium for Injection (注射用頭孢地嗪鈉), Isepamicin Sulfate Injection (硫酸異帕米星注射液), Cefixime Dispersible Tablet (頭孢克肟分散片) and Ceftizoxime Sodium for Injection (注射用頭孢唑肟鈉), fell within the category of limited use. In particular, such restriction on the usage of antibiotics led to a decline in demand of Isepamicin Sulfate Injection (硫酸異帕米星注射液) from hospitals and hence a decrease in its sales amount, which had inevitably affected our results of operation for the year ended 31 December 2012. Our business and results of operation may be adversely affected if we are going to acquire any new exclusive distribution right of pharmaceutical products in relation to antibiotics in the future which may however be caught by those laws rule or regulations governing the use of antibiotics and even fall into the category of limited use.

If we fail to recover the deposits paid to our suppliers, our operation results and financial conditions may be adversely and materially affected

We may not be able to recover any or all of the deposit amount paid to our suppliers in case of our inability to meet the prescribed sales targets and/or of any cannibalisation by us whatsoever in contravention of the terms and conditions of the distribution agreements

Type 1 Suppliers and Type 2 Suppliers require us to pay a certain amount of, among other things, deposits as a condition of acquiring the distribution rights of specific products to ensure our commitment to meet the prescribed sales target. Otherwise, suppliers are entitled to forfeit the deposits we have paid or to terminate the agreement with us, as the case may be. In fact, we may not be able to meet the sales targets as respectively prescribed by the suppliers at all times. During the Track Record Period, we failed to satisfy the prescribed sales targets of four of our suppliers under the distribution agreements respectively entered into between those suppliers and us. Subsequently, our distribution agreement with one of those suppliers was terminated after its expiry on 30 December 2012 without renewal. Please refer to the section headed "Business – Our business model – Phase 2 – Procurement of products from our suppliers – Sales target from our suppliers" for details. Whether or not we are able to achieve the prescribed sales target from time to time provided under the distribution agreements relies on the market condition and this market demand of the product(s) we distribute. There is no assurance that the deposit paid to the suppliers as required under the distribution agreement would be, fully or partially, recovered or that such supplier would not claim us for any liability as result of our failure to achieve the prescribed sales target despite termination of the agreement. On the other hand, if our Group were to cannibalise the market in other provinces or regions than those provided in the distribution agreements, our paid deposits shall be subject to deduction or even forfeiture in the manner as set out in the distribution agreements. Under such circumstances, failure to recover any or all of our paid deposit would inevitably have a material adverse impact on our operation results and financial conditions.

We may not be able to recover the deposits paid to our suppliers if we cease business with such suppliers and their own financial condition deteriorates or there is any dispute between those suppliers and us

Deposits paid to suppliers increased from RMB12,834,000 (equivalent to approximately HK$15,817,000) as at 31 December 2011 to RMB26,488,000 (equivalent to approximately HK$33,456,000) as at 30 June 2013. Normally, the deposits paid to suppliers will be returned in full within the prescribed period after termination of the distribution agreement upon the terms and conditions of the relevant distribution agreement(s). However, whether or not our suppliers would remain financially potent in the future is not certain. Also, we have no assurance that the favourable relationships we have established with our suppliers over the years will persist. In the event that we cease business with our suppliers, where our suppliers' own financial condition deteriorates or there is any dispute between those suppliers and us, for example, on the product quality issue or the satisfaction of any license requirement, they may not be able or willing to refund any or all of the deposits we have previously paid to them. Under such circumstances, our Group's financial condition and operation results would be materially and adversely affected, especially in light of the substantial amount of the deposits paid to our suppliers as described above.

The brand name of the products we distribute as well as our corporate image and reputation may be materially and adversely affected as a result of any legal or administrative proceedings relating to the alleged inferior quality of the products we distribute and also the existence of counterfeit products in the pharmaceutical industry

The quality of the products we distribute is not guaranteed, and any undesirable side effect or harm caused by such products could materially and adversely affect our corporate image

We are only a pharmaceutical distributor and the quality of the products distributed by us, which may be affected during the processes of production, transportation, storage, warehousing and usage, is not under our control. As we are not involved in any pharmaceutical manufacturing process, we do not have any facilities to conduct any laboratory or clinical testing of the quality of the pharmaceutical products due to the constraint of the nature of our business and operation. Despite the fact that we have engaged Hangzhou Institute of Drug Control (杭州市藥品檢驗所) ("**HIDC**"), a government controlled certified testing center in Hangzhou province, the PRC, to conduct clinical testing for our pharmaceutical products, such clinical testing is merely carried out for our newly acquired product with annual sales estimated to be more than 3% of our total revenue, and also our existing major products with the annual sales of more than 3% of our total revenue. Please refer to the section headed "Business – Quality control – Incidents related to quality of the products we distributed" for details. In other words, not each and every product of our Group is to be covered under such clinical testing, and the quality of all the products we distribute cannot be guaranteed accordingly. Under such circumstances, those products not being subject to the HIDC clinical testing may contain such fundamental quality problems as undesirable side effects or harm that are unknown to us. This will not only adversely affect the reputation of the products we distribute, our corporate image as well as our sales volume, but may also lead to claims or potential litigation against us.

We may face legal or administrative proceedings and hence any adverse publicity as a result of the alleged inferior quality of the products we distribute

Our Group faced one claim arising from distribution agreements in March 2010 and one administrative penalty in September 2010 relating to the quality of the pharmaceutical products as supplied by pharmaceutical manufactures for our distribution. Please refer to the

section headed "Business – Quality control – Incidents related to quality of the products we distributed" for details. Adverse publicity which may arise from the legal or administrative proceedings whatsoever relating to the alleged inferior quality of the pharmaceutical products we distribute, regardless of whether it is meritless or unfounded, may damage the image of those products we distribute and hence our reputation, which may in turn cause our Distributor Customers to lose confidence in the brands of those products we distribute and hence our Group, and not to purchase the products concerned. Also, any of such proceedings and their respective consequences could be costly and divert management's attention from our business. Further, even if the responsibility lies with our manufacturers or suppliers of the defective products, there is no assurance that we will be able to fully recover from such manufacturer or supplier the relevant compensation or at all. Our failure to recover such compensation in full or failure of those manufacturers or suppliers to pay us in a timely manner may have a material adverse effect on our business, financial condition, results of operations and prospects.

Existence of counterfeit products in the market may materially and adversely affect our business and prospects

We cannot assure you that there will be no individual or entity which has the capability and determination to manufacture counterfeit pharmaceutical products imitating our suppliers' products. Any unintentional sale of these products by us in our distribution, or the sale of counterfeit pharmaceutical products by others illegally under the brand names of any of our suppliers' products, especially where it results in adverse side effects to consumers, may subject us to negative publicity, fines and other administrative penalties or even result in litigation against us. Moreover, consumers may buy counterfeit pharmaceutical products that are in direct competition with our products sourced from our suppliers, which could have a material adverse effect on our business, financial condition, results of operations and prospects.

We do not have product liability insurance and may not be adequately protected from any product liability claim and/or potential loss

Taking into consideration the fact that (i) we are primarily engaged in distribution of pharmaceutical products in the PRC but not involved in any pharmaceutical manufacturing process; and (ii) so far as we are aware, maintaining product liability insurance for pharmaceutical products and insurance relating to the release of hazardous materials is not a common industry practice in the PRC, we do not maintain product liability insurance or insurance covering potential liability relating to the quality of the pharmaceutical products we distribute. Therefore, any material loss or damage caused by any claim against us for the quality of pharmaceutical products, or sale of counterfeit pharmaceutical products imitating our suppliers' products, which are alleged or proven to be contaminated, defective, harmful, ineffective or unsafe, could cause us to incur substantial costs and also divert our allocation of resources. This may therefore materially and adversely affect our business, financial condition and results of operations.

We may be involved in any claim initiated by our Distributor Customers against any alleged breach of terms of the distribution agreements such as infringement of the exclusive right of product distribution granted to our Distributor Customers, which could divert our management's attention from daily business operation

Pursuant to the distribution agreements between our Distributor Customers and us, our Distributor Customers are required to satisfy a minimum order quantity commitment, failing which we are entitled 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 the defaulting

Distributor Customer. On 25 June 2012, a former Type 2 Distributor Customer (which failed to commit the agreed minimum order quantity requirement under our distribution agreement) instituted legal proceedings against Zhejiang Xin Rui Pharmaceutical at Hangzhou City Jianggan District People's Court (杭州市江干區人民法院) regarding, among other things, 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 – (i) Legal proceedings relating to our Group" for details. 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. Any of such proceeding (regardless of whether it is meritless or unfounded) and its consequences could be costly and could divert the attention of our management from the daily operation of business. If any of legal proceedings against us is successful, it may inevitably result in a material adverse effect on our business and reputation.

We may not be able to sustain the gross profit margins at the levels recorded during the Track Record Period

Our gross profit margin increased from approximately 14.6% for the year ended 31 December 2011 to approximately 22.1% for the six months ended 30 June 2013. This was mainly attributable to our Group's diversification of the product portfolio during the Track Record Period associated with the increase in gross profit margin of capsule drugs. Please refer to the section headed "Financial information – Description of principal items of results of operations – Gross profit" for details. However, diversification of the product portfolio may result in different gross profit margin recorded for different products, particularly where market potential varies from product to product depending on, for example, the market conditions and the competitive landscape of the product(s) we distribute. Our profitability and results of operation may therefore vary significantly from time to time as a result of any change in the combination of products sold during the relevant period. In this relation, there is no assurance that we will be able to maintain and secure the gross profits margins at the levels recorded during the Track Record Period. In addition, whether or not our gross profit margin is sustainable may be affected by various factors such as changes in consumer demand, government price control policies and prevailing market conditions, which are to a large extent beyond our control. Accordingly, we cannot guarantee that our gross profit margins will not fluctuate from time to time. If there is any decline in our gross profit margins in the future, our profitability and financial condition may be adversely affected.

We experienced net cash outflow from operating activities for the years ended 31 December 2011 and 2012

We had net cash outflow from our operating activities of approximately HK$96,000 and HK$6,972,000, respectively, for each of the two years ended 31 December 2011 and 2012 primarily due to an increase in trade and other receivables as a result of, among other things, the deposits and/or prepayments (as the case may be) made to our suppliers to secure the exclusive distribution rights of products with market potentials for the sake of our business expansion. Please refer to the section headed "Financial information – Liquidity and capital resources – Cash flows – Net cash (used in) from operating activities" for details. We cannot assure that we will not experience periods of net cash outflow from operating activities in the future, particularly where we are required to make such deposit payment 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 (as a result of our suppliers' refusal of the proposed corporate guarantee arrangements in substitution of the deposit payment) and also such prepayment to ensure the stable supply of the products, respectively, for improvement of our profitability in the long run, where we may experience the same after [●]. If we are unable to finance our operations continuously from funds generated from operating activities and bank borrowings, our operations and financial position could be materially and adversely affected.

We are subject to credit risk in respect of trade debtors and bills receivables

During the Track Record Period, the general credit term granted to our Distributor Customers ranged from 30 to 90 days pursuant to the distribution agreements. As at 31 December 2011, 31 December 2012 and 30 June 2013, our trade and bills receivables were approximately HK$48,149,000, HK$41,701,000 and HK$45,506,000, which accounted for approximately 33.1%, 25.1% and 23.8% of our total assets, respectively. There is no assurance that we will be able to collect all trade and bills receivables from all of our Distributor Customers in full or in a timely manner. Should a significant number of our Distributor Customers fail to settle their trade and bills receivables in full for any reason, we may incur impairment losses and our results of operations and financial position could be materially and adversely affected.

We rely on the market in the PRC, especially in the Eastern China regions, for the bulk of our sales. Any adverse change in the economic, political or social conditions in such cities and provinces may materially and adversely affect our business, financial condition and results of operations

The PRC's economy differs from the economies of most developed countries in many aspects, including the amount of government intervention, level of infrastructure development, level of capital reinvestment, control of foreign exchange and allocation of resources. Over the past two decades, the PRC government has undertaken reform measures in its economic and political systems, resulting in a significant economic growth in the PRC. However, there is no assurance that the PRC government will continue to pursue such reforms or that all the reform measures implemented will be effective. During the Track Record Period, all of our operations are conducted in the PRC and we generated all the sales in the PRC, which would remain our target market in the future. In particular, a significant proportion of our revenue was generated from sales in the regions of Eastern China, which tended to have higher urbanisation rates and be more economically developed. During the Track Record Period, a majority of our Group's revenue was generated from Zhejiang province. Our sales made in the Zhejiang province for each of the two years ended 31 December 2011 and 2012 and the six months ended 30 June 2013 accounted for approximately 74.7%, 80.4% and 79.1% of our total turnover for the respective periods. Our business, financial condition and results of operations could be materially and adversely affected if there is any adverse change in the economic, political or social conditions in China, and in particular, the Zhejiang province and the Eastern China regions.

We rely on the experience of key executives and management personnel and our business may be severely disrupted if we lose their services

The success of our Group has been, and the future success of our Group will be, dependent on the continuing service of our management team as well as our ability to attract, motivate and retain such key personnel. In this connection, we consider that (a) Mr. Zhou, our chairman and executive Director, who has over 14 years of experience in the pharmaceutical industry and is responsible for formulation of the overall business strategy and direction of our Group; (b) Mr. Dai, our chief executive officer and executive Director, who has over 10 years of experience in pharmaceutical industry and is responsible for the overall operation of our Group's business and the overall development of sales and marketing management and strategies of our Group; and (c) Ms. Yang, our executive Director, who has over 15 years of experience in the pharmaceutical industry and is responsible for the overall procurement, quality control management of the pharmaceutical products, overall administrative and human resources function of our Group, have played a significant role in the business operations of our Group during the Track Record Period, and will continue to play a pivotal role in the future growth and success of our business. Further information about the management skills and experience of our Directors and our senior management is set out in the section headed "Directors, senior management and staff" in this document.

There can be no assurance that our Directors and our senior management will continue to perform as well as they have done in the past, and that we will be able to retain their services when their contracts expire. If any of our Directors or senior management team members is unable or unwilling to continue to serve his or her current position and we may not be able to recruit suitable replacement personnel with equivalent qualifications or talents in a timely manner, it may cause disruption to our business operation and may have an adverse impact on our ability to manage our business effectively and efficiently. As a result, it may adversely and materially affect our profitability and results of operations.

There is no assurance that we will be able to successfully pursue the strategies and this may materially and adversely affect our business, financial condition and results of operations

Failure or delay in achieving our business strategies may adversely affect us

Details of our strategies are set out in the sections headed "Business – Our business objectives and strategies" and "Business objectives and future plans – Business objectives and strategies", respectively, in this document. The successful implementation of our business plans, including, without limitation to, extending our products to the second and third tier cities to those new markets particularly in the Zhejiang province and the Eastern China regions which we have not yet explored, obtaining new product distribution rights with commercial potential and gaining a leading position in the prescription drugs segment of the pharmaceutical distribution industry, depends on a number of factors including, among others, continued growth of the pharmaceutical product market in the PRC, availability of funds, competition and change in government policies. There is no assurance that we will be able to pursue the strategies nor will any such strategies be as successful as contemplated by the management. Any failure or delay in achieving any or all of our strategies may have an adverse effect on our profitability and prospects.

Newly launched products may not be well received by the market, which could negatively affect our growth prospects

During the Track Record Period and [as at the Latest Practicable Date], we identified and acquired certain national and provincial distribution rights of products which are complementary to our existing product portfolio. Please refer to the section headed "Business – Our business model – Phase 2 – Procurement of products from our suppliers – Reduction of the reliance on our major suppliers" for details. In this connection, our growth depends, to a large extent, on whether our products introduced to the market are well received. The primary factors which may affect the acceptance of our products by the market include efficacy, quality and price of the products and the purchasing trends of our Distributor Customers and their customers. If any new product is not well received by the market because it is not as effective as competitive products or is too expensive compared to other substitutes, or for any other reason, we may not be able to recoup the investment we have made in developing such products, in which case our business, financial condition, results of operations and growth prospects may be materially and adversely affected.

Our information technology system may experience failure or breakdown and cause interruptions to our business, and failure to maintain optimal inventory levels may lead to a material adverse effect on the results of our business and operations

We have installed a centralised inventory management system to monitor and manage our inventory levels at all times. Our ability to provide customers with a timely and adequate supply of pharmaceutical products is affected by our ability to maintain proper inventories of those products. Our ability to maintain proper inventory levels at any given time is dependent on our accurate estimate of the future market demand, the supplies available from our suppliers, and the market demand for products which we hold in our inventories. Any changes in those factors could result in a shortage of inventory or overstocking of certain inventories. If we experience inventory shortages, our sales volume and relationships with customers could be materially and adversely affected. If our inventory levels are too high, we may have to write-down inventories, products may be held past expiration dates and would have to be disposed of and storage costs could increase. Either inventory shortages or excessive inventories could materially and adversely affect our business, results of operations and financial condition.

On the other hand, a failure or breakdown of any part of our information technology system may interrupt our normal business or operations, result in a slowdown in operational and management efficiency and adversely affect our ability to meet our distribution schedules. In addition, any termination of service contract with the system providers may adversely affect our business, financial condition and results of operations.

We are subject to certain risks associated with transportation and warehousing of the pharmaceutical products supplied by our suppliers for distribution to the Distributor Customers

Our suppliers deliver products from their designated warehouses located in their respective provinces in the PRC to our warehouse in Xiaoshan District, Hangzhou, PRC. Following receipt of the sales order(s) as well as confirmation and approval of delivery order(s), our logistics team commences arranging for delivery to our Distributor Customers. In view that our suppliers and the Distributor Customers are located throughout different provinces in the PRC, a reliable transportation network is crucial to delivery of the

pharmaceutical products from our suppliers to us and then from our Group to the Distributor Customers. Accordingly, any unforeseen event beyond our control such as adverse weather conditions, transportation bottlenecks, natural disasters, political disruptions or labour disputes would lead to delay in or even loss of product supply to our Group and may result in loss of revenue or claims from Distributor Customers. In addition, any poor handling during transportation by our suppliers or our logistics carriers and/or partners may damage the products and adversely affect our business operations. On the other hand, the products are stored in our temperature-controlled warehouse prior to delivery to Distributor Customers. If certain events such as fire, flooding or technical breakdown or failure of our warehouse system, we may be unable to deliver the products to Distributor Customers on schedule, which would materially and adversely damage our reputation and affect our results of operations.

Our Controlling Shareholders may exercise significant influence over us and their interests may not be aligned with the interest of the other Shareholders

Subject to the Bye-laws, the Controlling Shareholders will continue to have the ability to exercise significant influence in matters submitted to a vote of our Shareholders, including matters such as election or removal of members of our Board, the timing and amount of dividend distributions, and approval or disapproval of significant corporate transactions such as strategic investments, mergers, acquisitions, joint ventures, investments or divestitures. In fact, the interests of our Controlling Shareholders may at times differ from those of our other Shareholders. We cannot assure that our Controlling Shareholders will always take actions that will benefit our other Shareholders.

Any outbreak of communicable diseases, or occurrence of natural disasters or other catastrophic events may have a negative impact on our business

Our business operations are carried out in the PRC and we generate all the sales in the PRC with a focus in Zhejiang province. Since March 2013, various human cases of avian influenza A (H7N9) have been reported in certain regions of the PRC, including Shanghai and the provinces of Zhejiang and Anhui, where we and our major Distributor Customers are located and/or our Type 1 and 2 Distributor Customers have their respective distribution networks. There is no assurance that such communicable disease is to be adequately controlled. In addition, whether there would be any outbreak or recurrence in the PRC of severe acute respiratory syndrome, the H5N1 avian flu, the human swine flu (which is also known as influenza A (H1N1)) or any other epidemics is uncertain. Further, many major cities in the PRC are vulnerable to the threat of earthquake, flood, typhoon, drought or sandstorm. For example, an earthquake measured by the PRC's earthquake administration at magnitude 7.0 struck Ya'an city, Sichuan province on 20 April 2013, with aftershocks having continued to jolt the region subsequently. Our business is sensitive to domestic consumer demand for the products we distribute and relies on domestic labour. Any outbreak of communicable diseases, natural disasters or other catastrophic events in the PRC would adversely affect the domestic consumption, labour supply and potentially the overall GDP growth of the PRC. This may, in turn, hinder market activities and general economic growth of the PRC, and cause significant interruption to our business, which may therefore result in a negative impact on our business, financial condition, operation results and growth prospects.

We may be required to make early payment of any outstanding loans, or to increase the amount of collateral for secured borrowings (as the case may be) under the financing facilities granted during the Track Record Period and up to the Latest Practicable Date, which may adversely affect our business operation

During the Track Record Period and up to the Latest Practicable Date, we obtained (i) an unsecured loan facility on 22 November 2012 in the maximum amount of HK$18 million from a licensed money lender in Hong Kong being an Independent Third Party, which carried interest at fixed interest rate of 6% per annum and was repayable in one year from the relevant drawdown dates; (ii) an unsecured loan facility on 9 May 2013 in the maximum amount of HK$12 million from another licensed money lender in Hong Kong being an Independent Third Party, which carried interest at fixed interest rate of 6% per annum will be repayable in 6 months from the relevant drawdown dates (where we have not drawn down any amount under this facility as at the Latest Practicable Date), pursuant to which each of the lenders reserves the right to cancel such facility and to demand immediate repayment of any outstanding loan in full if any event of default occurs, for example, if interest on the loan or any other amount payable by us under the facility is not paid on the due date; and (iii) an overdraft facility of HK$5,000,000 and a revolving loan of HK$15,000,000 on 17 June 2013 with the interest rate of (a) 1.5% per annum over Dah Sing's Bank's fix 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 from Dah Sing Bank, respectively, against charge to Dah Sing Bank fixed deposit for not less than HK$5 million or its 110% equivalent in foreign currency by our Group and also corporate guarantee executed by Max Goodrich for unlimited amount. In addition, we entered into a maximum amount mortgage contract on 29 November 2012 in the maximum amount of RMB12.51 million (equivalent to approximately HK$15.55 million) 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 (where the aggregate amount of RMB8,500,000 (equivalent to approximately HK$10,566,000) was drawn down by us as at the Latest Practicable Date for [payment of deposit to a supplier for acquisition of new distribution rights of a product] at the fixed interest rate of 6.9% per annum). Please refer to the section headed "Financial information – Liquidity and capital resources – Bank and other borrowings" for details. On one hand, we cannot assure you of non-occurrence of any event of default during the term of the loan facility in question, which will otherwise trigger the lender's exercise of the right to demand early repayment of any outstanding loan from us. On the other hand, there is no assurance that the bank may not request us in the future to increase the amount of collateral pledged for secured borrowings, particularly in case of any change in economic conditions of the PRC, which may result in any possible devaluation of the secured asset. This may result in a material adverse effect on our business, financial condition and results of operations.

Dividends declared in the past may not be indicative of our dividend policy in the future

Our Directors may declare dividends after taking into account, among other things, our results of operations, cash flows and financial condition, operating and capital requirements, the amount of distributable profits based on HKFRSs, the Bye-laws, the Companies Act, applicable laws and regulations and other factors that our Directors deem relevant. For further details of our dividend policy, please refer to the section headed "Financial information – Dividend policy" in this document. Our future declarations of dividends may or may not reflect our historical declarations of dividends and will be at the absolute discretion of our Board. There is no assurance that the amount of dividends declared by our Company in the future, if any, will be at a level comparable with that in the past.

RISKS RELATING TO THE INDUSTRY

The pharmaceutical industry is highly regulated and our business would be adversely affected if we fail to maintain our licences for sale or to comply with relevant regulations and/or our manufacturers fail to meet the requirements governing the manufacturing of those products distributed by us

Failure to comply with the applicable laws, rules or regulations could adversely affect our business and reputation

The pharmaceutical industry in the PRC is highly regulated and is subject to extensive government regulation and supervision. The PRC government has implemented certain regulatory measures and announced plans to implement additional rules and regulations for governing operation of the pharmaceutical industry. Please refer to the section headed "Regulatory Overview" of this document for a summary of the relevant laws, rules and regulations currently governing our business operations. Violation of these laws, rules and regulations may also constitute a criminal offence under certain circumstances, and could have a material adverse effect on our business and reputation, as well as our financial condition, results of operations and prospects. On the other hand, any change in compliance standards, or any new laws or regulations may prohibit us from conducting, or render it more restrictive for us to conduct our business. In this connection, we cannot assure you that we will be able to adapt to such changes, and the failure to sufficiently and promptly respond to such changes may materially and adversely affect our business, financial condition and results of operations.

We may fail to maintain or renew the relevant certificates, licences and permits necessary for operation of our business

We have obtained, among other things, (i) pharmaceutical operation permit granted by Zhejiang Province Food and Drug Administration, (ii) the business license granted by and registered with the relevant administration for industry and commerce as required by the applicable PRC laws and regulations, and (iii) the Good Supply Practices certificate granted by Zhejiang Province Food and Drug Administration. However, our existing certificates, licences and permits may be suspended or revoked or we may not be able to renew such certificates, licences and permits due to various reasons, some of which may be beyond our control, including our failure to satisfy any requirements or the standards imposed by the relevant authorities for the issue of such certificates, licences and permits, or if our products cause harmful effects to end-users or fail to comply with the registered prescription. Any suspension or revocation of, or failure to renew, our existing certificates, licences and permits could cause disruption to our business or prevent us from continuing to carry on our business.

We may be restricted or prohibited to carry out our pharmaceutical distribution business in the PRC

Our pharmaceutical distribution business is currently falling within the category of "industries in which foreign investment is permitted" under the Foreign Investment Industrial Guidance Catalog (外商投資產業指導目錄) jointly promulgated by MOFCOM and NDRC and as amended on 24 December 2011. However, we cannot give any assurance that the PRC government will continue to adopt policies which would be beneficial to our Group and/or the pharmaceutical industry in the PRC where our business operations are located, the PRC government may reduce support for healthcare services and benefits provided in China, which may bring about a decrease in demand for our services.

We may incur more costs in complying with the new laws, rules and regulations

Compliance with the new rules, regulations and measures, may increase our costs of improving the safety and credibility issues of the pharmaceutical products we distribute, which may then result in decreases in the quantities of products we sell to the customers or the price they are willing to pay for these products. This could, in turn, lower our profit margins and may have a material adverse effect on our results of operations.

Our pharmaceutical distribution operation may be affected by the regulations governing the manufacturing of pharmaceutical products distributed by us

We are only a pharmaceutical distributor, and source and procure products from the pharmaceutical manufacturers and pharmaceutical companies throughout different provinces in the PRC. Therefore, the regulations relating to the manufacturing of pharmaceutical products may affect our pharmaceutical distribution operation. Please refer to the section headed "Regulatory overview – Regulations relating to the manufacturing of pharmaceutical products distributed by us" for details of such regulations. In particular, on 17 January 2011, the Ministry of Health promulgated the current version of GMP standards (2010 revised version), which became effective on 1 March 2011, place greater emphasis on the use of effective quality control system by pharmaceutical manufacturers through the strengthening of drug manufacturing quality management systems. The enterprises which fail to meet the requirements under the 2010 revised version GMP will be prohibited from carrying out pharmaceutical manufacturing operations. In this connection, 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 details of the affected products and suppliers as a result of the revision of GMP standards. In the event of any inability of the pharmaceutical manufacturers and pharmaceutical companies concerned to act in compliance with the revised GMP standard or any other applicable laws rule or regulations from time to time governing the manufacturing of pharmaceutical products supplied to us for our distribution to Distributor Customers, this would severely disrupt our business and restrict us from proceeding with distribution of certain products. As a result, if we are not able to provide our Distributor Customers with products upon the terms and conditions of our respective distribution agreement or arrangements, we may face contractual claim or dispute from such Distributor Customers. This would possibly impair our relationship established with, and also our ability to retain, such Distributor Customers and hence our profitability and prospects would be materially and adversely affected.

On the other hand, there is no explicit provision in the distribution agreements with our suppliers governing the return of our paid deposits and/or prepayments (as the case may be) and/or the payment of any compensation or penalty from our suppliers to us in case of their failure to supply us quality products in compliance with all the applicable requirements regulating the manufacturing of the products we distribute (including, without limitation to, any revision of the GMP standards). In this relation, if we are unable to recover from such suppliers the entire amount (or any part) of the deposits and/or prepayments (as the case may be) paid under the distribution agreements or fail to claim any compensation whatsoever from such defaulting suppliers, our operation results and financial conditions may be adversely and materially affected.

Any actual or potential involvement in corrupt practices or other improper conduct by our Group, our employees or affiliates as well as our suppliers, Distributor Customers or ultimate customers could severely damage our reputation and have a material adverse effect on our results of business and operations

In our pharmaceutical distribution business, we are subject to the PRC laws, rules and regulations relating to healthcare fraud and abuse. As a result, we are subject to risks in relation to actions taken by us, our employees or our affiliates, or our suppliers, Distributor Customers or ultimate customers that constitute violations of the PRC anti-corruption and other related laws. There have been several instances of corrupt practices in the pharmaceutical industry, including, among other things, receipt of kickbacks, bribes or other illegal gains or benefits by pharmacies, hospitals and medical practitioners from manufacturers and distributors in connection with the prescription of pharmaceutical products. For example, a multinational pharmaceutical company in the PRC was reported in about July 2013 to be involved in an alleged bribery incident in the PRC in relation to payment of rebates and kickbacks. If we, our employees or affiliates violate these laws, rules or regulations, we could be required to pay damages or fines. In the case of our pharmaceutical distribution business, the products involved may be seized and our operations may be suspended. Any of such or similar events could therefore materially and adversely affect our business, financial condition, results of operations, reputation and prospects. Actions by the PRC regulatory authorities or the courts to provide an interpretation of the PRC laws and regulations that differs from our interpretation or to adopt additional anti-corruption laws and regulations could also require us to make changes to our operations. Our reputation and our sales activities could be adversely affected if we become the target of any negative publicity as a result of any actual or potential involvement in corrupt practices or other improper conduct by our Group, our employees or affiliates, or our suppliers, Distributor Customers or ultimate customers. Our failure to comply with these measures, or effectively manage our employees and affiliates, or monitor the daily business operations of our suppliers, Distributor Customers or ultimate customers, could have a material adverse effect on our reputation, results of operations and prospects.

The PRC pharmaceutical distribution industry is highly competitive and if we fail to compete successfully against the existence and/or emergence of alternative products and other market players our business, financial condition, results of operations and growth prospects may be negatively affected

The PRC pharmaceutical distribution industry in which we operate is highly fragmented. There were approximately 16,295 distributors in the PRC in 2012, and there were approximately 527 pharmaceutical distributors in Zhejiang province as at 19 March 2013. Fragmentation in the PRC pharmaceutical distribution market created intense competition

among the distributors. We cannot assure you that we can compete successfully in the future. If we fail to expand our customer base and secure our suppliers while maintaining the profitability to succeed in this fragmented market, our business, financial condition, results of operations and prospects may be materially and adversely affected. Our business is also subject to competition from large foreign pharmaceutical enterprises which does not only invest in the manufacture industry, but has also extended their investment to the pharmaceutical distribution and retail sales in recent years. Further, there are probably many suppliers of similar or alternative products to the products we distribute in the pharmaceutical or pharmaceutical distribution industry, and the terms of pricing offered by such suppliers may be very competitive. The availability of alternative products and changes in customers' preferences may also have an impact on the sales of our products. In this relation, we may be required to lower the pricing of our products to maintain our competitiveness. However, there is no assurance that our business and the products we distribute will remain competitive. Competition is likely to intensify if (i) the number of distributors of substitute or similar products increases due to increased market demand or increased prices; (ii) competitors drastically reduce prices due to oversupply of products; or (iii) competitors distribute new products or substitute products having comparable medicinal applications or therapeutic effects that may be used as direct substitutes for the products we distribute which are more effective with prices comparable to or lower than the products we distribute. If any of the above occurs and we fail to compete effectively in the future against the existence and/or emergence of alternative products and other market players, our business, operational results and financial conditions may be adversely affected.

Rapid changes in the pharmaceutical industry may render the products distributed by us obsolete

The pharmaceutical industry is characterised by rapid changes in technology, constant enhancement of industrial know-how and frequent emergence of new products. Future technological improvements and continual product developments in the pharmaceutical industry may render existing products distributed by us obsolete or affect our viability and competitiveness. Therefore, our future success will largely depend on our ability to (i) diversify the portfolio of products distributed by us; and (ii) source new and competitively priced pharmaceutical products which meet the requirements of the constantly changing market. If we fail to respond to this environment by sourcing new products in a timely fashion, or if future pharmaceutical products distributed by us do not achieve adequate market acceptance, our business and profitability may be materially and adversely affected.

RISKS RELATING TO THE PRC

Our subsidiaries, operations and significant assets are located in the PRC. Shareholders may not be accorded the same rights and protection that would be accorded under the Bermuda Companies Act, and it may be difficult to effect service of legal process and enforce judgments against us and our officers

Shareholders may not be accorded the same level of shareholder rights and protection that would be accorded under Bermuda Companies Act

Our Company is incorporated in Bermuda as an exempted company with limited liability. Certain of our subsidiaries and our operations are located in the PRC. Those subsidiaries are therefore subject to the relevant laws, rules and regulations in the PRC. The Companies Act may provide Shareholders with certain rights and protection of which there

may be no corresponding or similar provisions under the PRC laws. As such, investors in the Shares may or may not be accorded the same level of shareholder rights and protection that would be accorded under the Companies Act.

It may be difficult to enforce judgment and effect service of legal process in the PRC

Given the fact that we are principally engaged in the business of distributing pharmaceutical products in the PRC, substantially all of our assets are located within the PRC, and most of our executive Directors such as Mr. Zhou, Mr. Dai and Ms. Yang and other officers are residents of the PRC, whose assets may also be located in the PRC. The PRC has not entered into treaties or arrangements providing for the recognition and enforcement of judgments made by the courts in most jurisdictions. On 14 July 2006, Hong Kong and the PRC entered into the Arrangement on Reciprocal Recognition and Enforcement of Judgments in Civil and Commercial Matters by the Courts of the Mainland and of the Hong Kong Special Administrative Region Pursuant to Choice of Court Agreements Between Parties Concerned (the "**Arrangement**"), pursuant to which a party with a final court judgment rendered by a Hong Kong court requiring payment of money in a civil and commercial case according to a choice of court agreement in writing may apply for recognition and enforcement of such judgment in the PRC. Similarly, a party with a final judgment rendered by a PRC court requiring payment of money in a civil and commercial case pursuant to a choice of court agreement in writing may apply for recognition and enforcement of such judgment in Hong Kong. A choice of court agreement in writing is defined as any agreement in writing entered into between parties after the effective date of the Arrangement in which a Hong Kong court or a PRC court is expressly designated as the court having sole jurisdiction for the dispute. Therefore, it is not possible to enforce a judgment rendered by a Hong Kong court in the PRC if the parties in dispute do not agree to enter into a choice of court agreement in writing. As a result, it may be difficult or impossible for investors to effect service of process against our assets, senior management members or Directors in the PRC in order to seek recognition and enforcement for foreign judgments in the PRC.

There is uncertainty as to the application of the Circular on Strengthening the Administration of Enterprise Income Tax on Non-PRC Resident Enterprises' Share Transfers (關於加強非居民企業股權轉讓所得企業所得税管理的通知) ("SAT Circular No. 698") issued by the State Administration of Taxation, effective as of 1 January 2008

It is not certain whether or not SAT Circular No.698 is applicable on our previous equity transfer

Pursuant to SAT Circular No. 698, except for the purchase and sale of equity through a public securities market, where a non-PRC resident enterprise transfers the equity interests of a PRC resident enterprise indirectly by disposition of the equity interests of an overseas holding company ("**Indirect Transfer**"), and the overseas holding company is located in a tax jurisdiction that has an effective tax rate of less than 12.5% or does not tax foreign income of its residents, the non-PRC resident enterprise, being the transferor, should report to the competent local tax authority of the PRC resident enterprise of this Indirect Transfer. The PRC tax authority may disregard the existence of the overseas holding company if it lacks a reasonable commercial purpose and was established by abusive structuring arrangement for the purpose of avoiding the PRC tax. As a result, gains derived from such Indirect Transfer may be subject to the PRC tax to be assessed.

In April 2010, Town Health Pharmaceutical transferred its 3% interest in Max Goodrich to Mr. He. Please refer to the section headed "History and development – Corporate development and structure – Max Goodrich" for details. The transfer of the shares of Max Goodrich by Town Health Pharmaceutical may be exposed to the risk of the application of SAT Circular No. 698. However, it is uncertain whether and how SAT Circular No. 698 would apply to such equity transfer. For example, while the term "Indirect Transfer" is not clearly defined, it is understood that the relevant PRC tax authorities have jurisdiction to request information from a wide range of foreign entities. Moreover, the relevant authority has not yet promulgated any formal provisions as how to calculate the effective tax rates in foreign tax jurisdictions. In addition, there are no provisions promulgated as how to determine whether a foreign investor has adopted an abusive structuring arrangement in order to avoid PRC tax. SAT Circular No. 698 may be determined by the tax authorities to be applicable to the equity transfer transactions where non-PRC resident enterprise shareholders were involved in our history or our restructuring, if such transaction were determined by the tax authorities to lack reasonable commercial purpose.

If a competent PRC tax authority considers that it lacks reasonable commercial purpose and its establishment is an abuse structuring arrangement for the purpose of the PRC tax avoidance, it may disregard the existence of the overseas holding company. Town Health Pharmaceutical may be therefore required to pay PRC income tax regarding its gains derived from such equity transfer. Also, if SAT Circular No. 698 is eventually determined in the future to be applicable, even though our Group is neither the obliged taxpayer nor the obligatory withholder under SAT Circular No. 698 and the tax obligation remains with the transferor, i.e. Town Health Pharmaceutical, our Group is required to assist the tax authority to levy the tax. There is no provision as how to define the scope of assistance our Group shall provide and the tax authority shall have the jurisdiction to define such a broad definition. As a result, our Group may incur expense or losses to provide such assistance, or may even be exposed to the risk of the competent PRC tax authority's requirement to be responsible for such tax payment, which may amount to approximately HK$84,000.

Further, we have not made any provision for the payment of any income tax on any capital gain that may arise under SAT Circular No. 698 as it is currently unclear how the relevant PRC tax authorities will implement or enforce SAT Circular No. 698. In the event that we are required to pay the income tax on capital gain by the relevant PRC tax authorities, our tax liability may increase and our net profits and cash flow may be affected.

The fluctuation of foreign exchange rate may affect our business

The functional currency of our Group is denominated in Renminbi. During the Track Record Period [and up to the Latest Practicable Date], we raised two unsecured loans from Independent Third Parties, which were denominated in Hong Kong dollars which hence exposed our Group to foreign currency risk. On the other hand, as our financial statements are expressed in Hong Kong dollars and the exchange rate of Hong Kong dollars is pegged to US dollars, we are exposed to foreign exchange risks arising from fluctuation in Renminbi. During the Track Record Period, we recorded the exchange difference arising on translation to presentation currency of the Company of approximately HK$4,730,000, HK$1,143,000 and HK$2,354,000 for each of the two years ended 31 December 2011 and 2012 and for the six months ended 30 June 2013, respectively. As at the Latest Practicable Date, we did not maintain any hedging policy with respect to the associated exchange rate risks as the availability of hedge instruments is limited in the PRC. After [●], our accounts will be denominated in Hong Kong dollars and payment of dividends will also be denominated in

Hong Kong dollars. At present, Renminbi is not freely convertible to other currencies. There is no assurance that we will obtain sufficient foreign exchange for payment of dividends or other settlements in foreign exchange. Furthermore, our profitability may be adversely affected as a result of fluctuation in the exchange rates between the currencies in which our purchases, expenditures and sales are respectively denominated.

Inflation in the PRC could negatively affect our profitability and growth

Economic growth in the PRC has, in the past, been accompanied by periods of high inflation, and the PRC government has implemented various policies from time to time to control inflation. For example, the PRC government introduced measures in certain sectors to avoid overheating of the economy, including tighter bank lending policies and increases in bank interest rates. The effects of the stimulus measures implemented by the PRC government since the global economic crisis that unfolded in 2008 may result in an increase of inflation in the future. If such inflation occurs and is allowed to proceed without mitigating measures by the PRC government, our cost of sales would likely increase, and our profitability would be materially reduced, as there is no assurance that we would be able to pass any cost increases to our customers. If the PRC government implements new measures to control inflation, these measures may also slow economic activity and reduce demand for our products and severely decrease our growth.

Interpretation of the PRC laws and regulations involves uncertainty that could adversely affect our business and results of operations and the value of our Shares and limit the legal protection available to investors

Our pharmaceutical distribution business in the PRC is carried out through our PRC subsidiaries, and hence such business operation of our Group in the PRC is governed by the PRC legal system. The PRC legal system is based on written statutes. While prior court decisions may be cited for reference, they have limited precedential value. Since 1979, the PRC government has promulgated laws, rules and regulations dealing with economic matters, such as foreign investment, corporate organisation and governance, commerce, taxation and trade, to enhance the protections afforded to various forms of foreign investment in the PRC in general and wholly foreign-owned enterprises in particular. However, many of these laws, regulations and legal requirements are relatively new and continue to evolve, interpretation and enforcement of these laws and regulations involve significant uncertainties and different degrees of inconsistency, particularly where there is a lack of established practice available for reference. These uncertainties may limit the legal protections available to us and to investors. We cannot predict the effect of future developments in the PRC legal system, including the promulgation of new laws, changes to existing laws or the interpretation or enforcement thereof, or the pre-emption of local regulations by national laws. Any changes of such laws and regulations may materially increase our costs and regulatory exposure in complying with them. Furthermore, due to the limited volume of published cases and the non-binding nature of prior court decisions, the outcome of dispute resolution may not be as consistent or predictable as in other more developed jurisdictions, which may limit the legal protection available to us. In addition, any litigation in China may be protracted and result in substantial costs and the diversion of resources and management attention.

PRC regulations relating to acquisitions of PRC companies by foreign entities may limit our ability to acquire PRC companies and adversely affect the implementation of our strategy as well as our business and prospects

The Rules on Mergers and Acquisitions of Domestic Enterprises by Foreign Investors (2006 Revision) (關於外國投資者併購境內企業的規定) (the "**M&A Rules**"), which were promulgated in August 2006, became effective from 8 September 2006 and were amended on 22 June 2009, provide the rules with which foreign investors must comply if they are seeking to acquire a PRC company, whether through a purchase agreement with existing shareholders or through a direct subscription from a company, that would result in that company becoming a foreign-invested enterprise. The M&A Rules further require the business scope of the resultant foreign-invested enterprise to conform to the Foreign Investment Industrial Guidance Catalog (外商投資產業指導目錄). There are uncertainties as to how the M&A Rules will be interpreted or implemented. If we decide to acquire a PRC company in the future to facilitate our pursuit of future plans and implementation strategies as referred to in the section headed "Business Objectives and Future Plans" of this document for development and growth of our business, there is no assurance that we or the owners of such PRC company can successfully complete all necessary approval requirements under the M&A Rules. This may restrict our ability to implement our expansion and acquisition strategy, and could materially and adversely affect our future growth.

We may not be able to pay any dividend on the Shares given that our Company is a holding company and relies on dividend payments from its subsidiaries

We depend on the dividend payment from our operating subsidiaries in the PRC

Our Company is a holding company and a significant part of our business was carried out through our operating subsidiaries in the PRC. As a result, our ability to pay dividends depends on dividends and other distributions received from its operating subsidiaries in the PRC. If such subsidiaries incur debt or losses, it may impair their ability to pay dividends or other distributions to our Company, which could adversely affect its ability to pay dividends to the Shareholders.

Our PRC subsidiaries may not be able to make timely dividend payment pursuant to the applicable accounting standards

The PRC law requires companies, such as our subsidiaries in the PRC, to set aside part of the net profit as statutory reserves. A PRC subsidiary is required to set aside each year at least 10% of its after-tax profits for such year to the statutory reserve of such PRC subsidiary. Such reserve may not be discontinued until the accumulated amount has reached 50% of the registered capital of the PRC subsidiary. These statutory reserves are not available for distribution to our Company, except in liquidation. The calculation of distributable profits under the PRC Accounting Standards and Regulations differs in many aspects from the calculation under International Financial Reporting Standards ("**IFRSs**"). As a result, the subsidiary in the PRC may not be able to pay any dividends in a given year to our Company if it does not have distributable profits as determined under the PRC Accounting Standards and Regulations, even if it has profits for that year as determined under IFRSs.

Limitation on our PRC subsidiaries to remit dividend payment may adversely affect our business plans and hence the interests of the Shareholders

Limitations on the ability of the PRC subsidiaries to remit their entire after-tax profits to our Company in the form of dividends or other distributions could adversely affect our ability to grow, make investments that could be beneficial to our business, pay dividends and otherwise fund and conduct our business. We cannot assure that our subsidiaries will subsequently generate sufficient earnings and cash flows to pay dividends or otherwise distribute sufficient funds to us to enable us to pay dividends to the Shareholders.

Our ability to pay dividend to the Shareholders may be restricted by the terms of our agreements to be entered into with any third party in future

Restrictive covenants in bank credit facilities, joint venture agreements or other arrangements that our Company or our subsidiaries may enter into in the future may also restrict the ability of our subsidiaries to pay dividends or make distributions to our Company. These restrictions could reduce the amount of dividends or other distributions our Company receive from our subsidiaries, which would in turn restrict our ability to pay dividends to the Shareholders.

Dividends paid to our Hong Kong subsidiary might not qualify for the reduced PRC withholding tax rate under the special arrangement between Hong Kong and the PRC, and the possibility of our being classified as a "resident enterprise" of China may result in unfavorable tax consequences to us and our non-PRC shareholders under the PRC Enterprise Income Tax Law (the "EIT Law")

Payment of dividends by our PRC subsidiaries to our Hong Kong subsidiary may not qualify for the reduced PRC withholding tax rate

Our Company is incorporated under the laws of Bermuda and holds interests in our PRC operating subsidiaries. Under the EIT Law, the profits of a foreign-invested enterprise that are distributed to its immediate holding company outside the PRC are subject to a withholding tax rate of l0%. Pursuant to the Arrangement between the Mainland China and Hong Kong Special Administrative Region for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to Taxes on Income (內地和香港特別行政區關於對所得避免雙重徵税和防止偷漏税的安排) effective from 8 December 2006, this rate is lowered to 5% if a Hong Kong resident enterprise owns more than 25% of the capital of the PRC enterprise distributing the dividends. However, according to the Administrative Measures for Favorable Treatment of Non-residents under Taxation Treaties (Trial) (非居民享受税收協定待遇管理辦法(試行)) issued by the State Administration of Taxation and effective from 1 October 2009, approvals from competent tax authorities are required before an enterprise can enjoy the aforesaid 5% preferential tax rate. Moreover, according to the Notice on the Issues Concerning the Application of the Dividend Clauses of Tax Agreements (國家税務總局關於執行税收協定股息條款有關問題的通知) issued by the State Administration of Taxation on 20 February 2009, if the main purpose of an offshore arrangement is to obtain preferential tax treatment, the PRC tax authorities have the discretion to adjust the preferential tax rate for which an offshore entity would otherwise be eligible. There is no assurance that the PRC tax authorities will grant approvals on the 5% withholding tax rate on dividends paid by our PRC subsidiaries and received by our Hong Kong subsidiary.

We may be classified as a "resident enterprise" of the PRC and may be therefore subject to unfavorable tax implications

Under the EIT Law and the Implementation Rules to the EIT Law, both of which became effective on 1 January 2008, an enterprise established outside of the PRC with "de facto management bodies" within the PRC is considered a "resident enterprise" and is subject to PRC enterprise income tax at the rate of 25% on its global income. If the PRC authorities were to determine that we should be treated as a PRC resident enterprise for the purpose of PRC enterprise income tax, a 25% enterprise income tax on our global income as well as PRC enterprise income tax reporting obligations could significantly increase our tax burden and materially and adversely affect our financial condition and results of operations. Although the EIT Law provides that dividend income between "qualified resident enterprises" is exempted income, it is not clear whether dividends we receive from our subsidiaries, including our Hong Kong and BVI subsidiaries, would be eligible for such exemption, if we were considered to be a PRC resident enterprise. In addition, if we are treated as a PRC resident enterprise under the EIT Law, dividends we pay on our Shares to non-PRC shareholders, and capital gains realised by such shareholders on the sale of our Shares, may be treated as PRC-sourced income. Accordingly, we may be required to withhold PRC income tax from dividends paid to non-PRC resident shareholders, and transfers of Shares by such shareholders may be subject to PRC income tax. Such tax on the income of non-resident enterprise shareholders would be imposed at a rate of 10% (or at a rate of 20% in the case of non-resident individual shareholders), subject to the provisions of any applicable tax treaty. If we are required to withhold PRC income tax on dividends payable to our non-PRC resident shareholders, or if you are required to pay PRC income tax on the transfer of the Shares, the value of your investment in our Shares may be materially and adversely affected.

DIRECTORS

Name	Residential Address	Nationality
Executive Directors		
Mr. Zhou Ling (周凌先生)	38 Zhuang Lan Hu Yuan Nan An Hua Cheng Xiaoshan District Hangzhou City Zhejiang Province PRC	Chinese
Mr. Dai Haidong (戴海東先生)	Room 402 Unit 1 Block 2 Dong He Chun Xiao 583, Jian Guo Bei Road Hangzhou City Zhejiang Province PRC	Chinese
Ms. Yang Fang (楊芳女士)	38 Zhuang Lan Hu Yuan Nan An Hua Cheng Xiaoshan District Hangzhou City Zhejiang Province PRC	Chinese
Mr. Lee Chik Yuet (李植悅先生)	Flat C, 8/F Block 3 600 Sai Sha Road Villa Athena Ma On Shan New Territories Hong Kong	Chinese
Independent non-executive Directors		
Mr. Leung Chi Kin (梁志堅先生)	Flat B, 15th Floor Tower 7, Sausalito 1 Yuk Tai Street Ma On Shan New Territories Hong Kong	Chinese
Mr. Ho Hau Cheung, BBS, MH (何厚祥先生)	1/F 12 Ngau Pei Sha New Village Shatin, New Territories Hong Kong	Chinese
Mr. Sung Hak Keung, Andy (宋克强先生)	8/F Palm Court 15 Tsui Man Street Happy Valley Hong Kong	Chinese

CORPORATE INFORMATION

Registered office	Clarendon House 2 Church Street Hamilton HM 11 Bermuda
Headquarters, head office and principal place of business in the PRC	Room 3702-03 Dikai International Centre Hangzhou City Zhejiang Province PRC
Principal place of business in Hong Kong registered under Part XI of the Companies Ordinance	Room 1001, 10th Floor Sino Centre Nos. 582-592 Nathan Road Kowloon, Hong Kong
Company secretary	Mr. Lai Kwok Wa (賴國華先生), *HKICPA*
Members of the Corporate Governance Committee	Mr. Lee Chik Yuet (李植悦先生) *(Chairman)* Mr. Zhou (周凌先生) Mr. Dai (戴海東先生) Ms. Yang (楊芳女士)
Members of the Audit Committee	Mr. Sung Hak Keung Andy (宋克强先生) *(Chairman)* Mr. Leung Chi Kin (梁志堅先生) Mr. Ho Hau Cheung (何厚祥先生)
Members of the Remuneration Committee	Mr. Ho Hau Cheung (何厚祥先生) *(Chairman)* Mr. Leung Chi Kin (梁志堅先生) Mr. Sung Hak Keung Andy (宋克强先生)
Members of the Nomination Committee	Mr. Leung Chi Kin (梁志堅先生) *(Chairman)* Mr. Ho Hau Cheung (何厚祥先生) Mr. Sung Hak Keung Andy (宋克强先生)

INDUSTRY OVERVIEW

Certain information and statistics set out in this section and elsewhere in this document have been derived from various publications or obtained from various official sources, which may not be consistent with other information available and should not be unduly relied upon. This section also contains certain information and statistics that have been extracted from various private publications. Our Directors believe that the private publication sources of information and statistics are appropriate. Our Directors have no reason to believe that such information and statistics are false or misleading or that any fact has been omitted which would render such information or statistics false or misleading. While we have exercised reasonable care in reproducing information and statistics contained in this section, they have not been independently verified by our Directors. No representation is given as to the accuracy of such information and statistics.

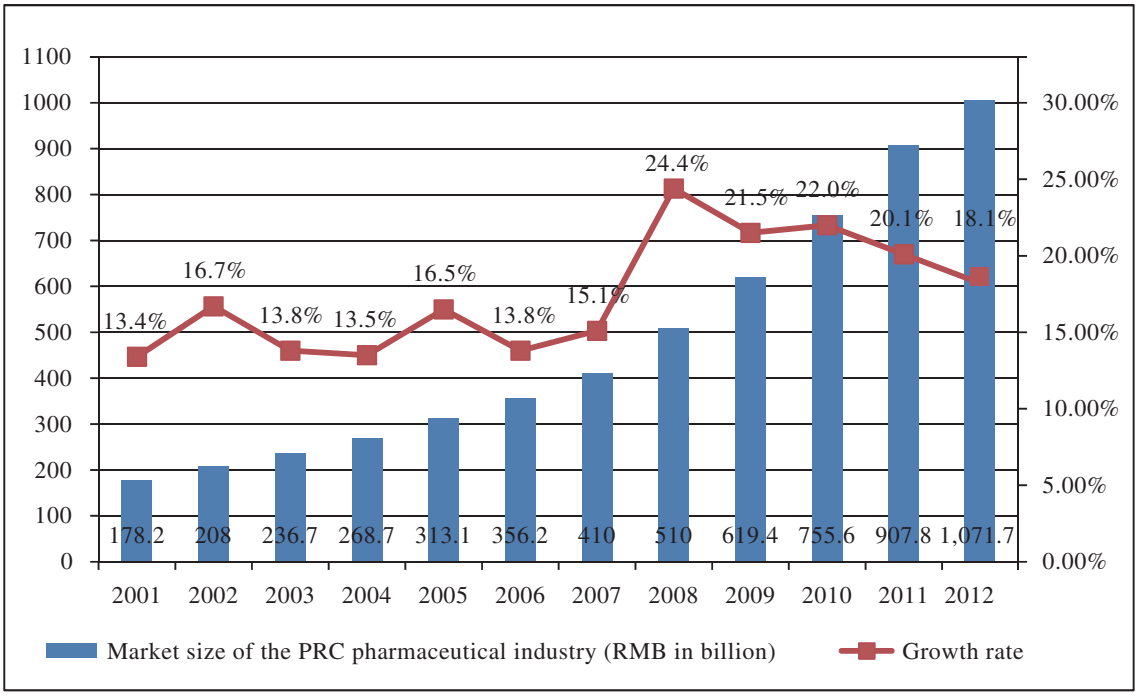
Our Group is engaged in the prescription drugs distribution industry in the PRC, whose market size and conditions are affected by (i) the PRC pharmaceutical market; (ii) the PRC pharmaceutical distribution market; and (iii) government initiatives in relation to the healthcare industry.

THE PRC PHARMACEUTICAL MARKET AND THE PRC PHARMACEUTICAL DISTRIBUTION MARKET

Overview of the PRC pharmaceutical market

The pharmaceutical industry of the PRC is undergoing a growth. The total output value of the PRC pharmaceutical industry measured by sales at the ultimate users expanded from approximately RMB178.2 billion in 2001 to approximately RMB1,071.7 billion in 2012 with a CAGR of approximately 17.7%. The growth of the market is driven by favourable government policies as well as multiple socioeconomic factors, such as increasing disposable income and growth of GDP, aging and increased life expectancy of the PRC population, increasing urbanisation, and rising healthcare spending and health awareness. The chart below sets out the total output value and growth rate of the PRC pharmaceutical industry measured by sales from 2001 to 2012.

Chart I – Market size and growth rate of the PRC pharmaceutical industry



Government initiatives in relation to the healthcare industry

Expansion of the social medical insurance in the PRC

According to the twelfth five-year plan for national economic and social development of the PRC, the PRC government intends to make available more healthcare resources to the rural population and the suburban communities. In particular, it intends to improve the social medical insurance program, to increase the amount of benefits under such program, to continue to implement the essential drugs program, and to increase the number of community healthcare centres and clinics.

Adoption of the National List of Essential Drugs and the National Medical Insurance Drugs Catalog

The National List of Essential Drugs was first launched in 1982. SFDA kept the list updated and NHFPC announced the latest edition in 2013 with view to focusing on "providing basic medicines to meet people's basic need". This edition contains 520 items, including 317 western medicines and 203 traditional Chinese medicines, or TCM.

Based on the National List of Essential Drugs, the National Medical Insurance Drugs Catalog was announced by the Ministry of Human Resources and Social Security on 27 November 2009 and took effect on the same day. Western medicines and TCM in the catalog are divided into two grades, namely Grade A and Grade B. The patients who consume Grade A drugs must be reimbursed in full by the national basic medical insurance. Patients consuming Grade B drugs will be partially reimbursed, in which the proportion would depend on the financial resources of the basic medical insurance. The amount of the deductible differs from region to region in the PRC. Drug manufacturers who produce drugs covered in the National Medical Insurance Drugs Catalog are expected to enjoy a business growth due to the reduction of cost resulting from economies of scale, but subject to price control from the government.

To be included in the National Medical Insurance Drugs Catalog, the pharmaceutical products must be, among other things, necessary in clinical use, safe, effective, reasonably priced, user friendly and available in markets. In addition, public healthcare institutions are required to purchase substantially all of the pharmaceutical products through an annual open tender organised by institutions designated by provincial governments. Pharmaceutical companies submit tenders, which are assessed by pharmaceutical experts recognised by the relevant authorities, with reference to, most importantly, drug quality, as well as other criteria including price, service and quality of the relevant drug manufacturer. Companies who fail in the collective tender processes will be disqualified to sell the agented pharmaceutical products to the hospitals in the relevant province or city.

Expansion of the community healthcare centers and clinics

As of 31 March 2013, there were approximately 23,551 hospitals, 916,902 medical and healthcare institutions at the primary level and 14,820 other healthcare institutions in the PRC, according to NHFPC. As of 31 December 2012, there were approximately 782 hospitals, 28,939 medical and healthcare institutions at the primary level and 546 other healthcare institutions in Zhejiang province, according to Zhejiang Provincial Healthcare Department. In the PRC, pharmaceutical products, especially prescription drugs, are mostly sold through hospitals. Hospital purchases in the PRC represent approximately [78.8%] of the total PRC pharmaceutical market in 2012, and the size of hospital purchase had reached approximately RMB844.9 billion in 2012.

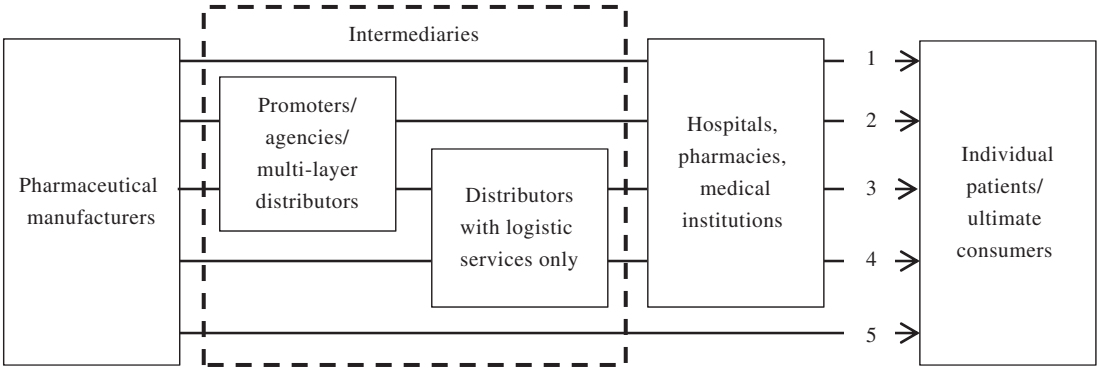
Control over antibiotics

On 19 July 2012, Zhejiang Provincial Health Bureau issued 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)). Such policy may affect the product structure of antibiotics. However, the influence on the total market size of antibiotics would be limited, and the mainstream antibiotics products would still be predominant. According to 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)), certain of our products have fallen within the category of limited use, namely, Cefoxitin Sodium for Injection (注射用頭孢西丁鈉), Cefodizime Sodium for Injection (注射用頭孢地嗪鈉), Isepamicin Sulfate Injection (硫酸異帕米星注射液), Cefixime Dispersible Tablet (頭孢克肟分散片) and Ceftizoxime Sodium for Injection (注射用頭孢唑肟鈉). Our Directors are of the view that our result of operation for the year ended 31 December 2012 and the six months ended 30 June 2013 has already reflected the impact of such policy.

Pharmaceutical industry value chain

In the PRC, like other major countries, there are normally five major stages across the pharmaceutical industry value chain: (1) research and development; (2) intermediaries and active pharmaceutical ingredients; (3) finished dosage for manufacturing and promotion; (4) distribution; and (5) retail sales. Multi-layer distributors having exclusive national, provincial or regional distribution rights may participate, engage in or organise marketing activities for promoting the products in the PRC. Distributors only providing logistic services mainly interact with the purchase department of a healthcare institution to ensure that orders are fulfilled effectively and efficiently. Distributors only providing logistic services for prescription drugs generally do not hire promotion staff and are not responsible for promoting the products. Such distributors will simply deliver pharmaceutical products to national-wide drugs dispensers in a fast and effective way. [Hospitals and healthcare institutions in the PRC usually select distributors with a diversified product portfolio, a sizable and stable supply of product in order to minimise the procurement cost and enhance the procurement and distribution efficiency.] In addition, the payment period from the drug dispensers to the distributors is generally longer than the payment period from the distributors to the manufacturers. The distributors may make deposit and/or prepayment to the manufacturers, especially for the products with market potential. Therefore, as direct and indirect customers of the manufacturers, multi-layer distributors can ease the pressure on manufacturers in the respective logistic arrangements and financial recoverabilities, and allow manufacturers to achieve higher operational efficiency level. The following chart illustrates different models of pharmaceutical distribution business:

Chart II – Different models of pharmaceutical distribution business



Note 1: path 1 is generally suitable for the large size and/or multinational pharmaceutical manufacturers with a strong in-house sales team and extensive financial resources.

Note 2: path 2 is generally suitable for the large size pharmaceutical distributors to distribute branded products with high gross profit margins.

Note 3: path 3 is generally suitable for the majority of pharmaceutical manufactures, which usually are small to medium size companies with an annual sales less than RMB300 million, without a strong in-house sales team and extensive financial resources to engage in small to medium size pharmaceutical distributors for the promotion and distribution of the pharmaceutical products.

Note 4: path 4 is generally suitable for (i) the pharmaceutical manufacturers with in-house sales team which engage the pharmaceutical distributors to provide the logistic services only; and/or (ii) the pharmaceutical products using advertisements as promotion approaches or with spontaneous demand.

Note 5: path 5 is only suitable for marketing, advertisement and trials of new drugs.

Path	Channel	Control	Feasibility	Remarks
1	Narrow	Strong	Hard	Manufacturers need to have their own promotion, sales and distribution team
2	Relatively narrower	Relatively strong	Relatively easier	The distributor with logistic service would also be responsible for product promotion. The suitable products and related distributors are very limited.
3	Wide	Weak	Easy	The most commonly adopted model
4	Relatively narrower	Relatively weaker	Relatively harder	Manufacturers need to have their own promotion and sales team, or promote the products via advertisements.
5	Narrow	Strong	Hard	Only for marketing purpose

In view of the control level, the business model would have higher control level with fewer layers of intermediaries and narrower channel. It is worth noting that, considering the factors such as products, markets, manufacturers, promoters and government regulations, different business models would be suitable for different products in different region with different drug dispensers, and there is no single predominate model.

Our Group belongs to path 3 in chart II above. For path 3, the manufacturers can utilise the networks and capital resources of the distributors to increase the market share in an efficient manner, since a majority of the manufacturers cannot afford to establish their own national-wide promotion and sales team. The promoters/agencies/multi-layer distributors can focus on establishing the distribution networks, instead of making significant investments on pharmaceutical production base and logistic infrastructures for pharmaceutical distribution. The distributors with logistic services can only focus on building up logistic infrastructures for pharmaceutical distribution, instead of establishing promotion and sales team. [A comprehensive and sizable logistics infrastructure such as a significant number of transport fleet and a large area of temperature controlled warehouse is required in order to distribute a vast amount of products to a large number of hospitals and healthcare institutions in a fast and cost effective way. The investment of such logistic infrastructure and solution is capital intensified.] Each link can develop on its strength.

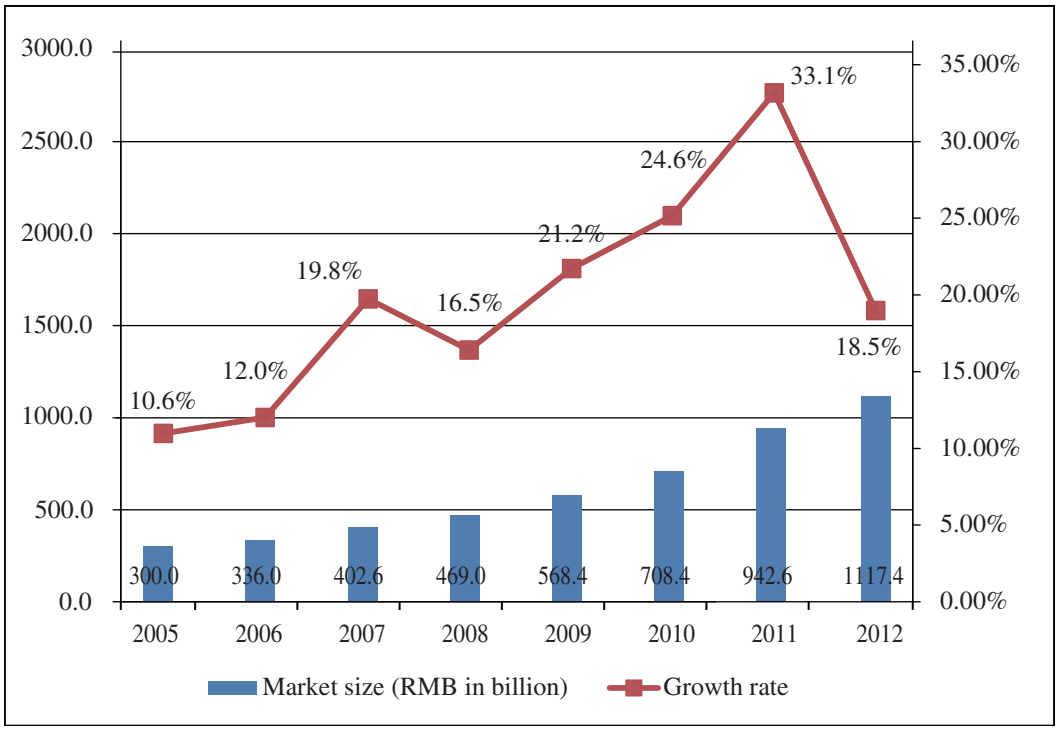
Overview of the PRC pharmaceutical distribution market

Distributors connect pharmaceutical companies with drug dispensers, including hospitals, medical institutions, retail pharmacies and drugs sales outlets. Typically, distributors enter into agreements to purchase pharmaceutical products from pharmaceutical companies. Usually, distributors also seek from pharmaceutical companies the right to exclusively distribute a particular medicine or groups of medicines in certain regions or national-wide market. In this relation, the distributors normally have to pay the deposits and/or prepayments to obtain those exclusive distribution rights from the pharmaceutical companies instead of consideration. Distributors generate revenue by reselling these pharmaceutical products to their distributor customers and providing relevant services to customers in the retail market. In the event that distributors encounter any shortage of certain products, they would request their suppliers to arrange and liaise with other distributors with excessive inventories. During the process, the suppliers of the products will not be involved in any sales and purchase relationship with those distributors. Distributors can help pharmaceutical companies increase their operational efficiencies by providing expertise in product delivery to and payment collection from drug dispensers. As resellers of pharmaceutical products, distributors can also reduce transaction costs and improve efficiencies for drug dispensers, by allowing drug dispensers to keep fewer inventories on hand and ensuring that inventory will be replenished in time. Distributors sell pharmaceutical products to drug dispensers as well as other distributors.

Regarding the provincial tender process for pharmaceutical products, the manufacturers would normally appoint the national-wide agent to coordinate. The provincial and/or regional agents would be responsible for dealing in the local affairs, including submitting the tender documents on behalf of the manufacturers, liaising with government and experts, and formulating the pricing strategies. However, the manufacturers themselves may sometimes be involved in the tender process, and the national-wide agents would be responsible for both coordination and local affairs. The job allocation regarding the provincial tender process for pharmaceutical products may vary from one to another. There were approximately 7,041 medicines which had participated the collective tendering process held in 2010.

The PRC pharmaceutical distribution market had grown from 2005 to 2012. In light of the favourable socioeconomic factors that have also driven the PRC's overall healthcare industry, the PRC pharmaceutical distribution market is expected to further grow. The following chart sets out the market size and growth rate in the PRC pharmaceutical distribution market for the periods indicated:

Chart III – The size of the PRC pharmaceutical distribution market



COMPETITIVE LANDSCAPE OF THE PRC PHARMACEUTICAL DISTRIBUTION MARKET

Competition in the PRC pharmaceutical distribution market

The PRC pharmaceutical distribution market is fragmented. In 2012, there were approximately 16,295 pharmaceutical distributors in the PRC. In 2011, the aggregate revenue of the three largest distributors, namely, Sinopharm Group Company Limited, Shanghai Pharmaceuticals and China Resources-Pharmaceutical Group Limited, accounted only for approximately [28.5]% of the total pharmaceutical distribution market, whereas the three largest U.S. distributors accounted for approximately 97% of the U.S. distribution market in 2009.

The Eastern China Region, the largest regional pharmaceutical distribution market of the seven geographical regions of the PRC, accounted for approximately 40.5% of the PRC pharmaceutical distribution market in 2012. Zhejiang province accounted for approximately 7.15% of the PRC pharmaceutical distribution market, ranked fourth. The following tables set forth the PRC pharmaceutical distribution market by geographical regions in 2012:

Table I – Regional shares of the PRC pharmaceutical distribution market

Region	2007	2008	2009	2010	2011	2012
Eastern China	**37.51%**	**38.43%**	**39.12%**	**44.2%**	**42.0%**	**40.50%**
Northern China	19.00%	19.43%	15.69%	19.62%	19.3%	18.90%
Southern China	15.47%	14.12%	12.14%	9.29%	8.33%	9.78%
Central China	9.27%	9.29%	12.42%	11.09%	10.77%	10.22%
Southwest China	7.68%	7.61%	10.67%	8.1%	11.6%	12.00%
Northeast China	6.60%	6.58%	5.31%	4.8%	5.0%	5.00%
Northwest China	4.47%	4.53%	4.64%	2.9%	3.0%	3.60%

Source: NHFPC, [●]

Table II – Provincial shares and ranking of Top 10 pharmaceutical distribution markets

Rank in 2012	Region	2010	2011	2012
1	**Shanghai**	**9.92%**	**9.25%**	**9.23%**
2	Beijing	9.73%	8.74%	9.02%
3	Guangdong	7.07%	6.36%	7.61%
4	Jiangsu	8.34%	7.11%	7.48%
5	Anhui	6.64%	8.30%	7.34%
6	**Zhejiang**	**7.96%**	**7.18%**	**7.15%**
7	Shandong	7.07%	6.47%	5.80%
8	Chongqing	3.18%	4.79%	4.77%
9	Tianjin	4.36%	4.79%	4.07%
10	Hubei	4.01%	3.99%	3.69%

Source: NHFPC, [●]

As at 19 March 2013, there were approximately [527] pharmaceutical distributors in Zhejiang province. Among them, Huadong Medicine Co., Ltd (華東醫藥股份有限公司), Zhejiang Intec Medicine Co., Ltd (浙江英特藥業有限責任公司), Ningbo Pharmaceutical Co., Ltd (寧波醫藥股份有限公司) and Zhejiang Pharmaceutical Industry Corp., Ltd (浙江省醫藥工業有限公司) are top market players in terms of revenue.

The entry barriers for a new distributor in a region can be summarised as follows:-

1. New market entrants can hardly establish distribution networks and accumulate up-stream resources within a short period of time. Pharmaceutical manufacturers would choose the distributors with established distribution networks, and sub-distributors and drug dispensers would choose to source pharmaceutical products of reasonable price and good quality from distributors with abundant up-stream resources.

2. Recruitments of experienced management and licensed pharmacists, as well as the establishment of quality control and management system, require sufficient time.

3. New market entrants are required to obtain proper licences such as Pharmaceutical Operation Permit and GSP certificate to start operation.

4. New market entrants are required to satisfy a significant working capital commitment for securing the products warehousing and logistic arrangement and supply.

Accordingly, compared to distributors from other regions or new market entrants, an established distributor in a region tends to enjoy certain competitive advantages, such as long-term relationships with manufacturers, other distributors and drug dispensers including hospitals.

The pharmaceutical distribution market is fragmented at the national level, but monopolised at regional level with clear regional characteristics. On national level, Sinopharm Group Company Limited, Shanghai Pharmaceuticals and China Resources-Pharmaceutical Group Limited are the major distributors, which accounted only for approximately [28.5]% of the total pharmaceutical distribution market in 2011. On regional level, Eastern China, Northern China and Southwest China are the major regional markets. The regional pharmaceutical distributors have controlled the major local network resources, which make inter-regional distribution business difficult to succeed. The pharmaceutical distribution market will be shared amongst major national distributors and regional distributors.

The distributors must be able to expand their customer base and secure their suppliers while maintaining the profitability to succeed in this fragmented market. A distributor with strong financial position, proven track records, and the ability to penetrate new markets will have greater competitive advantages. Distributors that meet all the above criteria will benefit from the growing PRC pharmaceutical distribution market. It is a common industry practice in the PRC to pay a deposit to suppliers to secure a steady supply of products especially for the ones with market potential.

Market size of our major products

The PRC pharmaceutical distribution market is highly fragmented. The sales volumes of pharmaceutical products are related to various factors, including its usage, price, promotion approaches and status in Medical Insurance Drugs Catalogs, National List of Essential Drugs and provincial collective tendering, rather than the operation size of its manufacturers. The ranking and market shares of our 11 major types of products (including 17 specifications) provide better illustration to our operation. The following paragraphs illustrate the ranking, market shares and growth rates of our 11 major types of products (including 17 specifications):

Levocarnitine Injection (左卡尼汀注射劑)

The total sales value of Levocarnitine Injection in the PRC increased from approximately RMB1.4 billion in 2011 to approximately RMB1.5 billion in 2012, representing a growth rate of approximately 7.1%, and the total sales value of Levocarnitine Injection in Zhejiang province increased from approximately RMB47.7 million in 2011 to approximately RMB92.0 million in 2012, representing a rapid growth rate of approximately 92.9%.

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

The total sales value of Cefodizime Sodium for Injection decreased from approximately RMB1.5 billion in 2011 to approximately RMB1.2 billion in 2012, representing a decrease of approximately 20.0%, and the total sales value of Cefodizime Sodium for Injection in Zhejiang province decreased from approximately RMB244.0 million in 2011 to approximately RMB214.0 million in 2012, representing a decrease of approximately 12.3%.

Thoymosin α 1 for Injection (注射用胸腺法新)

The total sales value of Thoymosin α 1 for Injection in the PRC increased from approximately RMB1.9 billion in 2011 to approximately RMB2.2 billion in 2012, representing a growth rate of approximately 15.8%, and the total sales value of Thoymosin α 1 for Injection in Shanghai increased from approximately RMB254.0 million in 2011 to approximately RMB297.0 million in 2012, representing a growth rate of approximately 16.9%.

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

The total sales value of Ozagrel of Sodium for Injection in the PRC decreased from approximately RMB1.6 billion in 2011 to approximately RMB1.5 billion in 2012, representing a decrease of approximately 6.3%, and the total sales value of Ozagrel of Sodium for Injection in Zhejiang province increased from approximately RMB38.1 million in 2011 to approximately RMB51.1 million in 2012, representing a growth rate of approximately 34.1%.

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

The total sales value of Isepamicin Sulfate Injection in the PRC decreased from approximately RMB247.0 million in 2011 to approximately RMB184.0 million in 2012, representing a decrease of approximately 25.5%, and the total sales value of Isepamicin Sulfate Injection in Zhejiang province increased from approximately RMB53.3 million in 2011 to approximately RMB54.3 million in 2012, representing a growth rate of approximately 1.9%.

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

The total sales value of Alanyl Glutamine for Injection in the PRC increased from approximately RMB1.6 billion in 2011 to approximately RMB1.9 billion in 2012, representing a growth rate of approximately 18.8%, and the total sales value of Alanyl Glutamine for Injection in Zhejiang province increased from approximately RMB28.7 million in 2011 to approximately RMB33.8 million in 2012, representing a growth rate of approximately 17.8%.

Cefixime Dispersible Tablets (頭孢克肟分散片)

The total sales value of Cefixime Dispersible Tablet in the PRC increased from approximately RMB3.0 billion in 2011 to approximately RMB3.4 billion in 2012, representing a growth rate of approximately 13.3%, and the total sales value of Cefixime Dispersible Tablets in Zhejiang province increased from approximately RMB34.6 million in 2011 to approximately RMB36.9 million in 2012, representing a growth rate of approximately 6.6%.

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

The total sales value of Cefoxitin Sodium for Injection in the PRC increased from approximately RMB3.21 billion in 2011 to approximately RMB3.25 billion in 2012, representing a growth rate of approximately 1.2%, and the total sales value of Cefoxitin Sodium for Injection in Zhejiang province increased from approximately RMB184.0 million in 2011 to approximately RMB207.0 million in 2012, representing a growth rate of approximately 12.5%.

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

The total sales value of Ceftizoxime Sodium for Injection in the PRC increased from approximately RMB2.8 billion in 2011 to approximately RMB3.2 billion in 2012, representing a increase of approximately 14.3%, and the total sales value of Ceftizoxime Sodium for Injection in Zhejiang province decreased from approximately RMB201.0 million in 2011 to approximately RMB189.0 million in 2012, representing a decrease of approximately 6.0%.

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

The total sales value of Sulbenicillin Sodium for Injection in the PRC increased from approximately RMB[0.9] billion in 2011 to approximately RMB[1.5] billion in 2012, representing a increase of approximately [66.7]%, and the total sales value of Sulbenicillin Sodium for Injection in Zhejiang province increased from approximately RMB[226.0] million in 2011 to approximately RMB[312.0] million in 2012, representing an increase of approximately [38.1]%.

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

The total sales value of Clostridium Butyricum Capsule in the PRC increased from approximately RMB[0.3] billion in 2011 to approximately RMB[0.4] billion in 2012, representing a increase of approximately [33.3]%, and the total sales value of Clostridium Butyricum Capsule in Zhejiang province increased from approximately RMB[26.0] million in 2011 to approximately RMB[58.0] million in 2012, representing an increase of approximately [123.1]%.

OVERVIEW

This section of this document contains a summary of certain laws and regulations currently relevant to the Group's operations. Having made all reasonable enquiries and to their best knowledge, the Directors confirm that save as disclosed in this section and the section headed "Risk factors" in this document, we have complied with all material applicable laws and regulations in the PRC, where we operated during the Track Record Period and [as at the Latest Practicable Date], and we had obtained all necessary permits, licenses and certificates for our operations.

REGULATORY FRAMEWORK

As a distributor of pharmaceutical products, we are subject to regulations and supervision by different levels of the food and drug administration in the PRC. The Law of the PRC on the Administration of Pharmaceuticals (中華人民共和國藥品管理法) (the **"Pharmaceuticals Law"**) promulgated by the Standing Committee of the National People's Congress of the PRC on 20 September 1984 and amended on 28 February 2001 (the amendments came into effect on 1 December 2001), together with the Implementation Regulation of the Law of the PRC on the Administration of Pharmaceuticals (中華人民共和國藥品管理法實施條例) (the **"Implementation Regulation"**) promulgated by the State Council on 4 August 2002 and effective on 15 September 2002, provides the legal framework for the administration of the production and sale of pharmaceutical products in the PRC which covers the manufacturing, distributing, packaging, pricing and advertising of pharmaceutical products in the PRC. We are also subject to other PRC laws and regulations governing the distribution of pharmaceutical products.

Principal Administrative Authorities

As the competent authority of the industry, CFDA, the successor of SFDA, is responsible for administrative supervision and technical supervision over the research, production, circulation and usage of drugs, including Chinese medicines in the PRC. The local drug administrative authorities at the level of provinces, autonomous regions and municipalities directly under the PRC central government are responsible for supervision and administration of drugs within their respective administrative regions.

NHFPC, the successor of the Ministry of Health, is responsible for multiple supervisions over drug regulation, including but not limited to, enforcing the healthcare system reform, establishing and implementing the National Essential Drugs System (國家基本藥物制度), formulating the National List of Essential Drugs, proposing the pricing policy of drugs within the National List of Essential Drugs and supervising medical institutions.

NDRC, the successor of the China's State Development Planning Commission, is responsible for the macro-guidance and administration of the healthcare industry's development planning, technological upgrading, approval of investment programs and the economic operation status of the medical enterprises, the supervision and administration over the price of medicines and formulation of the national unified price for certain drugs.

DISTRIBUTION

Pharmaceutical Operation Permit and Business License

In accordance with the Pharmaceuticals Law, the Implementation Regulation, and the Administrative Measures of Pharmaceutical Operation Permit (藥品經營許可證管理辦法) issued by SFDA on 4 February 2004 and effective from 1 April 2004, the establishment of a wholesale pharmaceutical distribution enterprise requires the approval from the provincial drug administrative authorities of the registered locality of such wholesale pharmaceutical distribution enterprise. Upon approval, the competent authority will grant a pharmaceutical operation permit to such wholesale pharmaceutical distribution enterprise. The establishment of a retail pharmaceutical enterprise requires the approval of the local drug administrative authorities at or above the county level. Upon approval, the competent authority will grant a pharmaceutical operation permit to such retail pharmaceutical enterprise. Once these permits are received, the wholesale or retail pharmaceutical enterprise (as the case may be) shall be registered with the relevant administration for industry and commerce. The grant of such permit is subject to an inspection of the operator's facilities, warehouse, hygiene environment, quality control systems, personnel (including whether pharmacists and other professionals have the relevant qualifications) and equipment. The pharmaceutical operation permit is valid for five years. Each operation permit holder must apply for an extension of its permit within six months prior to expiration, and extensions are granted only after a re-examination of the permit holder by the authority which issued the permit. In addition, a pharmaceutical operator must obtain a business license from the relevant administration for industry and commerce prior to commencing its business.

In this connection, we have obtained the pharmaceutical operation permit granted by Zhejiang Province Food and Drug Administration, which is the competent drug administrative authority of Zhejiang province, the province where we register. We have also obtained the business license granted by and registered with the relevant administration for industry and commerce in accordance with the applicable PRC laws and regulations. Our pharmaceutical operation permit is valid till 11 May 2016.

Good Supply Practices

Under the Pharmaceuticals Law, the Implementation Regulation, the Good Supply Practices (藥品經營質量管理規範) effective from 1 July 2000, and the Administrative Measures for Certification of Good Supply Practices (藥品經營質量管理規範認證管理辦法) promulgated on and effective from 24 April 2003, each wholesale or retail operator of pharmaceutical products is required to obtain a GSP certificate from the provincial drug administrative authorities of the registered locality of such wholesale or retail operator. The GSP standards, which comprise a set of quality guidelines for operations related to pharmaceutical products, regulate pharmaceutical wholesale and retail operators to ensure the quality of pharmaceutical products in the PRC. The current applicable GSP standards require pharmaceutical operators to implement strict controls on their operation of pharmaceutical products, including standards regarding staff qualifications, premises, warehouses, inspection, equipment and facilities, management and quality control. On 22 January 2013, the Ministry of Health issued the newly revised Good Supply Practices (the "**2013 GSP**") which will take effect on 1 June 2013. The 2013 GSP comprises 187 articles in four chapters, including the General Provisions, Quality Management for Wholesale of Pharmaceutical Products, Quality Management for Retail of Pharmaceutical Products and Supplementary Provisions. As compared with the current GSP, the 2013 GSP sets higher standards for

engaging in pharmaceutical distribution, including but without limitation to improvements related to purchase channels, storage temperatures, keeping of receipts and other documents, cold-chain management and transportation. The pharmaceutical distribution enterprises will generally have a three-year transitional period to make necessary adjustments to comply with the 2013 GSP. The enterprises which fail to meet the requirements under the 2013 GSP after the three-year transitional period before 1 January 2016 will be prohibited from carrying out pharmaceutical operations. The GSP certificate is valid for five years and may be extended for another five years within three months prior to its expiration upon a re-examination by the relevant authority.

In this regard, we have obtained the GSP certificate granted by Zhejiang Province Food and Drug Administration which is the competent drug administrative authority of Zhejiang province where we register for our pharmaceutical distribution operation. Our GSP certificate is valid till 21 August 2016.

Medical Device Operation

In accordance with the Regulation on the Supervision and Administration of Medical Devices (醫療器械監督管理條例) promulgated by the State Council on 4 January 2000 and effective from 1 April 2000 and the Administrative Measures of Permits for Medical Devices Operation Enterprises (醫療器械經營企業許可證管理辦法) issued by SFDA on and effective from 9 August 2004, the state adopts classification and separate administration for medical devices. Class I medical devices are those for which safety and effectiveness may be adequately ensured through ordinary administration. Class II medical devices are those for which further control is required to ensure their safety and effectiveness. Class III medical devices are those which are implanted into human body or used for life support or sustenance, or pose potential danger to the human body and thus must be strictly controlled in respect of safety and effectiveness. No approval is required from any drug administrative authority for the establishment of an enterprise engaged in the wholesale or retail distribution of Class I medical devices. It is required to obtain an operation permit from the provincial drug administrative authorities of the registered locality of such enterprise before commencing the distribution of most Class II and all Class III medical devices. The list of classification for medical devices are set forth in the Medical Device Product Categories (醫療器械分類目錄), which is promulgated and updated by SFDA from time to time. An operation permit is valid for five years and a distributor needs to apply with the provincial drug administrative authority to renew the operation permit six months before the expiration date of the permit.

With a view to conducting the distribution of medical devices in the future, we have obtained the medical device operation enterprise permit granted by Zhejiang Province Food and Drug Administration which is the competent drug administrative authority of Zhejiang province where we register. Our medical device operation enterprise permit is valid till 28 May 2017. However, during the Track Record Period, we did not commence any business activities relating to the distribution of medical devices. Currently, we do not have any definite plan to commence such business.

Pursuant to the Pharmaceuticals Law, the Administrative Measures of Pharmaceutical Operation Permit, the Administrative Measures for Certification of Good Supply Practices, and the Administrative Measures of Permits for Medical Devices Operation Enterprises, to conduct pharmaceutical products and medical devices distribution in the PRC, our Group shall obtain approvals from the provincial drug administrative authority where it is registered, which is Zhejiang Province Food and Drug Administration. Therefore, we are not required to obtain approvals or permits from the provincial authorities other than in Zhejiang province.

Supervision and Administration of Drug Distribution

To strengthen drug supervision and administration, and maintain orderly circulation and qualities, SFDA issued the Measures of Supervision and Administration on Drug Distribution (藥品流通監督管理辦法) on 31 January 2007, which became effective from 1 May 2007. The relevant provisions are imposed on various aspects such as the purchase, sale, and storage of medicines by pharmaceutical production and operation enterprises as well as the purchase and storage of medicines by pharmaceutical institutions.

Foreign Investment in Pharmaceutical Distribution

Under the Foreign Investment Industrial Guidance Catalog (外商投資產業指導目錄) (the "**Guidance Catalog**") jointly promulgated by MOFCOM and NDRC on 31 October 2007 and effective from 1 December 2007, the wholesale, retail and dispatch of pharmaceutical products fall within the category of industries in which foreign investment is restricted. MOFCOM and NDRC amended the Guidance Catalog on 24 December 2011, which provides that, effective from 30 January 2012, the wholesale, retail and dispatch of pharmaceutical products are removed from the category of industries in which foreign investment is subject to restrictions and become falling within the category of industries in which foreign investment is permitted.

Our pharmaceutical distribution business falls within the category of industries in which foreign investment is permitted.

OTHER RELATED REGULATIONS IN THE PHARMACEUTICAL INDUSTRY

Prescription Drugs and Over-the-Counter Drugs

In order to promote safety, efficacy and convenience in the use of pharmaceutical products, SFDA published the Trial Administrative Measures regarding the Classification of Prescription Drugs and Over-the-Counter Drugs (處方藥與非處方藥分類管理辦法(試行)) on 18 June 1999, which came into effect from 1 January 2000. The administrative measures divide drugs according to their type, specification, the relevant disease or ailment which they are designed to treat, dosage and method of administration. Prescription drugs are those whose prescription, purchase and intake require prescription by practising doctors or assistant doctors. Over-the-counter drugs are those whose prescription, purchase and intake do not require prescription by practising doctors or assistant doctors. SFDA is responsible for the selection, approval, publication, and revision of the State OTC Medicine Catalog (國家非處方藥目錄).

The National List of Essential Drugs

On 18 August 2009, the Ministry of Health and eight other ministries and commissions in the PRC issued the Provisional Measures on the Administration of the National List of Essential Drugs (國家基本藥物目錄管理辦法(暫行)) and the Guidelines on the Implementation of the National Essential Drugs System (關於建立國家基本藥物制度的實施意見), which aim to promote essential medicines sold to consumers at fair prices in the PRC and ensure that the general public in the PRC has equal access to the drugs contained in the National List of Essential Drugs. On the same day, the Ministry of Health promulgated the National List of Essential Drugs (for Primary Healthcare Institutions) (國家基本藥物目錄(基層醫療衛生機構配備使用部分)). On 13 March 2013, the Ministry of Health issued the National List of Essential Drugs (2012 Edition) (國家基本藥物目錄(2012年版)) which will take effect as from 1 May 2013.

The National Medical Insurance Drugs Catalog

Pursuant to the National Medical Insurance Drugs Catalog issued by the Ministry of Human Resources and Social Security on 27 November 2009 (as amended), there are three parts in such catalog, including western medicines part, TCM part, and TCM slices part. Drugs as listed in western medicines and TCM parts of the catalog can be refunded by the social security fund, and those drugs are divided into two grades, namely Grade A and Grade B, when they are refunded by the basic medical insurance. However when they are refunded by work injury insurance or maternity insurance, the division of two different grades will not apply. Drugs as listed in TCM slices part of the catalog cannot be refunded by the social security fund. The patients who consume Grade A drugs must be reimbursed in full by the national basic medical insurance. Patients consuming Grade B drugs will be partially reimbursed, in which the proportion would depend on the financial resources of the basic medical insurance. The amount of the deductible differs from region to region in the PRC.

As at the Latest Practicable Date, 42 out of our 55 products were included in the Medical Insurance Drugs Catalogs, and were therefore subject to price control in the PRC, which involved the imposition of retail price ceilings by the PRC government. During the Track Record Period, sales of these products accounted for approximately 85.0%, 93.7% and [93.0]% of our total revenue for each of the two years ended 31 December 2011 and 2012 and for the six months ended 30 June 2013, respectively.

Safety and Credibility Rating

In order to increase the awareness of pharmaceutical product manufacturers, operators and research institutions about the safety and credibility of pharmaceutical products and medical equipment, SFDA promulgated the Tentative Regulations Regarding the Safety and Credibility Rating of Pharmaceutical Products (藥品安全信用分類管理暫行規定) on 13 September 2004, pursuant to which drug administrative authorities at the county level or above regulate the safety and credibility rating of the pharmaceutical product and medical device manufacturers, operators and research institutions in their jurisdiction by establishment of an information system through which the relevant pharmaceutical product and medical device manufacturers, operators and research institutions may be rated and rewarded accordingly. On 13 August 2012, SFDA promulgated the Drug Safety Blacklist Administrative Measures (Trial) (藥品安全"黑名單"管理規定(試行)) effective from 1 October 2012, according to which, relevant information of producers, operators and responsible persons, who have received administrative punishments due to severe violations of laws, regulations and rules regarding drug and medical device administration, will be publicised on government websites for social supervision.

Our Distributor Customers, being pharmaceutical operators in the PRC, are also subject to the safety and credibility rating administration by their respective drug administrative authorities. For example, according to the notice issued by Zhejiang Province Food and Drug Administration in June 2012, among our Distributor Customers, Huadong Medicine, Zhejiang Intec, Ningbo Pharma, Sinopharm Group Wenzhou Co., Ltd. (國藥控股溫州有限公司, formerly known as 溫州市生物藥械供應有限公司), Zhejiang Zheda Yuanzheng Medicine Co., Ltd. (浙江浙大圓正醫藥有限公司), Zhejiang Pharmaceutical Industry Co., Ltd. (浙江省醫藥工業有限公司), Wenzhou Time Pharmaceuticals Co., Ltd. (溫州時代醫藥有限公司), Wenzhou Intec Pharmaceuticals Co., Ltd. (溫州市英特藥業有限公司), Zhejiang Dade Medicine Group Zhejiang Pharmaceuticals Co., Ltd. (浙江大德藥業集團浙江醫藥有限公司), Zhejiang Xinxin Pharmaceuticals Co., Ltd. (浙江新欣醫藥有限公司), and Zhejiang Zhenyuan Co., Ltd. (浙江震元股份有限公司) are rated as "faith" for the year of 2011, and our Group are not rated as "bad faith".

Advertising Restriction

Pursuant to the Pharmaceuticals Law, the Implementation Regulation, and the Measures on the Examination of Pharmaceuticals Products Advertisement (藥品廣告審查辦法) jointly issued by SFDA and SAIC on 13 March 2007 and effective from 1 May 2007, a pharmaceutical operation enterprise seeking to advertise its pharmaceutical products must apply for an advertising approval code with the provincial drug administrative authority, subject to the prior consent from the pharmaceutical manufacturer.

Price Controls

Pursuant to the Pharmaceuticals Law, the Implementation Regulation, and the Circular on Issue of Price-controlled Pharmaceutical Products Catalog of the NDRC (國家發展和改革委員會關於印發國家發展改革委定價藥品目錄的通知) issued by NDRC on 27 June 2005 and effective from 1 August 2005, prices of pharmaceutical products are either determined by the PRC government or by market conditions. The prices of certain pharmaceutical products sold in the PRC, primarily those included in the Medical Insurance Drugs Catalogs, are subject to price controls mainly in the form of fixed prices or price ceilings. Manufacturers and operators are not allowed to set the actual price for any price-controlled product above the price ceiling or deviate from the fixed price imposed by the government. The prices of medicines that are not subject to price controls are determined freely at the discretion of the respective pharmaceutical product enterprises. The prices of medicines that are subject to price controls are administered by NDRC and provincial price control authorities. From time to time, NDRC publishes and updates a list of medicines that are subject to price controls.

Pursuant to the Notice Regarding Further Improvement of the Order of Market Price of Pharmaceutical Products and Medical Services (關於進一步整頓藥品和醫療服務市場價格秩序的意見的通知) jointly issued by NDRC, the Office of Redressing Malpractices of the State Council, the Ministry of Health, SFDA, MOFCOM, the Ministry of Finance and the Ministry of Human Resources and Social Security on 19 May 2006, the PRC government exercises price control over pharmaceutical products included in the Medical Insurance Drugs Catalogs, and made an overall adjustment of their prices by reducing the retail price of certain overpriced pharmaceutical products and increased the retail price of certain underpriced pharmaceutical products in demand for clinical use but such products have not been produced in large quantities by manufacturers due to their low retail price levels. In particular, the retail price charged by hospitals at the county level or above may not exceed 115% of the procurement cost of the relevant pharmaceutical products or 125% for certain TCM slices.

On 3 September 2012, NDRC, the Ministry of Health and the Ministry of Human Resources and Social Security jointly issued the Circular on Strengthening the Reform of Pricing for Medicines and Medical Services in County Level Public Hospitals (關於推進縣級公立醫院醫藥價格改革工作的通知). The circular sets out the general objective to further reduce patients' economic burden for medicines by way of eliminating the difference between the purchase costs and sale prices of medicines of the county level public hospitals. The circular further requires that, at the current stage of reform, certain selected pilot hospitals shall eliminate the difference between the purchase costs and sale prices of medicines and announce their medicine sales prices to the public which aims to ensure the prices of medicines sold by the selected pilot hospitals to be reduced by approximately 15%. Under the current PRC laws and regulations, no deadline for the 15% price reduction as stipulated in such circular has been set, and it is not stipulated that the aforesaid price reduction should be made one-off. As we do not own public hospitals in the PRC and our business does not render

healthcare services in the PRC, such circular does not apply to our Group. However, given that a majority of our products are distributed through our Distributor Customers to the ultimate customers which are mainly hospitals and medical institutions in the PRC, if the public hospitals have to reduce sale prices of medicines as required by the circular, there is no assurance that the public hospitals will not reduce their purchase prices of the medicines distributed by our Distributor Customers, which may in turn make us experience downward pressure on our wholesale prices and may therefore have a material adverse effect on our results of operations.

On 9 November 2009, NDRC, the Ministry of Health and the Ministry of Human Resources and Social Security jointly promulgated the Notice on Issuing Opinions on Reforming the Price Formation System of Medicine and Medical Services (關於印發改革藥品和醫療服務價格形成機制的意見的通知). According to this notice, in addition to drugs included in the Medical Insurance Drugs Catalogs and certain drugs whose production or trading tend to create monopolies, drugs listed in the National List of Essential Drugs are subject to PRC government price control. The prices of other drugs are determined by the market conditions. Moreover, on 5 March 2010, NDRC promulgated the Notice on Relevant Issues Regarding the Revising of the Price-controlled Pharmaceutical Products Catalog (關於調整〈國家發展改革委定價藥品目錄〉等有關問題的通知), which issued the new version of the Price-controlled Pharmaceutical Products Catalog of NDRC (國家發展改革委定價藥品目錄). The latest price adjustments by NDRC occurred in December 2012 and effective as from 1 February 2013 when NDRC promulgated the Notice for Adjustment of the Prices of Medicines for Respiratory, Antipyretic Analgesics and Specialty Special Medications (關於調整呼吸解熱鎮痛和專科特殊用藥等藥品價格及有關問題的通知) setting out the ceiling prices for certain medicines within these therapeutic areas.

Fixed prices and price ceilings on medicines are determined based on the profit margins that the relevant government authorities deem reasonable, the type and quality of the medicine, the average production costs, and the prices of substitute medicines. If a particular pharmaceutical product is significantly superior to comparable products in terms of effectiveness, safety, treatment cycle and costs of treatment, its manufacturer or operator may apply to the provincial price authority for preliminary examination for separate pricing. In the event that the applicant is satisfied with the requirements of separate pricing, the provincial price authority will come up with its preliminary opinion on the application and submit such opinion to NDRC. Upon receiving the preliminary examination opinion from the provincial price authority by NDRC, the separate pricing plan for the pharmaceutical product in question will be determined by NDRC after expounded through peer review or public hearing. For the separately priced pharmaceutical products, NDRC will conduct market tracking survey and make adjustments from time to time.

To properly determine and adjust drug prices, NDRC has conducted investigations several times on the ex-factory drug prices since 2005. For example, NDRC has issued the Notice on the Investigation of Actual Ex-Factory Prices of Drugs (國家發展和改革委員會辦公廳關於調查藥品實際出廠價格的通知) on 17 May 2005 and the Notice on the Investigation of Ex-Factory Prices of Certain Drugs (國家發展和改革委員會辦公廳關於對部分藥品進行出廠價格調查的通知) in July 2010 to conduct investigations of ex-factory prices of selected drugs. To comprehensively regulate how investigation of ex-factory prices of drugs should be conducted, NDRC issued the Measures on the Investigation of Ex-Factory Prices of Drugs (Trial Implementation) (藥品出廠價格調查辦法(試行)) (the "**Measures**") on 9 November 2011 and effective as from 1 December 2011, which apply to the investigation of ex-factory prices of domestic or repackaged import drugs organised by NDRC, acting through the drug pricing evaluation center of NDRC or the provincial price control authorities. The Measures have stipulated the scope of investigation which will generally cover information relating to the ex-factory prices and the sales of the selected drugs during certain period, the obligation of the pharmaceutical manufacturers under investigation to provide relevant information and to submit supporting materials, as well as the approaches and procedures of investigation conducted by NDRC or provincial price control authorities. Furthermore, to strengthen the implementation of the Measures, NDRC issued the Notice on Enforcement of Investigation and Survey of Ex-Factory Prices of Drugs (國家發展和改革委員會辦公廳關於加強藥品出廠價格調查和監測工作的通知) on 26 March 2012. Due to the implementation of the Measures and other relevant regulations, the government will be able to use the results of the investigation to set the fixed prices or price ceilings of the price-controlled drugs, which may lead to further downward adjustments in the prices of drugs.

As at the Latest Practicable Date, 42 out of our 55 products were included in the Medical Insurance Drugs Catalogs, and were therefore subject to price control by NDRC or provincial price control authorities under applicable PRC laws and regulations principally including the regulations mentioned above. As patients in the PRC purchasing pharmaceutical products that are listed in the Medical Insurance Drugs Catalogs are eligible for full or partial reimbursement under national and provincial medical insurance, work injury insurance and maternity insurance programs, pharmaceutical products that are listed in the Medical Insurance Drugs Catalogs are generally more attractive to hospitals and end customers than other products that are not listed. During the Track Record Period and as at the Latest Practicable Date, none of our products is sold above the price ceilings prescribed by the PRC government. For the products affected by the price adjustments, we will renegotiate with the relevant suppliers to adjust the purchase prices and/or renegotiate with the relevant Distributor Customers to adjust the selling prices. We may consider ceasing to distribute our certain products or selecting other suppliers to mitigate the impact of the price adjustments. Although our results of operation during the Track Record Period were not materially and adversely affected by any price adjustments imposed by the PRC government in relation to our products included in the Medical Insurance Drugs Catalogs, there is no assurance that the PRC government will not implement stricter price control or impose additional restrictions. Any such measures may cause our sales to decline and adversely affect our revenue. Please refer to the section headed "Risk Factors – Risks Relating to the Industry – Our products are subject to price controls and we do not have full discretion over the pricing of such products".

Collective Tendering System for Procurement of Pharmaceutical Products by Medical Organisations

On 7 July 2010, the Ministry of Health and six other authorities jointly promulgated the Rules on Collective Procurement of Pharmaceutical Products by Medical Organisations (醫療機構藥品集中採購工作規範). Pursuant to these Rules, non-profit-making medical organisations established by the governments of county or above level and State-owned enterprises must participate in the collective tendering system for procurement of pharmaceutical products. The medical organisations are required to purchase substantially all pharmaceutical products (except certain anesthetics and anti-psychotic drugs, bulk drugs, Chinese traditional medicines and other drugs as specified in relevant regulations) through the centralised platforms organised by the provincial governments. The collective tendering system include open tendering, invited tendering and direct procurement organised by the provincial governments. In principle, open tendering shall apply to all pharmaceutical products that can be purchased by this means. Invited bidding may be adopted in the circumstances where there is a relatively lower demand for procurement of the relevant pharmaceutical product or where there are less or no potential bidders. Direct procurement applies only in respect of certain low-price pharmaceutical products whose prices have been stabilised after being purchased through the collective tendering system for a number of times. The manufacturers of pharmaceutical products are directly responsible for the tendering process and after winning the tenders may entrust distributors of the relevant pharmaceutical products to deliver the products to the medical organisations.

As a majority of our products are distributed through our Distributor Customers to the ultimate customers which are mainly hospitals nationwide in the PRC, if our suppliers are unsuccessful in the tender processes, our sales to hospitals through the Distributor Customers would inevitably decrease, which could result in a material adverse effect on our business, financial condition and results of operations. Please refer to the section headed "Risk Factors – Risks Relating to the Business – Our suppliers may not be always successful in winning the tender process which may hence affect our product penetration to the hospitals in the PRC".

According to the Rules on Collective Tender Procurement of Pharmaceutical Products by Medical Organisations (Trial) (醫療機構藥品集中招標採購工作規範(試行)) jointly issued by six authorities including without limitation the Ministry of Health and SFDA in November 2001 which have been abolished in July 2010, the Document Template for Collective Tender and Collective Centralised Bargaining Procurement of Pharmaceutical Products by Medical Organisations (Trial) (醫療機構藥品集中招標採購和集中議價採購文件範本(試行)) issued by the Ministry of Health in November 2001, and the Rules on

Collective Procurement of Pharmaceutical Products by Medical Organisations, the main differences between open tendering and centralised bargaining are set forth in the following table:

Open tendering	Centralised bargaining
Collective procurement of pharmaceutical products by public medical organisations shall principally take the form of tendering, including open bidding and invited bidding.	Collective procurement of pharmaceutical products by public medical organisations shall not be conducted by way of centralised bargaining, unless pharmaceutical products cannot be purchased through tendering process.
No price negotiation is allowed between bidders and bid inviters.	Price negotiation is allowed between bidders and bid inviters.
The bid offer during tendering process is confidential.	The offer during centralised bargaining process is open.

Regulations relating to the Manufacturing of Pharmaceutical Products Distributed by Us

We, being only a pharmaceutical distributor, source and procure our products from the pharmaceutical manufacturers and pharmaceutical companies throughout different provinces in the PRC. Therefore, the regulations relating to the manufacturing of pharmaceutical products may also affect our pharmaceutical distribution operation.

According to the Implementation Regulation and the Administrative Measures on the Supervision of the Manufacture of Pharmaceuticals (藥品生產監督管理辦法) issued by SFDA on 5 August 2004, the manufacturer of pharmaceuticals must obtain a pharmaceutical production permit from the provincial drug administrative authority of its registered locality and a GMP certificate, both of which will be valid for five years and may be renewed upon a re-examination by the relevant authority at least six months prior to its expiration date. On 17 January 2011, the Ministry of Health promulgated the current version of GMP standards (2010 revised version), which became effective on 1 March 2011. The current GMP standards place greater emphasis on the use of effective quality control system by pharmaceutical manufacturers, through the strengthening of drug manufacturing quality management systems, and also include new processes and measures for supplier audits, change control, more secure approaches for procurement of excipients and other raw materials, and other measures to help prevent and correct quality failures.

The major new requirements under the revised GMP standards are as follows:

- The revised GMP standards have 14 chapters and 313 articles, as compared with the previous GMP standards which had only 14 chapters and 88 articles, and contain much more detailed requirements on key aspects of the manufacturing process of the pharmaceuticals.

- The revised GMP standards shift the focus of GMP requirements from the technical standards of the manufacturing facilities to the maintenance and operation of a comprehensive, effective pharmaceutical quality control system by the manufacturer.

- The revised GMP standards have raised the clean room requirements, added online surveillance requirements and refined standards for sterile drugs.

- The revised GMP standards set forth in details the responsibilities of key personnel in the manufacturing process and quality control of pharmaceuticals.

- The revised GMP standards have added more specific requirements on such aspects as documentation, concept of quality risk management, new requirements on supplier audit, change control, corrective and preventive actions, product quality review, deviation management, continuous product stability inspection, and product quality retrospective analysis.

The existing pharmaceutical manufacturers will generally have a transitional period up to five years (before 31 December 2015, but for sterile manufacturers such as blood/vaccine/injection product before 31 December 2013) to make necessary adjustments to comply with the 2010 revised version GMP. The enterprises which fail to meet the requirements under the 2010 revised version GMP after the transitional period will be prohibited from carrying out pharmaceutical manufacturing operations. In addition, according to the Administrative Measures on Drug Registration (藥品註冊管理辦法) issued by SFDA on 10 July 2007 and effective from 1 October 2007, a medicine must be registered with and approved by SFDA before it can be manufactured.

Regulations relating to Antibiotics

NHFPC issued the Campaign Schemes to Regulate the Use of Antibiotics for the Years of 2011, 2012 and 2013 (2011年全國抗菌藥物臨床應用專項整治活動方案, 2012年全國抗菌藥物臨床應用專項整治活動方案 and 2013年全國抗菌藥物臨床應用專項整治活動方案), respectively, on 18 April 2011, 5 March 2012 and 6 May 2013, and the Administrative Measures on the Clinical Use of Antibiotics (抗菌藥物臨床應用管理辦法) on 24 April 2012, which (i) classify antibiotics into three categories, including non-limited use, limited use and special use, (ii) require the hospitals to sort the antibiotics they use and assign different prescription rights to doctors on different levels, (iii) limit the numbers of antibiotics used by hospitals on different levels, and (iv) require the provincial health authorities to formulate their catalogues of the antibiotics on their own. On 19 July 2012, Zhejiang Provincial Health Bureau issued 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)), according to which certain of the major products distributed by us, including Cefoxitin Sodium for Injection (注射用頭孢西丁鈉), Cefodizime Sodium for Injection (注射用頭孢地嗪鈉), Isepamicin Sulfate Injection (硫酸異帕米星注射液), Cefixime Dispersible Tablet (頭孢克肟分散片) and Ceftizoxime Sodium for Injection (注射用頭孢唑肟鈉), fall within the category of limited use.

Regulations on Commercial Bribery in the Pharmaceutical Industry

According to the Anti Unfair Competition Law of the PRC (中華人民共和國反不正當競爭法) promulgated by the Standing Committee of the National People's Congress of the PRC on 2 September 1993 and effective on 1 December 1993, business operators who practise bribery by giving properties or using any other method in order to sell or purchase the commodities shall be imposed fine in an amount from more than RMB10,000 to less than RMB200,000 and shall have their illegal income confiscated, and in severe circumstances, may be subject to criminal liability.

Under the Pharmaceuticals Law, if pharmaceutical manufacturers, operation enterprises or medical institutions give or receive commissions or other interests in secret during the purchase or sale of pharmaceuticals, or if pharmaceutical manufacturers, operation enterprises or their agents give any property or other interests to the responsible persons, purchasing staff, physicians or other relevant persons in the medical institutions where their medicines are used, fines shall be imposed and the unlawful income shall be confiscated by the relevant administration for industry and commerce who, if the circumstances are severe, shall revoke the business licenses of the pharmaceutical manufacturers or operation enterprises, and shall notify the drug administrative authorities which shall revoke the pharmaceutical manufacturing permits or pharmaceutical operation permits. If a crime is constituted, an investigation shall be made for criminal liabilities. If the responsible persons or purchasing staff of pharmaceutical manufacturers or operation enterprises receive any property or other interests from other manufacturers or operation enterprises or their agents during the purchase or sale of medicines, they shall be punished according to relevant regulations and shall have their unlawful income confiscated, and in severe circumstances, may be subject to criminal liability.

To prevent the occurrence of any incident concerning corruption, bribery, abuse or other improper conducts engaged by our Group or our employees or affiliates, we have established an internal control system. For details of the internal control system of our Group, please refer to the section headed "Business – Internal Control" of this document.

OCCUPATIONAL HEALTH AND SAFETY

Pursuant to the Labour Law of the PRC (中華人民共和國勞動法) promulgated by the Standing Committee of the National People's Congress of the PRC on 5 July 1994 and effective from 1 January 1995, employers must establish a comprehensive management system to protect the rights of their employees, including a system governing occupational health and safety to provide employees with occupational training.

Pursuant to the Law of Manufacturing Safety of the PRC (中華人民共和國安全生產法) effective from 1 November 2002 and amended on 27 August 2009, manufacturers and operators must establish a comprehensive management system to ensure manufacturing safety in accordance with applicable laws and regulations. Manufacturers or operators who do not meet relevant legal requirements are not permitted to conduct business activities.

According to the Labour Contract Law of the PRC (中華人民共和國勞動合同法) promulgated by the Standing Committee of the National People's Congress on 29 June 2007 and effective from 1 January 2008 and as amended on 28 December 2012 (the amendments will take effect on 1 July 2013), employers are required to truthfully inform prospective employees of the job description, working conditions, location, occupational hazards and status of safe production as well as remuneration and other conditions as requested by the Labour Contract Law of the PRC.

Our Group had complied with the aforesaid occupational health and safety regulations during the Track Record Period.

PRODUCT LIABILITY

In accordance with the Product Quality Law of the PRC (中華人民共和國產品質量法) (as amended on 8 July 2000 and 27 August 2009, respectively) and the PRC Tort Liability Law (中華人民共和國侵權責任法) (effective as at 1 July 2010) issued by the Standing Committee of the National People's Congress of the PRC on 22 February 1993 and 26 December 2009, respectively, where a product with any defect caused by the fault of the seller causes any harm to another person, the seller shall assume the tort liability. If a seller can neither specify the manufacturer nor specify the suppliers of a defective product, the seller shall assume the tort liability caused by such defective product. Where any harm is caused by a defective product, the victim may require compensation to be made by the manufacturer or the seller of such defective product, and if the defect of the product is caused by the manufacturer and the seller has made the compensation for the defect, the seller shall be entitled to be reimbursed by the manufacturer. If any product defect is found after such product has been put into circulation, the manufacturer or seller shall take such remedial measures as warning and recall in a timely manner. The manufacturer or seller, who fails to take remedial measures in a timely manner or take sufficient and effective measures and has caused any harm, shall assume the tort liability. In the case that a manufacturer or seller knowing any defect of a product continues to manufacture or sell the product and the defect causes a death or any serious damage to the health of another person, the victim shall be entitled to require the corresponding punitive compensation. In addition, operators who sell defective products may be subject to the confiscation of earnings from such sales, the revocation of business licenses and imposition of fines, and in severe circumstances, may be subject to criminal liability.

During the Track Record Period, there was no product liability claim against our Group. Please refer to the section headed "Risk Factors – Risks Relating to the Business – We may incur losses resulting from product liability claims as the quality of the products distributed by us is not under our control".

Drug Recalls

On 10 December 2007, SFDA issued the Administrative Measures on Drug Recalls (藥品召回管理辦法) for the purpose of strengthening supervision over drug safety and safeguarding consumers' drug use safety. Pursuant to the measures, pharmaceutical manufacturers are responsible for recalling their products that have "hidden safety problems" from the market. The "hidden safety problem" is defined as an unreasonable risk to endanger human health and life that may be caused by the drugs due to reasons in research and development or production. The recalls may be conducted on a pharmaceutical manufacturer's own initiative or at the request by SFDA or its local branches at the provincial level. Under the measures, pharmaceutical distributors mainly have the following obligations in respect of drug recalls: (i) to assist pharmaceutical manufacturers to carry out the recalls, make communications and provide feedbacks in respect of the recalls in a timely manner in accordance with the recall plans, and control and take over the returned products; (ii) when discovering any "hidden safety problems" in the drugs distributed by them, to immediately cease the distribution of the relevant drugs, and report to the manufacturers or suppliers as well as SFDA or its local branches; and (iii) to cooperate with pharmaceutical manufacturers or SFDA or its local branches in their investigations on the "hidden safety problems" of the relevant drugs and provide relevant documents.

We, as a pharmaceutical distributor, have established policies and procedures for quality control in accordance with the GSP requirements, which ensure that we would be able to fulfill the obligations under the above-mentioned measures when a recall situation occurred in respect of the products distributed by us. During the Track Record Period and up to the Latest Practicable Date, we have not experienced a recall of any products distributed by us and have not received any notification from SFDA or its local branches or any pharmaceutical manufacturer for recall of any product distributed by us.

OTHER REGULATIONS

PRC Taxation

As we are not incorporated in the PRC, your investment in our Shares is largely exempt from PRC tax laws. However, as substantially all of our business operations are conducted in the PRC and we carry out these business operations through our subsidiaries and joint venture organized under PRC law, our PRC operations and subsidiaries and joint venture in the PRC are subject to certain PRC tax laws and regulations, including those summarized below.

Enterprise Income Tax

On 1 January 2008, the EIT Law and the Implementation Rules to the EIT Law became effective, under which, both foreign invested enterprises and domestic enterprises are subject to a uniform income tax rate of 25%, unless they qualify for certain reductions or exemptions, and dividends payable by foreign invested enterprises, such as Hong Rui Bio-medical, to foreign investors are subject to PRC withholding tax at the rate of 10% unless the foreign investor's jurisdiction of incorporation has a tax treaty with the PRC that provides for a different withholding tax arrangement. Pursuant to the Arrangement between the Mainland China and Hong Kong Special Administrative Region for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to Taxes on Income (內地和香港特別行政區關於對所得避免雙重徵税和防止偷漏税的安排) effective from 8 December 2006, such withholding tax rate is lowered to 5% if a Hong Kong resident enterprise owns more than 25% of the capital of the PRC enterprise distributing the dividends. Furthermore, according to the Administrative Measures for Favorable Treatment of Non-residents under Taxation Treaties (Trial) (非居民享受税收協定待遇管理辦法(試行)) issued by the State Administration of Taxation on 24 August 2009 and effective from 1 October 2009, approvals from competent tax authorities are required before an enterprise can enjoy the aforesaid 5% preferential tax rate. An enterprise established outside of the PRC with "de facto management bodies" within the PRC is considered a "resident enterprise" and is subject to PRC enterprise income tax at the rate of 25% on its global income. Dividends received by such enterprise from its PRC subsidiaries may be exempt from paying enterprise income tax to the extent such dividends are deemed as dividends among qualified PRC resident enterprises. Under the Implementation Rules to the EIT Law, "de facto management bodies" are defined as those bodies that have material and overall management control over the business, personnel, accounts and properties of an enterprise.

Value Added Tax

According to the Interim Regulations of the People's Republic of China on Value Added Tax (中華人民共和國增值税暫行條例) promulgated by the State Council on 13 December 1993 and as amended on 10 November 2008 (the amendments took effect from 1 January 2009), all entities and individuals engaged in the sale of goods, the provision of processing, repairs and replacement services, and the importation of goods into the PRC are generally required to pay value added tax, or VAT, at a rate of 17% of the gross sales proceeds received, less any deductible VAT already paid or borne by the taxpayer. We are subject to a 17% VAT with respect to our pharmaceutical distribution operations in the PRC.

Municipal Maintenance Tax

Under the Interim Regulations of the People's Republic of China on Municipal Maintenance Tax (中華人民共和國城市維護建設税暫行條例) promulgated by the State Council on 8 February1985 and as amended on 8 January 2011, a taxpayer, whether an individual or otherwise, of product tax, value added tax or business tax shall be required to pay municipal maintenance tax. The tax rate shall be 7% for a taxpayer whose domicile is in an urban area, 5% for a taxpayer whose domicile is in a county or a town, and 1% for a taxpayer whose domicile is not in any urban area or county or town. From 1 December 2010, municipal maintenance tax became applicable to foreign invested enterprises, foreign enterprises and individuals, as well as domestic enterprises and individuals.

Education Surcharge

Under the Interim Provisions on Imposition of Education Surcharge (徵收教育費附加的暫行規定) promulgated by the State Council on 28 April 1986 and as amended on 7 June 1990, 20 August 2005 and 8 January 2011 respectively, a taxpayer, whether an individual or otherwise, of product tax, value added tax or business tax shall pay an education surcharge at a rate of 3%, unless such obliged taxpayer is instead required to pay a rural area education surcharge as provided by the Notice of the State Council on Raising Funds for Schools in Rural Areas (國務院關於籌措農村學校辦學經費的通知). From 1 December 2010, education surcharge became applicable to foreign invested enterprises, foreign enterprises and individuals, as well as domestic enterprises and individuals.

Stamp Duty

Under the Interim Regulations of the People's Republic of China on Stamp Duty (中華人民共和國印花税暫行條例) promulgated by the State Council in on 6 August 1988 and as amended on 8 January 2011, for purchase and sale contracts, the duty rate shall be 0.03% of the amount stated therein, and for account books, the stamp duty shall be levied at the rate of 0.05% of the total amount of the original value of fixed assets and working capital.

HISTORY AND BUSINESS DEVELOPMENT

Our Group was co-founded by Mr. Zhou and Mr. Dai in 2001 through Hangzhou Xin Hong. Hangzhou Xin Hong was established in the PRC on 14 March 2001 and was wholly owned by Hong Rui Bio-medical prior to the Reorganisation as described below. When our Group was first established, Mr. Zhou owned 90% interest in Hangzhou Xin Hong and was self-financed, and both Mr. Zhou and Mr. Dai participated in the operation of our business. The remaining 10% interest in Hangzhou Xin Hong was then held by Yang Qi (楊奇), Ms. Yang's brother. At the time of our establishment, we were principally engaged in marketing of pharmaceutical products in the PRC through Hangzhou Xin Hong. Having commenced our business through Hangzhou Xin Hong since 2001 in the pharmaceutical industry, we expanded our business to distribution of pharmaceutical products in 2007. Since then, we have grown to become an established pharmaceutical distributor originated from Zhejiang province and headquartered in Hangzhou, Zhejiang province.

Set out below are the key milestones in the history and business development of our Group:

2001	• Mr. Zhou and Mr. Dai co-founded our Group which was principally engaged in marketing of pharmaceutical products.
	• Mr. He joined our Group.
2005	• Ms. Yang joined our Group.
2007	• We expanded our business to distribution of pharmaceutical products.
2008	• We commenced business relationship with one of our major suppliers, Beijing Kaihongxin Pharmaceutical Company Limited* (北京凱宏鑫醫藥有限責任公司).
2009	• We commenced business relationship with our another major supplier, Baoding Huida Pharmaceutical Company Limited* (保定匯達醫藥有限公司).
	• We obtained distribution rights in Levocarnitine Injection (左卡尼汀注射液), one of our major products.
	• Our Controlling Shareholders invested in our Group.
2010	• We acquired a property in Dikai International Centre, Hangzhou, where our headquarters is currently located at.

CORPORATE DEVELOPMENT AND STRUCTURE

Hong Kong New Rich

Hong Kong New Rich is an investment holding company. It was incorporated on 7 February 2005 in Hong Kong with an authorised share capital of HK$10,000 divided into 10,000 shares of HK$1 each, of which 1 share was allotted and issued to Mr. Zhou.

On 16 January 2008, Mr. Zhou transferred his entire equity interests in Hong Kong New Rich to Max Goodrich at a consideration of HK$1.00 based on par value. The consideration was determined after arm's length negotiation and had been settled. The transfer has been completed on the same day. As a result, Hong Kong New Rich became a wholly-owned subsidiary of Max Goodrich.

Our PRC subsidiaries

Hong Rui Trading was established in the PRC as a limited liability company on 6 September 2005 with a registered capital of RMB5,000,000. Hong Rui Trading had no active business activities during the Track Record Period. Upon establishment, Hong Rui Trading was owned as to 90% by Hangzhou Xin Rui Medical Investments Co. Ltd.* (杭州新銳醫藥投資有限公司) ("**Hangzhou Xin Rui**"), 6% by Ms. Yang, 3% by Mr. Dai and 1% by Mr. He. Hangzhou Xin Rui was incorporated in the PRC on 29 July 2005 and was then owned as to 40% by Mr. Zhou, 30% by Ms. Yang and 30% by Mr. Dai. Hangzhou Xin Rui was deregistered on 8 September 2009.

Zhejiang Xin Rui Pharmaceutical was established in the PRC as a limited liability company on 26 April 2006 with a registered capital of RMB5,000,000. The principal business of Zhejiang Xin Rui Pharmaceutical is distribution of pharmaceutical products. Upon establishment, Zhejiang Xin Rui Pharmaceutical was owned as to 60% by Zhang Su Juan (張素娟), 20% by Hu Rong Gen (胡榮根) and 20% by Luo Xiao Hua (羅曉華), respectively. To the best of the Directors' knowledge and belief, each of Zhang Su Juan (張素娟), Hu Rong Gen (胡榮根) and Luo Xiao Hua (羅曉華) is an Independent Third Party.

Prior to the acquisition of Zhejiang Xin Rui Pharmaceutical in August 2007, [our distribution business was operated under the pharmaceutical operation permit (藥品經營許可證) and the GSP certificate held by Hainan Hong Rui Pharmaceutical Co. Ltd.* (海南泓銳醫藥有限公司) ("**Hainan Hong Rui**"). In view of the costs efficiency, on 1 August 2007, Hangzhou Xin Rui, Ms. Yang, Mr. Dai and Mr. He entered into an equity transfer agreement with Zhang Su Juan (張素娟), Hu Rong Gen (胡榮根) and Luo Xiao Hua (羅曉華) in relation to the acquisition of their entire equity interests in Zhejiang Xin Rui Pharmaceutical, which held the pharmaceutical operation permit (藥品經營許可證) and the GSP certificate required for operating the business of distribution of pharmaceutical products in Hangzhou, at a total consideration of RMB5,000,000. The consideration was determined after arm's length negotiations by reference to the registered capital of Zhejiang Xin Rui Pharmaceutical and had been settled by [(i) internal resources of Hangzhou Xin Rui and (ii) the respective financial resources of Ms. Yang, Mr. Dai and Mr. He]. The acquisition was completed on 31 August 2007. As a result, Zhejiang Xin Rui Pharmaceutical became owned as to 90% by Hangzhou Xin Rui, 6% by Ms. Yang, 3% by Mr. Dai and 1% by Mr. He, respectively.

In about [September] 2007, Mr. Zhou and Ms. Yang intended to emigrate and therefore, decided to dispose of their respective interests in Hainan Hong Rui, Hong Rui Trading, Zhejiang Xin Rui Pharmaceutical and Hangzhou Xin Hong. Hainan Hong Rui was then held as to 69%, 30% and 1% by Mr. Zhou, Ms. Yang and Mr. He respectively. Hangzhou Xin Hong was then held as to 40%, 30% and 30% by Mr. Zhou, Ms. Yang and Mr. Dai respectively.

In November 2007, Mr. Zhou, Ms. Yang and Mr. He transferred their respective interests in Hainan Hong Rui to Zhou Jian (周健) (Mr. Zhou's brother) and Yang Qi (楊奇) at a total consideration of RMB1,000,000. The consideration was determined after arm's length negotiations by reference to the then registered capital of Hainan Hong Rui and had been settled. The transfer was completed on 3 December 2007.

On 5 and 6 December 2007, (i) Hangzhou Xin Rui, Ms. Yang and Mr. Dai; and (ii) Mr. He respectively entered into equity transfer agreements with Hainan Hong Rui in relation to the transfer of their entire equity interests in Hong Rui Trading to Hainan Hong Rui at a total consideration of RMB5,000,000. Hainan Hong Rui was incorporated in the PRC in January

2007 and was, at the time of transfer, equally owned by Zhou Jian (周健) and Yang Qi (楊奇). The consideration of RMB5,000,000 was determined after arm's length negotiations by reference to the registered capital of Hong Rui Trading and had been settled. The transfer was completed on 6 December 2007. As a result, Hong Rui Trading became wholly-owned by Hainan Hong Rui.

On 7 December 2007, Hangzhou Xin Rui, Ms. Yang, Mr. Dai and Mr. He entered into equity transfer agreements with Hainan Hong Rui in relation to the transfer of their entire equity interests in Zhejiang Xin Rui Pharmaceutical to Hainan Hong Rui at a total consideration of RMB5,000,000. The consideration was determined after arm's length negotiations by reference to the registered capital of Zhejiang Xin Rui Pharmaceutical and had been settled. The transfer was completed on 17 December 2007. As a result, Zhejiang Xin Rui Pharmaceutical became wholly-owned by Hainan Hong Rui.

In January 2008, Mr. Zhou, Ms. Yang and Mr. Dai transferred their respective interests in Hangzhou Xin Hong to Zhou Jian (周健) and Yang Qi (楊奇) at a total consideration of RMB2,000,000. The consideration was determined after arm's length negotiations by reference to the then registered capital of Hangzhou Xin Hong and had been settled. The transfer was completed on 22 January 2008.

Mr. Zhou and Ms. Yang subsequently decided not to emigrate and decided to purchase back some of the companies they previously disposed of and noted that Hangzhou Xin Hong then held 100% interests in Hainan Hong Rui which in turn held 100% interests in each of Hong Rui Trading and Zhejiang Xin Rui Pharmaceutical. In August 2008, we, through Hong Rui Bio-medical, acquired from Zhou Jian (周健) and Yang Qi (楊奇) 100% equity interests in Hangzhou Xin Hong at a total consideration of RMB2,000,000. The consideration was determined after arm's length negotiations by reference to the then registered capital of Hangzhou Xin Hong and had been settled. The transfer was completed on 8 August 2008. As a result, Hangzhou Xin Hong became wholly-owned by Hong Rui Bio-medical.

We had carried out certain intra-group transfers and disposed of Hainan Hong Rui with a view to streamlining our group structure and centralizing our resources in Zhejiang province.

On 23 February 2009, Hainan Hong Rui entered into an equity transfer agreement with Zhejiang Xin Rui Pharmaceutical in relation to the transfer of its entire equity interests in Hong Rui Trading to Zhejiang Xin Rui Pharmaceutical at a consideration of RMB5,000,000. The consideration was determined after arm's length negotiations by reference to the registered capital of Hong Rui Trading and had been settled. The transfer was completed on 26 February 2009. As a result, Hong Rui Trading became wholly-owned by Zhejiang Xin Rui Pharmaceutical.

On 20 March 2009, Hangzhou Xin Hong entered into an equity transfer agreement with Hainan Hong Rui in relation to the acquisition of Hainan Hong Rui's entire equity interests in Zhejiang Xin Rui Pharmaceutical at a consideration of RMB5,000,000. The consideration was determined after arm's length negotiations based on the registered capital of Zhejiang Xin Rui Pharmaceutical and had been settled. The transfer was completed on 2 April 2009. As a result, Zhejiang Xin Rui Pharmaceutical became wholly-owned by Hangzhou Xin Hong.

In view of the financial and operational performance of Hainan Hong Rui, we disposed of Hainan Hong Rui to an Independent Third Party at a consideration of RMB1,000,000 on 21 January 2010 and centralized our resources in Zhejiang province. The consideration was determined after arm's length negotiations with reference to (i) the net asset value of Hainan Hong Rui; (ii) the business prospect of Hainan Hong Rui; and (iii) the prevailing market condition. Completion took place immediately after the signing of the disposal agreement between Hangzhou Xin Hong and the Independent Third Party. The consideration had been settled. We had recorded no gain or loss as a result of the disposal.

Hong Rui Bio-medical was established in the PRC as a limited liability company on 8 July 2008 with a registered capital of HK$15,000,000 and has been wholly-owned by Hong Kong New Rich since its establishment. Save for holding the entire equity interest in Zhejiang Xin Rui Pharmaceutical, Hong Rui Bio-medical does not conduct any other business activities. On 17 February 2009, the registered capital of Hong Rui Bio-medical was increased from HK$15,000,000 to HK$75,000,000.

Pursuant to SAFE Circular No. 75, each of Mr. Zhou, Mr. Dai, Ms. Yang and Mr. He is required to make applications and filings in relation to offshore investment activities as disclosed in the section above. In this connection, each of them has registered at SAFE Zhejiang branch as required under SAFE Circular No. 75.

Before 30 January 2012, pharmaceutical distribution business fell within the category of industry in which foreign investment was restricted. Under the applicable PRC laws, foreign investment projects are classified as four categories, namely, encouraged category, permitted category, restricted category and prohibited category, while foreign investors can invest in the industry in which foreign investment is encouraged, restricted or permitted according to the applicable PRC laws. As pharmaceutical distribution business fell within the category of industry in which foreign investment was restricted before 30 January 2012 and has since 30 January 2012 been permitted, foreign investors can engage in pharmaceutical distribution business before and after 30 January 2012. According to the applicable PRC laws, foreign invested enterprises or enterprises owned by foreign invested enterprises falling within the category of industry in which foreign investment was restricted are required to be approved by competent commerce authorities, and there is no provision under the applicable PRC laws under which approval from commerce authorities is required for enterprises owned by enterprises held by foreign invested enterprises. We conducted our pharmaceutical distribution business through Zhejiang Xin Rui Pharmaceutical, being then held by Hangzhou Xin Hong, which was in turn held by Hong Rui Bio-medical (a foreign invested enterprise). Since Zhejiang Xin Rui Pharmaceutical was an enterprise owned by enterprises held by foreign invested enterprises (other than foreign invested enterprises or enterprise owned by foreign invested enterprise), no approval from competent commerce authorities was required. The aforesaid structure is not in violation of and complies with the applicable PRC laws and regulations. Meanwhile, Zhejiang Xin Rui Pharmaceutical has renewed its pharmaceutical operation permit and gone through the annual inspection with the competent administrative authorities in compliance with the applicable PRC laws and regulations. On 28 April 2013, [●] visited Foreign Trade and Economic Cooperation Bureau Jianggan District Hangzhou, the competent authority and consulted about our historical and current structure's legality. The director of the Foreign Investment office, the competent person, confirmed that our historical and current structure is not in violation of and complies with the applicable PRC laws and regulations. Under the relevant PRC laws and regulations, Hangzhou city is a sub-provincial city (副省級城市), and Hangzhou Foreign Trade and Economic Cooperation Bureau is a provincial commerce authority. According to the relevant regulations issued by Hangzhou city

government, since 2004, Foreign Trade and Economic Cooperation Bureau Jianggan District Hangzhou has been empowered to exercise the authority to approve the foreign invested enterprises with the total investment of less than USD30,000,000 within its jurisdiction, and the total investment of our Group is less than USD30,000,000. Therefore, Foreign Trade and Economic Cooperation Bureau Jianggan District Hangzhou is the competent authority to approve and supervise our Group. Furthermore, generally speaking, any application and/or consultation need to be submitted to the government authorities at the district level first. The government authorities at provincial level generally do not accept any application or consultation directly. On 5 June 2013, [●] further visited Hangzhou Foreign Trade and Economic Cooperation Bureau and consulted the deputy director of the Service Department for Enterprise with Foreign Investment, who also considers that our historical and current structure is not in violation of the applicable PRC laws and regulations. Based on the foregoing, our PRC legal adviser is of the view that the likelihood of the confirmation of Foreign Trade and Economic Cooperation Bureau Jianggan District Hangzhou to be challenged by the relevant authority at provincial level is remote.

Max Goodrich

Max Goodrich is an investment holding company. It was incorporated on 21 September 2007 in the BVI and is authorised to issue 50,000 shares of a single class, with a par value of US$1 each. On 3 December 2007, the issued share capital of Max Goodrich was US$10,000 divided into 10,000 shares of US$1.00 each. It was owned as to 40% by Mr. Zhou, 30% by Mr. Dai, 29% by Ms. Yang and 1% by Mr. He, respectively, on the same day. For the period from 3 December 2007 to 18 November 2008, Mr. He held the 1% interest in Max Goodrich (represented by 100 shares) in trust for the benefit of Mr. Zhou (the "**Trust Arrangement**"). In view of Mr. He's experience in the pharmaceutical products distribution business and his contribution to our Group and to provide incentive to him to serve our Group, Mr. Zhou then intended to give the 100 shares in Max Goodrich held under the Trust Arrangement to Mr. He as gift when the development of our Group became stable.

On 1 September 2008, Max Goodrich issued and allotted 116 shares, 87 shares and 87 shares at par, to Mr. Zhou, Mr. Dai and Ms. Yang, respectively credited as fully paid. As a result, Max Goodrich was owned as to 40.00% by Mr. Zhou, 30.00% by Mr. Dai, approximately 29.03% by Ms. Yang and approximately 0.97% by Mr. He, respectively.

In contemplation of Town Health Pharmaceutical's investment in Max Goodrich, Mr. Zhou decided to cancel the Trust Arrangement. On 18 November 2008, at the request of Mr. Zhou, Mr. He transferred his 0.97% equity interests in Max Goodrich to Mr. Zhou (represented by the 100 shares held under the Trust Arrangement). The transfer was completed on the same day. As a result, Max Goodrich became owned as to approximately 40.97% by Mr. Zhou, 30.00% by Mr. Dai and approximately 29.03% by Ms. Yang, respectively.

On 1 April 2009, Max Goodrich issued and allotted 10,710 shares to Town Health Pharmaceutical at a consideration of RMB66,600,000, which was determined after arms' length negotiations between Town Health Pharmaceutical and Max Goodrich taking into account (i) the unaudited combined net asset value of Hong Kong New Rich of approximately RMB37.7 million as at 31 March 2008; (ii) the business and development of Max Goodrich and its subsidiaries at that time; and (iii) the guarantee by Mr. Zhou of the audited consolidated net profit after taxation but before extraordinary items of Max Goodrich for each of the four financial years ended 31 March 2012 being not less than RMB10,000,000. The

consideration had been fully paid. As a result, Max Goodrich was owned as to 51% by Town Health Pharmaceutical, approximately 20.08% by Mr. Zhou, approximately 14.70% by Mr. Dai and approximately 14.22% by Ms. Yang, respectively. We had applied the proceeds of RMB66,600,000 raised from Town Health Pharmaceutical's subscription of the interests in Max Goodrich as described above as to (i) approximately 34.5% for payment of deposits to our suppliers, (ii) approximately 25.5% for repayment of loans from related parties, (iii) approximately 16.9% for acquisition of 45% interest in Shenyang Meilou, (iv) approximately 16.2% for acquisition of the property in Dikai International Centre in Hangzhou where our headquarters currently locates, (v) approximately 4.0% for acquisitions of fixed assets (including vehicles and warehouse's facilities) for our business operation, (vi) approximately 1.5% for investment in and provision of funding to Haikou Xin Lang, and (vii) the balance of approximately 1.4% for general working capital.

On 26 April 2010, Town Health Pharmaceutical and Ms. Yang entered into a sale and purchase agreement with Mr. He, pursuant to which each of Town Health Pharmaceutical and Ms. Yang agreed to transfer their respective 3% equity interests in Max Goodrich (representing an aggregate of 6% equity interests of Max Goodrich) to Mr. He at a consideration of HK$4,800,000, which was determined by Town Health Pharmaceutical, Ms. Yang and Mr. He after arm's length negotiations with reference to (i) the net asset value and the business prospect of Max Goodrich and its subsidiaries; (ii) the prevailing market condition; and (iii) the contribution made by Mr. He to Max Goodrich and its subsidiaries. The consideration had been settled and the transfer was completed on 11 June 2010. As a result, Max Goodrich was owned as to 48% by Town Health Pharmaceutical, approximately 20.08% by Mr. Zhou, approximately 14.70% by Mr. Dai, approximately 11.22% by Ms. Yang and 6% by Mr. He, respectively.

The aforesaid transfer of 3% equity interests in Max Goodrich by Town Health Pharmaceutical to Mr. He may be exposed to the risk of the application of SAT Circular No. 698. As it is not clear how to calculate the effective tax rate and how to determine whether there is any abusive structuring arrangement or whether it lacks reasonable commercial purpose regarding the aforesaid 3% equity transfer in Max Goodrich, it is uncertain whether and how SAT Circular No. 698 would apply to the aforesaid equity transfer. In the event that competent PRC tax authority determines in the future that SAT Circular No. 698 is applicable to the aforesaid equity transfer, Town Health Pharmaceutical may be subject to relevant reporting obligations. If the competent PRC tax authority considers that it lacks reasonable commercial purpose and its establishment is an abuse structuring arrangement for the purpose of the PRC tax avoidance, it may disregard the existence of the overseas holding company. Town Health Pharmaceutical may be therefore required to pay PRC income tax regarding its gains derived from such equity transfer. If the tax authority finally determines in the future that SAT Circular No. 698 is applicable, even though our Group is neither the obliged taxpayer nor the obligatory withholder under SAT Circular No. 698 and the tax obligation remains with the transferor, i.e. Town Health Pharmaceutical, our Group is required to assist the tax authority to levy the tax. There is no provision as how to define the scope of assistance our Group shall provide and the tax authority shall have the jurisdiction to define such a broad definition. As a result, our Group may incur expense or losses to provide such assistance, or may even be exposed to the risk of the competent PRC tax authority's requirement to be responsible for such tax payment (which may amount to approximately HK$84,000). However, whether or not SAT Circular No. 698 is applicable on such equity transfer is not certain and thus the potential maximum tax liabilities on the aforesaid equity transfer cannot be quantified as at the Latest Practicable Date. Particulars of such uncertainty as to the application of SAT Circular No. 698 are set out in the section headed "Risk Factors" of this

document. In this regard, Town Health International, being the holding company of Town Health Pharmaceutical will indemnify our Group against any liability or loss that our Group may incur with respect to or resulting from the aforesaid equity transfer transaction pursuant to the Deed of Indemnity.

On 12 November 2010, Mr. Dai transferred his 3% equity interests in Max Goodrich to Mr. Cheung Lam Hung at a consideration of HK$12,000,000. To the best of the Directors' knowledge and belief, Mr. Cheung Lam Hung is an Independent Third Party. The consideration was determined after arm's length negotiations with reference to the combined book value, the business prospect of Max Goodrich and the anticipated potential return upon successful fund raising in relation to Max Goodrich distribution business. The transfer was completed on the same day. The consideration was paid by cheque upon completion which was subsequently cleared in April 2011.

On 15 December 2011, Ms. Yang transferred her 3% equity interests in Max Goodrich to Mr. Chau Kai Man at a consideration of HK$3,300,000, which was determined after arm's length negotiations with reference to the combined book value of Max Goodrich group. On the same day, Mr. Cheung Lam Hung, having considered the market condition, his own circumstances, and that the anticipated investment return would not be forthcoming within a short period of time, transferred his 3% equity interests in Max Goodrich to Mr. Chau Kai Man at a consideration of HK$3,300,000, which was determined after arm's length negotiations with reference to the combined book value of Max Goodrich group. The total consideration had been settled. The transfers were completed on the same day. As a result of the transfers, Max Goodrich was owned as to 48% by Town Health Pharmaceutical, approximately 20.08% by Mr. Zhou, 11.70% by Mr. Dai, approximately 8.22% by Ms. Yang, 6% by Mr. He and 6% by Mr. Chau Kai Man, respectively.

On 24 May 2012, Mr. Chau Kai Man transferred his entire interests in Max Goodrich to Festive Mood Group Ltd (a company wholly-owned by him) in consideration of issue and allotment of 1 share in Festive Mood Group Ltd to him. To the best of the Directors' knowledge and belief, save for his shareholding in Festive Mood Group Ltd, one of the Shareholders, Mr. Chau Kai Man has no other relationship with other Shareholders. As a result of the transfer, Max Goodrich was owned as to 48% by Town Health Pharmaceutical, approximately 20.08% by Mr. Zhou, 11.70% by Mr. Dai, approximately 8.22% by Ms. Yang, 6% by Mr. He and 6% by Festive Mood Group Ltd, respectively and such shareholding structure remained the same until the Reorganisation as described below.

Our Company

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.

JOINT VENTURE

Haikou Xin Lang

Haikou Xin Lang, our joint venture, was established in the PRC as a limited liability company on 18 May 2011 with a registered capital of RMB1,000,000 and has been owned as to 50.1% by Zhejiang Xin Rui Pharmaceutical and as to 49.9% by Lodays Pharma (Hubei), respectively, since its establishment. To the best of the Directors' knowledge and belief, Lodays Pharma (Hubei) is an Independent Third Party. Haikou Xin Lang is principally engaged in medical technology development.

REORGANISATION

Our Group has carried out the Reorganisation which involved the following steps:

(a) To streamline our Group structure and reduce operation costs, in February 2012, the Group decided to undergo an internal rationalisation, pursuant to which, (i) Hangzhou Xin Hong disposed Zhejiang Xin Rui Pharmaceutical to Hong Rui Bio-medical on 20 February 2012 and (ii) Hong Rui Bio-medical merged with Hangzhou Xin Hong which was then deregistered (the "**Merger**"). After the Merger, the total investment amount and the registered capital of Hong Rui Bio-medical remained unchanged; and all debts and liabilities of Hangzhou Xin Hong were borne by Hong Rui Bio-medical. The Merger was completed on 19 June 2012.

(b) On 9 August 2012, our Company was incorporated under the laws of Bermuda with an authorised share capital of HK$100,000 consisting of 10,000,000 Shares. On 23 August 2012, 1 Share was issued and allotted to Town Health Pharmaceutical at nil consideration.

(c) On 26 September 2013, our Company entered into a deed for sale and purchase with, inter alia, the Max Goodrich Shareholders, pursuant to which our Company acquired from the Max Goodrich Shareholders the entire issued share capital of Max Goodrich in consideration of (i) the allotment and issue by our Company of an aggregate of 20,999 Shares to the Max Goodrich Shareholders credited as fully paid in such proportion as shall mirror their then respective shareholding of Max Goodrich such that the shareholding structure of Max Goodrich is replicated at our Company level and (ii) the crediting as fully paid at par the one nil-paid Share held by Town Health Pharmaceutical.

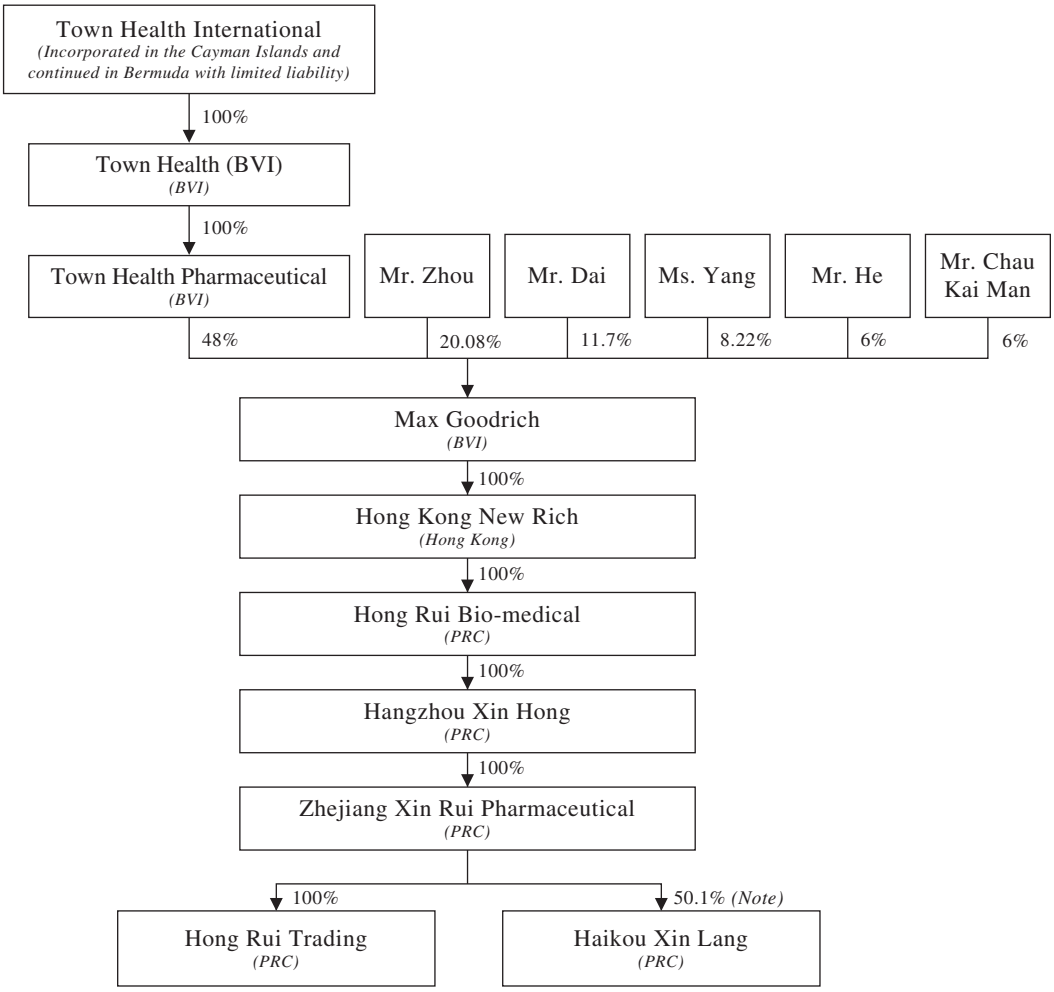
Our Group's Reorganisation, insofar as it relates to PRC laws or regulations, complied with all applicable PRC laws and regulations, including the M&A Rules.

TAX IMPLICATION

Having made all reasonable enquiries and to their best knowledge, save for the transfer of 3% equity interests in Max Goodrich by Town Health Pharmaceutical to Mr. He in April 2010 which may be exposed to the risk of the application of SAT Circular No. 698, our Directors are not aware of any potential tax liability on our Group's PRC subsidiaries from the equity transfers in the history as disclosed in this section.

OUR GROUP'S CORPORATE STRUCTURE

The following chart sets out the corporate and shareholding structure of our Group immediately before the Reorganisation:

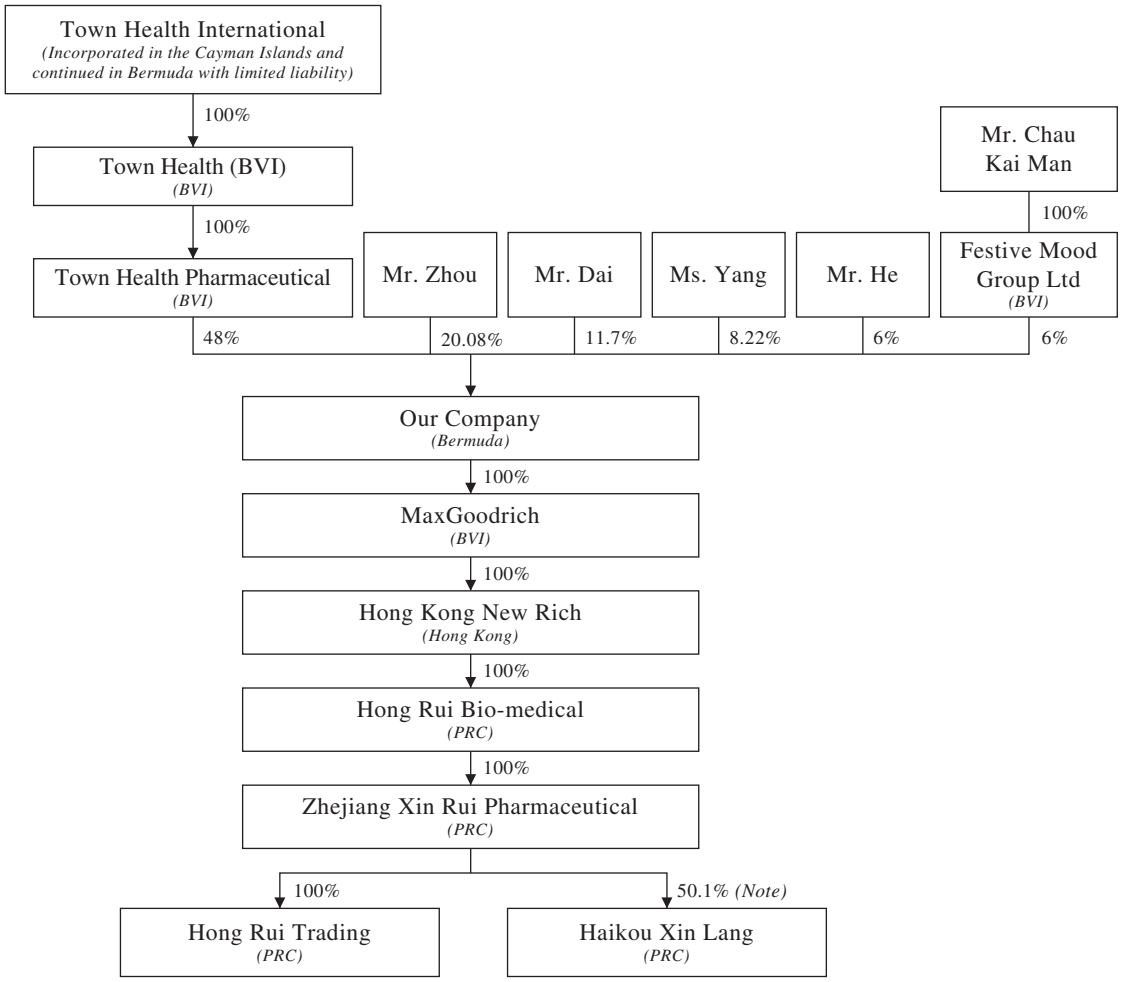


Note:

Haikou Xin Lang is a joint venture held as to 50.1% by Zhejiang Xin Rui Pharmaceutical and 49.9% by Lodays Pharma (Hubei), an Independent Third Party.

HISTORY AND DEVELOPMENT

The following chart sets out the corporate and shareholding structure of our Group after the Reorganisation:



Note:

Haikou Xin Lang is a joint venture held as to 50.1% by Zhejiang Xin Rui Pharmaceutical and 49.9% by Lodays Pharma (Hubei), an Independent Third Party.

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 with a focus in Zhejiang province. We mainly serve as a provincial pharmaceutical distributor, and also a national distributor for some of our products. We start involving our pharmaceutical distribution business from the stage of acquisition of distribution rights of pharmaceutical products from our suppliers, conducting market research and market development of our new products, providing assistance and co-ordination in the 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 [46] small to medium pharmaceutical manufacturers or companies throughout different provinces in the PRC by obtaining national, provincial or regional distribution rights, and then distribute pharmaceutical products to our Distributor Customers. A majority of our products will in turn be distributed through our Distributor Customers to the ultimate customers which mainly comprise hospitals and medical institutions in the PRC in accordance with the geographical exclusivity of our products. All of the pharmaceutical products distributed by our Group are generic pharmaceutical products.

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

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

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

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

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

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

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

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

OUR COMPETITIVE STRENGTHS

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

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

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

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

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

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

The pharmaceutical industry of the PRC is undergoing a rapid growth. The total output value of the PRC pharmaceutical industry measured by sales at the level of ultimate users expanded from approximately RMB178.2 billion in 2001 to approximately RMB1,074.9 billion in 2012 at a CAGR of approximately 17.8%. According to our Directors, due to the continuing and rapid growth of the pharmaceutical industry in the PRC, more small to medium pharmaceutical companies in the PRC may seek to co-operate with the national or provincial distributors by leveraging on their expertise, knowledge and the distribution network in the respective provincial markets in order to effectively distribute their products nationwide. Further, it has been an industry norm for the pharmaceutical companies to seek the assistance from the distributors in order to improve their effectiveness and efficiency in the supply chain to the serve customers and to reduce the relevant cost by capitalising on the distributors' functions of (i) formulating marketing and promotion strategies tailored for local markets; (ii) applying their expertise in distribution network, product delivery to and payment collection from the customers nationwide; (iii) reducing transaction costs and improving efficiencies of retailers and hospitals by allowing retailers and hospitals to keep fewer inventories on hand and ensuring that inventory can be replenished in time.

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

We have an experienced sales and marketing team

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

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

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

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

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

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

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

OUR BUSINESS OBJECTIVES AND STRATEGIES

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

To continue expanding through obtaining new exclusive distribution rights

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

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

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

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

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

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

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

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

- obtaining new product distribution rights with commercial potential.

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

OUR BUSINESS MODEL

We are an established pharmaceutical distributor originated from Zhejiang province and headquartered in Hangzhou, Zhejiang province. We are principally engaged in pharmaceutical distribution businesses in the PRC with a focus in Zhejiang province. We mainly serve as a provincial pharmaceutical distributor, and also a national pharmaceutical distributor for some of our products. We start involving our pharmaceutical distribution business from the stage of acquisition of the distribution rights of products from our suppliers, market research and market development of our new products, providing assistance and co-ordination in the collective tendering process for our suppliers, procurement, sourcing, sales and marketing, warehousing and delivery to our Distributor Customers. We source and procure our products mainly from [46] small to medium 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. [As at the Latest Practicable Date], our Distributor Customers were mainly located in Zhejiang province. During the Track Record Period, we were not involved in the production of any of our products. All of the pharmaceutical products distributed by our Group are generic pharmaceutical products.

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

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

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

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

(i) Value added services to our suppliers

As at the [Latest Practicable Date], our Group has [47] suppliers, [46] out of [47]of our suppliers are small to medium pharmaceutical manufacturers and companies which do not have the resources to establish sales and/or marketing network in every province of the PRC. A majority of the small to medium pharmaceutical manufacturers and pharmaceutical companies in the PRC have limited financial resources, market knowledge and network. Accordingly, it is difficult for those pharmaceutical manufacturers and pharmaceutical companies to explore and expand their footsteps to every single province in the PRC with their limited resources. Rather, these pharmaceutical manufacturers and companies in the PRC will rely on the market expertise and network of the provincial distributors to distribute their products efficiently. Our senior management members, namely Mr. Zhou, Mr. Dai, Ms. Yang and Mr. He, have more than 10 years of experience in the pharmaceutical industry. As a result, our Group, as an established pharmaceutical distributor with a focus in Zhejiang province, can leverage on the market knowledge, experience and network in Zhejiang province of our senior management and provide the following value added services to our suppliers.

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

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

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

(ii) Value added services to our Distributor Customers

Our Distributor Customers play a different role compared to our Group, despite the fact that both possess GSP certificates. Our Group, as a pharmaceutical distributor in the PRC, has been making use of our financial resources and expertise in exploring and sourcing the distribution rights of products which involves a high level of capital investment, instead of building up and maintaining a comprehensive logistics infrastructure as what our Distributor Customers do. In turn, those Distributor Customers would choose to source a vast amount of pharmaceutical products with reasonable price and satisfactory quality from different provincial distributors in the PRC such as our Group in order to accommodate the rapid change in the demand of those hospitals and medical institutions. Our Group would provide a platform for such Distributor Customers to source different products without bearing any purchase commitments, which also enhance flexibility in inventory management of those Distributor Customers. Moreover, hospitals and medical institutions in the PRC usually select distributors with a diversified product portfolio, a sizable and stable supply of product through the centralised procurement platform in order to minimise the procurement cost and enhance the procurement and distribution efficiency. We, having a good relationship with the medical practitioners, medical scholars and medical institutions, will collaborate with our suppliers to organise marketing activities such as product launching events as well as seminars and trainings to raise the awareness and familiarity of our products to the targeted medical institutions and practitioners in provincial level. As such Distributor Customers bear a higher credit risk for collection of payments from hospitals, they prefer to rely on the marketing resources and expertise provided by our Group for the market developments of the products instead of utilizing their own resources for marketing activities.

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

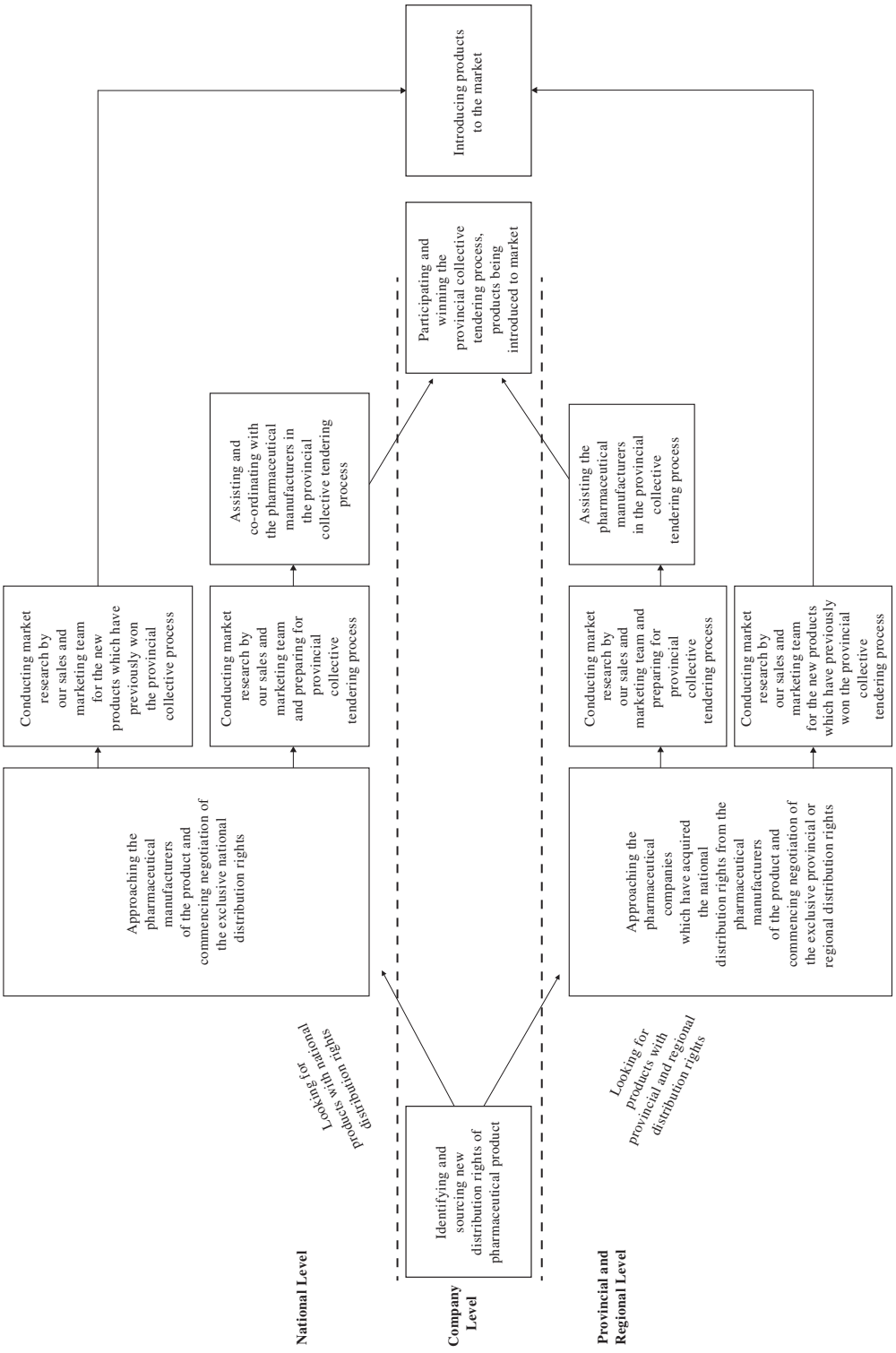
Phase 1 – Acquisition of distribution rights of pharmaceutical products from our suppliers

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

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

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

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



Step 1 – Identifying and acquiring new products in the market

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

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

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

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

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

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

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

as set out in the legally binding contract entered into with the suppliers. Our Directors further emphasised that (i) such arrangement is solely a commercial decision between our Group and such suppliers; (ii) our management has taken necessary measures in the supplier selection and assessment, product selection and the deposit and prepayment payment to mitigate the relevant risks and; (iii) it allows our Group to obtain a product with market potential at a lower cost. Our Group will keep monitoring the status of obtaining the pharmaceutical production permit for Fasudil Hydrochoride Injection (鹽酸法舒地爾氯化鈉注射液).

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

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

For the sales performance of the abovementioned newly acquired distribution rights of products during the Track Record Period, please refer to paragraph headed "Reduction of the reliance on our major suppliers" under the sub-section headed "Phase 2 – Procurement of products from our suppliers" under the section headed "Business" of this document.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Distribution Agreements between our Group and our suppliers

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

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

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

Deposits and Prepayments

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

As at 31 December 2012, 30 June 2013 and the [Latest Practicable Date], the total deposits paid to all of our suppliers was amounted to approximately RMB28,784,000 (equivalent to approximately HK$35,778,000), RMB26,488,000 (equivalent to approximately HK$33,456,000) and RMB27,488,000 (equivalent to approximately HK$34,720,000), respectively. During the corresponding periods, the deposits paid in accordance with the distribution agreements made with our existing Type 1 and Type 2 Suppliers amounted to approximately RMB27,434,000, RMB25,488,000 and RMB[26,488,000], respectively. Most of the distribution agreements our Group entered into with our suppliers have stated the major terms of deposits as below:

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

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

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

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

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

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

As at 31 December 2012, 30 June 2013 and as at the Latest Practicable Date, the deposits paid in accordance with our legally binding contract with the suppliers amounted to approximately RMB1,350,000, RMB1,000,000 and RMB[1,000,000], respectively.

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

	Relevant terms and conditions for the legally binding contracts before entering into the exclusive distribution agreement with the suppliers	**Amount of deposits as at 31 December 2012** *RMB'000*	**Amount of deposits as at 30 June 2013** *RMB'000*	**Amount of deposits as at the Latest Practicable Date** *RMB'000*
1.	Deposit shall be returned to our Group in full if the approval cannot be granted from the government in relation to separate pricing status of the products as prescribed under the legally binding contracts	1,350	–	–
2.	Deposit shall be returned to our Group in full if the production permit cannot be granted by a certain period of time as prescribed under the legally binding contracts	–	1,000	[1,000]
Sub-total		**1,350**	**1,000**	**[1,000]**
Total		**28,784**	**26,488**	**[27,488]**
		(equivalent to approximately HK$35,778,000)	(equivalent to approximately HK$33,456,000)	(equivalent to approximately HK$[34,720,000)]

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

On 3 July 2013, Zhongcheng Huida and Kaihongxin has confirmed to return the deposit of approximately RMB8 million and RMB7 million, respectively upon [●]. In July 2013, our Group has entered into an exclusive provincial distribution agreement with Jiangsu Baichang in relation to a product, namely Kangfuxin Ye (康复新液), Jiangsu Baichang has also confirmed to return the deposit of approximately 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 has to maintain the minimum cash balance of RMB3 million, RMB2 million for each of Zhongcheng Huida and Kaihongxin, respectively during the guarantee period.

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.

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

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

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

The amounts of deposits and prepayments are based on the (i) popularity of the products in the PRC; (ii) the historical sales performance of similar products in the PRC; and (iii) mutual negotiations between our Group and the suppliers. A larger amount of deposit would be demanded for the pharmaceutical products with wider usage or higher quality or with the separate pricing status and that will be sold in a more economically developed areas and more mature markets. Nevertheless, the deposits for the distribution rights of some of the pharmaceutical products of well established brands may be less than the deposit for the distribution rights of the generic pharmaceutical products which require substantial sales and marketing efforts since the suppliers might require more deposits in order to ensure the commitment to the sales targets of the distributors. As a pharmaceutical distributor with a focus in Zhejiang province, which ranked the fourth largest provincial pharmaceutical distribution market in terms of sales in the PRC in 2011, distributing generic pharmaceutical products, our Group has been required to pay a larger amount of deposit when compared with other pharmaceutical companies.

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

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

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

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

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

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

Phase 2 – Procurement of products from our suppliers

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

Our Suppliers

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

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

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

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

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

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

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

Note:

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

Selection of our suppliers

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

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

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

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

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

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

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

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

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

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

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

(i) Type 1 Suppliers

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

(ii) Type 2 Suppliers

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

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

(iii) Type 3 Suppliers

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

During the Track Record Period we sourced two raw materials, namely (i) Cefixime (頭孢克肟); and (ii) Sulbenicillin Sodium (磺苄西林鈉) from two of our Type 3 Suppliers, respectively, which amounted to approximately HK$1.5 million, HK$0.3 million and HK$3.5 million, HK$1.4 million, respectively, during the corresponding periods. The raw materials, namely (i) Cefixime (頭孢克肟); and (ii) Sulbenicillin Sodium (磺苄西林鈉) were sold to two of our Distributor Customers, Type 1 Supplier B and Type 1 Supplier A, respectively, which was also our supplier of two of our products, namely Cefixime Deospersible Tablet (頭孢克肟分散片) and Sulbenicillin Sodium for Injection (注射用磺苄西林鈉). This is because the manufacturer of Sulbenicillin Sodium (磺苄西林鈉) only sell the raw material to our Group directly; and (ii) our Group is able to source Cefixime (頭孢克肟) at a relatively lower cost than New Asiatic Minhang from the manufacturer of the raw materials, which in turn enables us to earn a higher gross profit margin of those two products.

Movement of our suppliers

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

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

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

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

We had not renewed distribution agreements with those remaining 10 suppliers mainly due to (i) the change of distribution relationship between our suppliers and ultimate suppliers; (ii) the failure of our suppliers in supplying the products to us as a result of the temporary suspension of their production facilities in order to meet the revised GMP standards; and (iii) the decrease in demand of Cefoxitin Sodium for Injection (注射用頭孢西丁鈉) was due to that

such product fell within the category of limited use under the Administrative Catalogue of the Clinical Use of 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)) issued by Zhejiang Provincial Health Bureau on 19 July 2012 which led to the substantial decrease in sales of the product. Therefore, we have not renewed the distribution agreement with the supplier of such product after expiration of the distribution agreement on 30 December 2012.

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

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

Our major suppliers during the Track Record Period

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

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

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

Zhongcheng Huida is a pharmaceutical trading company established in early 2012. Zhongcheng Huida is not involved in pharmaceutical manufacturing or production. The major shareholder of Zhongcheng Huida is a state-owned pharmaceutical company in the PRC. Zhongcheng Huida is principally engaged in pharmaceutical trading and distribution in the PRC. Zhongcheng Huida's headquarters is located in Hebei province, the PRC. Our Group has commenced the business relationship with Baoding Huida Pharmaceutical Company Limited (保定匯達醫藥有限公司) since 2009. Our Group had

active business relationship with Zhongcheng Huida (together with Baoding Huida) since 2009. In so far as our Directors are aware, with the strategic arrangement of Baoding Huida, the relevant business with our Group was transferred to Zhongcheng Huida since January 2012. Our business with Baoding Huida had ceased since March 2012. Our Group has started the relationship with Zhongcheng Huida since 2009. Zhongcheng Huida was our Type 2 supplier during the Track Record Period. Our Group has recently renewed the distribution agreement with Zhongcheng Huida for a further term of 3 years up to 31 December 2015.

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

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

3. Type 1 Supplier A

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

4. Type 1 Supplier B

Type 1 Supplier B is a comprehensive pharmaceutical enterprise principally engaged in manufacturing, production, trading and distribution of pharmaceutical products. Type 1 Supplier B is a subsidiary of a state-owned enterprise which is based in Shanghai, which is principally engaged in pharmaceutical industry. Type 1 Supplier B's headquarters is located in Shanghai, the PRC. Our Group started the relationship with Type 1 Supplier B since 2008. Type 1 Supplier B was our Type 1 supplier during the Track Record Period. Our Group has commenced the business relationship with Type 1 Supplier B

since 2008. Our Group has recently renewed the distribution agreement with Type 1 Supplier B for a further term of 1 year up to 31 December 2013. At the same time, Type 1 Supplier B is also a customer of one of our raw material products, namely, Cefixime (頭孢甲肟), during the Track Record Period. For further details, please refer to paragraph headed "Our Suppliers" under the sub-section headed "Phase 2 – Procurement of products from our suppliers" under the section headed "Business" of this document.

5. Type 2 Supplier E

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

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

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

Sales target from our suppliers

During two years ended 31 December 2012, our Group did not meet the sales target set by four of our suppliers. The name and products are listed below:

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

Notes:

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

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

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

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

As at the Latest Practicable Date, the Cefoxitin Sodium for Injection 0.5g (注射用頭孢西丁鈉0.5g) has fallen within the category of limited use under the Administrative Catalogue of the Clinical Use of 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)) issued by Zhejiang Provincial Health Bureau on 19 July 2012 which led to the substantial decrease in sales of the product. Therefore, we have not renewed the distribution agreement with the supplier of such product after the expiration of the distribution agreement on 30 December 2012.

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

Reduction of the reliance on our major suppliers

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

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

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

Notes:

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

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

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

4. The deposits of the amount of RMB300,000 is for guarantee to win in the up-coming collective tendering process, another RMB100,000 is for the commitment to the sales target, another RMB50,000 is to prevent our Group to cannibalise the market in other provinces and the remaining of RMB50,000 is for developing the hospital network by a certain period of time. If the product does not win in the up-coming collective tendering process or not succeed in developing the hospital network by a certain period of time, the amount of RMB300,000 and RMB50,000 will be confiscated, respectively.

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

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

		Sales for the year ended 31 December 2012		Sales for the six months ended 30 June 2013		Sales for the period from 1 January 2013 to the [Latest Practicable Date]	
		HK$'000	*% of revenue*	*HK$'000*	*% of revenue*	*HK$'000*	*% of revenue*
Product name							
1.	Milrinone Lactate Injection (乳酸米力農注射液)	46	0.03	167	0.2	[298]	0.3
2.	Sulbenicillin Sodium For Injection (注射用磺苄西林鈉)	642	0.37	4,012	4.8	[5,788]	[5.3]
3.	Salviae Miltiorrhizae Liguspyragine Hydrochloride and Glucose Injection (參芎葡萄糖注射液)	18	0.01	80	0.1	[92]	[0.08]
4.	Clostridium Butyricum Capsule 0.2g x 24 pcs 0.2g x 36 pcs (酪酸梭菌活菌膠囊)	1,679	0.96	2,860	3.4	[3,759]	[3.4]
Total:		**2,385**	**1.37**	**7,119**	**8.50**	**[9,937]**	**[9.08]**

As at the [Latest Practicable Date], the sales of 3 of our 4 new products (including 5 specifications), namely, Milrinone Lactate Injection (乳酸米力農注射液), Sulbenicillin Sodium for Injection (注射用磺苄西林鈉) and Clostridium butyricum Capsule 0.2g x 24 pieces and 0.2g x 36 pieces (酪酸梭菌活菌膠囊), have increased significantly as the marketing activities and strategies for these new products have been successfully implemented. Since commencement of the distribution of those new products, we have held certain marketing seminars to promote these new products to the targeted medical institutions and practitioners in collaborating with our suppliers.

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

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

	Product Name	Nature/Purpose of usage	Date of entering into the legally binding contract with the suppliers	Distribution coverage	Deposit as at the [Latest Practicable Date]	Type of exclusive distribution rights (after obtain approvals)	Terms and current status
1.	Fasudil Hydrochloride Injection (鹽酸法舒地爾氯化鈉注射液)	Applied in treatment of cerebral related illness	16 August 2012	Zhejiang province	RMB 900,000	Exclusive provincial	Terms: Deposits will be returned to our Group in full if the pharmaceutical production permit (藥品生產許可證) cannot be obtained by 1 July 2014. Current status: Pending for approval

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

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

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

Distribution agreements on our major products with our major suppliers

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

Name and Nature of Supplier	Major Products	Contract expiry date	Sales Target	Prepayment and deposit as at 30 June 2013	Key terms
1. Zhongcheng Huida (Type 2 Supplier)	1. Cefodizime Sodium for Injection (注射用頭孢地嗪鈉) 2. Thoymosin α 1 for Injection (注射用胸腺法新) 3. Isepamicin Sulfate Injection (硫酸異帕米星注射液) 4. Alanyl Glutamine for Injection (注射用丙氨酰谷氨酰胺) 5. Ceftizoxime Sodium for Injection (注射用頭孢唑肟鈉)	31 December 2015	RMB50,000,000 per year	RMB6,927,000 of deposit and RMB6,282,000 of payment in advance for purchase of product	– Credit period: No – Termination Clause: mutual agreement – Sales return: Allowed for quality issue – Product liability: Manufacturer – Distribution region: Zhejiang province and/or Shanghai
2. Kaihongxin (Type 2 Supplier)	Levocarnitine Injection (左卡尼汀注射液)	31 December 2015	1st year: RMB40,000,000 2nd year: RMB42,000,000 3rd year: RMB44,000,000	RMB6,061,000 of deposit and RMB15,308,000 of payment in advance for purchase of product	– Credit period: No – Termination Clause: mutual agreement – Sales return: Allowed for quality issue – Product liability: Manufacturer – Distribution region: Zhejiang province
3. Type 1 Supplier A (Type 1 Supplier)	Sulbenicillin Sodium for Injection (注射用磺苄西林鈉)	30 June 2014	8,000,000 units	RMB8,000,000 of deposit and RMB19,000 in advance for purchase of product	– Credit period: 90 days – Termination Clause: mutual agreement – Sales return: Allowed for quality issue – Product liability: Manufacturer – Distribution region: National (except Liaoning province, Beijing, Fujian province, Guangxi province and Tibet)

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

Relationship with our suppliers

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

As represented by our Directors, it is difficult and not cost efficient for the pharmaceutical manufacturers and pharmaceutical companies in the PRC to set up distribution network on their own in every province of the PRC. As [46] of our suppliers are small to medium pharmaceutical manufacturers and pharmaceutical companies in the PRC and in order to enhance the value to such suppliers, our Group provides various value added services to our suppliers. For further details, please refer to the paragraph headed "We are able to provide different value added services to our suppliers and Distributor Customers with our market knowledge and network in Zhejiang province" under the sub-section headed "Our competitive strengths" under the section headed "Business" of this document.

Products shortage from our suppliers during Track Record Period

(i) product shortage from Shenyang Meiluo

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

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

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

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

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

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

On 1 July 2013, we have entered into the supplemental distribution agreement with Type 1 Supplier A and the supplemental distribution agreement will be expired 30 June 2014 without minimum purchase committment.

(ii) product shortage from Kaihongxin

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

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

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

Product Name	Name of Suppliers	For the year ended 31 December 2011		2012		For the six months ended 30 June 2013		Expiry date of the original GMP certificates	The deadline to meet the revised GMP standards	Status of the upgrade process in accordance with the revised GMP standards	Supply continuity
		HK$'000	*% of revenue*	*HK$'000*	*% of revenue*	*HK$'000*	*% of revenue*				
1. Levocarnitine Injection (左卡尼丁注射液)	Kaihongxin (Type 2 supplier)	20,072	12.6	52,227	29.8	28,271	33.8	30 March 2013 *(Note 1)*	31 December 2013	upgrade process in accordance with the revised GMP standards has completed and has obtained the new GMP Certificate	The supply of the product will be continued
2. Cefodizime Sodium for Injection (注射用頭孢地嗪鈉)	Zhongcheng Huida (Type 2 Supplier)	12,760	8.0	18,287	10.4	6,854	8.2	30 December 2017	31 December 2013	Passed the revised GMP standards and has obtained the new GMP certificate	The supply of the product will be continued
3. Isepamicin Sulfate for Injection (硫酸異帕米星注射液)	Zhongcheng Huida (Type 2 supplier)	13,136	8.2	10,015	5.7	5,698	6.8	31 December 2013	31 December 2013	Estimated to pass the revised GMP standards in December 2013	The supply of the product will be continued
4. Thoymosin α 1 for Injection (注射用胸腺法新)	Zhongcheng Huida (Type 2 supplier)	9,410	5.9	12,872	7.4	8,173	9.8	29 November 2014 *(Note 2)*	31 December 2013	Passed the revised GMP standards and has obtained the new GMP Certificate	The supply of the product will be continued
5. Alanyl Glutamine for Injection (注射用丙氨酰谷氨酰胺)	Zhongcheng Huida (Type 2 supplier)	4,580	2.9	9,217	5.3	4,319	5.2	11 July 2015	31 December 2013	Estimated to pass the revised GMP standards in October 2013	The supply of the product will be continued
6. Cefixime Dispersibkle Tablet (頭孢克肟分散片)	New Aisatic Minhang (Type 1 Supplier)	7,848	4.9	6,808	3.9	2,212	2.6	31 December 2015	31 December 2015	Production facilities are upgrading in accordance with the revised GMP standards	The supply of the product will be continued
Total		67,798	42.5	109,431	62.5	55,527	66.4				

Notes:

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

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

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

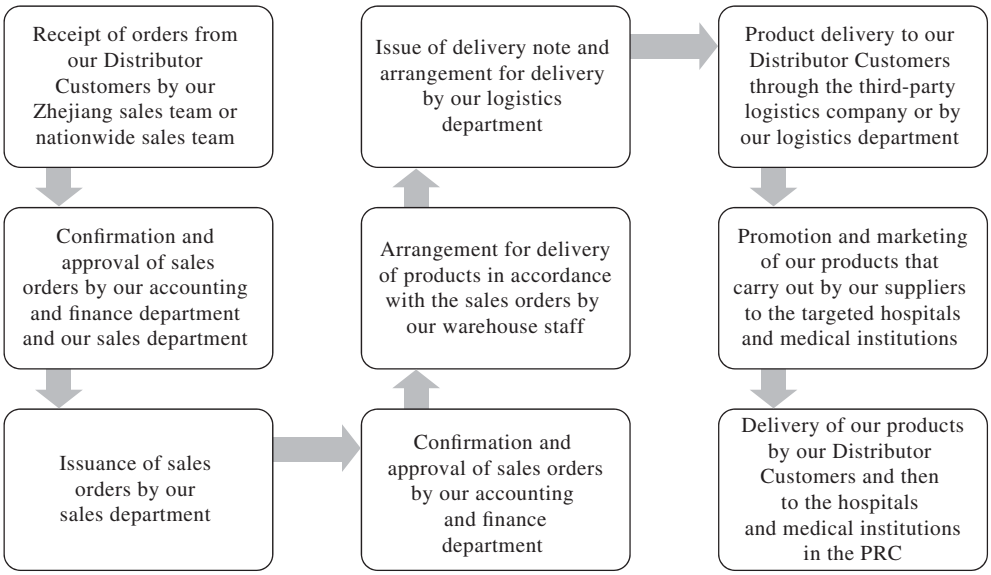
Our Directors are of the view that in order to mitigate the impact arisen from the change in the regulations governing the manufacturing of pharmaceutical products distributed by us, our Group has taken certain measures to mitigate the risk and to maintain our standard of inventory management. In this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

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

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

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

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



Our Distributor Customers

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

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

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

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

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

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

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

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

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

Selection of our Distributor Customers

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

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

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

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

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

(v) our Group will conduct an annual appraisal of our Distributor Customers in order to review (a) the performance of the Distributor Customers; and (b) the financial performance of the Distributor Customers during the preceding year. If the Distributor Customers have not performed satisfactorily over the preceding year or the financial performance of such Distributor Customers appears to be deteriorating, our Group has the discretion to reduce the transaction volume or even terminate the business relationship with the Distributor Customers.

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

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

(i) Type 1 Distributor Customers

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

Our Type 1 Distributor Customers comprise national, provincial and regional distribution operation providers and only distribute our products to the hospitals and other medical institutions, which are our ultimate customers in the designated geographical region(s), directly. Some of them were our major Distributor Customers during the Track Record Period such as Zheda Yuanzheng, Huadong Medicine Pharma, Ningbo Pharma and Zhejiang Intec. All the products under the distribution agreements we entered into with the Type 1 Distributor Customers are of the regional and product exclusivity basis. Our Type 1 Distributor Customers are responsible for distributing our products directly to the hospitals and medical institutions in Sichuan province, Shanghai and Zhejiang province of the PRC. These were all ultimate customers of our products during the Track Record Period.

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

(ii) Type 2 Distributor Customers

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

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

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

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

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

(v) the decrease in sales of two of our products, namely, Ozagrel Sodium for Injection (注射用奥扎格雷鈉) of all 80mg, 40mg and 20mg specifications as the profitability of the products was limited after several price controls, and Cefoxitin Sodium for Injection (注射用頭孢西丁鈉) has become 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)) issued by Zhejiang Provincial Health Bureau on 19 July 2012, which has in fact affected the sales performance of both products for the six months ended 30 June 2013.

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

(iii) Type 3 Distributor Customers

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

Prevention of competition and cannibalisation among our Distributor Customers

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

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

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

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

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

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

Movement of our Distributor Customers

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

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

Our Directors consider that termination with our customers above do not pose any adverse impact on our business and operations of our Group due to the following reasons:

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

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

Injection (注射用鹽酸頭孢甲肟) having fallen within the category of limited use under the Administrative Catalogue of the Clinical Use of 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)) issued by Zhejiang Provincial Health Bureau on 19 July 2012, which has led to the substantially decrease in the sales performance attributed to those Type 2 Distributor Customers; and (v) 12 out of 21 terminations were due to the expiry of the distribution agreements with those Type 2 Distributor Customers without renewal. As confirmed by our Directors, our Group did not renew with those Distributor Customers in view of their unsatisfactory performance during the contract period and the disagreement on the terms with certain of our Distributor Customers and hence has decided not to renew the distribution agreement with those Distributor Customers, the revenue generated from those Type 2 Distributor Customers did not form a substantial portion of the Group's total revenue and only accounted for approximately 16.6%, 4.8% and [2.5]%, respectively, for the corresponding periods; and

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

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

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

Our major Distributor Customers during the Track Record Period

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

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

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

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

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

Huadong Medicine Pharma is a subsidiary of Huadong Medicine Co., Ltd (華東醫藥有限公司) ("**Huadong Medicine**"), a comprehensive pharmaceutical enterprise which involve in developing, manufacture, trading and distribution of pharmaceutical products. Huadong Medicine is a stated-owned company listed on the Shenzhen Stock Exchange (stock code: SZ000963). Huadong Medicine Co., Ltd was incorporated in 1992 in the PRC. Our Group started the relationship with Huadong Medicine Pharma since 2008. Huadong Medicine Pharma is our Type 1 Distributor Customers during the Track Record Period.

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

Ningbo Pharma is a subsidiary of Shanghai Pharmaceutical Distribution Co., Ltd, a subsidiary of Shanghai Pharmaceuticals Holding Co., Ltd, an A-share company listed on the Shanghai Stock Exchange (stock code: SH601607) and a H-share company listed on the Stock Exchange of Hong Kong (stock code 2607.HK), Ningbo Pharma was incorporated in 1994, and is principally engaged in sales of pharmaceutical products including chemical formulations and preparations, antibiotics, biochemical drugs, Chinese patent medicine and dosage forms. Ningbo Pharma is headquartered in Ningbo, Zhejiang province, the PRC. Our Group started the relationship with Ningbo Pharma since 2009. Ningbo Pharma is our Type 1 Distributor Customers during the Track Record Period.

4. Type 3 Distributor Customer A

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

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

Zhejiang Intec is a subsidiary of Zhejiang Int'l Group Ltd, which is a state-owned company listed on the Shenzhen Stock Exchange (stock code: SZ000411) and controlled by China Sinochem Group. The three main businesses of Zhejiang Int'l consist of drugs distribution, the manufacture of Chinese medicine and trading of bio-medical devices. Our Group started the relationship with Zhejiang Intec since 2008. Zhejiang Intec is our Type 1 Distributor Customers during the Track Record Period.

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

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

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

Distribution Agreements on our major products with our major Distributor Customers

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

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

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

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

(a) Geographical exclusivity

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

(b) Sales target

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

(c) Price

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

(d) Obligations

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

(e) Payment and credit terms

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

(f) Sales returns

We accept sales return from our Distributor Customers under certain circumstances as prescribed in the distributor agreement. For further details, please refer to the sub-section headed "Sales returns" under the "Business" section in this document.

(g) Duration

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

(h) Sales and inventory information and estimates

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

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

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

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

Principal obligations of our Group and our Distributor Customers

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

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

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

Relationship with Distributor Customers

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

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

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

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

Relationship with the sub-distributor customers

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

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

Phase 4 – Management of Distribution Network

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

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

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

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

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

FACILITATION OF SALES OF PRODUCTS

Formulation of marketing strategies and marketing activities

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

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

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

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

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

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

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

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

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

CREDIT POLICY AND SALES RETURNS

Credit Policy

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

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

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

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

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

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

Sales Returns

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

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

During the Track Record Period, our monthly sales returns were stable and did not have a material amount of sales returns from the Distributor Customers. The Group's sales returns from the Distributor Customers amounted to approximately HK$23,000, HK$11,758 and HK$[175], representing approximately 0.01%, 0.01% and 0.0002%, respectively, of our total revenue during the Track Record Period. As such, our Directors considered that our sales returns only had an insignificant impact on the Group's financial result and hence no provisions for sales returns were made during the Track Record Period.

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

PRICING POLICY

a. Price of our products

A majority of the pharmaceutical products that we distribute to our Type 1 Distributor Customers and Type 2 Distributor Customers are listed in the Medical Insurance Drugs Catalogs. The prices of these products are dependent on the retail prices determined by the PRC government in its mandated collective hospital tender process at the provincial level, through which a group of public hospitals solicits public bids from pharmaceutical manufacturers as part of its pharmaceutical procurement process. For further details, please refer to the sub-section headed "Collective Tendering System for Procurement of Pharmaceutical Products by Medical Organisations" under the "Regulatory Overview" section of this document. Generally, the collective tendering process takes approximately three to six months to complete. We work with certain of our suppliers, being also the manufacturers of the products, to improve their bidding position and number of successful bids by providing industry expertise, industry insight, market intelligence, competitive bidding price suggestions and other administrative supports. During the process of determining a competitive bidding price

and providing competitive price suggestions to our suppliers in the collective tendering process, we have taken into account the estimated overall profit margin of such product to evaluate whether such product will profitable to our Group. Apart from the overall profit margin, we have also taken various factors into consideration while determining and providing a competitive bidding price to our suppliers during the collective tendering process. For details, please refer to the paragraph headed "Competitive price suggestions" under the sub-section headed "Phase 1 – Acquisition of distribution rights of pharmaceutical products from our suppliers" under the section headed "Business".

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

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

Due to the nature of the multi-layer distribution model, we do not take into account the profit margin of each layer of distributor but we have considered the acceptable profit margin of our immediate lower layer Distributor Customers (Type 1 and 2 Distributor Customers of our Group). Once our product are procured by our Distributor Customers, it is at our Distributor Customer's discretion to determine how many layers of distributors they need to sell through before reaching our ultimate customers. So far as our Directors are aware and according to their experience in the pharmaceutical industry, there is no rule, and our Group are not able to determine the number of layers of distributors in the pharmaceutical distribution chain before reaching our ultimate customers due to various factors, among other things, the difference in distribution capabilities, distribution cost and profitability and distribution network between each layer of distributors.

In addition, so far as our Directors are aware and according to their experience in the pharmaceutical industry in the PRC, during the negotiation process between each layer of distributors, various factors such as the initial procurement cost, as well as the quality, market trend and demand of the product, the geographical coverage of each of the product and the government policy relating to the pharmaceutical industry may be required to be taken into consideration. In particular, the final selling price and hence the profit margin of each product are determined based on mutual commercial negotiation between the relevant parties at each layer of distributors before entering into the distribution agreement and it is at the discretion of each layer of distributors whether the profit margin is acceptable for such product.

Under such circumstances, our Group, not being one of the parties involved in the decision-making process as described above, is not able to assess, evaluate or determine the profit margin to be distributed to each layer of distributors at any point of time in the pharmaceutical distribution chain.

PRICE CONTROLS

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

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

On 9 November 2009, NDRC, the Ministry of Health and the Ministry of Human Resources and Social Security jointly promulgated the Notice on Issuing Opinions on Reforming the Price Formation System of Medicine and Medical Services (關於印發改革藥品和醫療服務價格形成機制的意見的通知). According to this notice, in addition to drugs included in the Medical Insurance Drugs Catalogs and certain drugs whose production or trading tends to create monopolies, drugs listed in the National List of Essential Drugs are subject to PRC government price control. The prices of other drugs are determined by the market conditions.

On 5 March 2010, NDRC promulgated the Notice on Relevant Issues Regarding the Revising of the Price-controlled Pharmaceutical Products Catalog (關於調整《國家發展改革委定價藥品目錄》等有關問題的通知), which issued the new version of the Price-controlled Pharmaceutical Products Catalog of NDRC (國家發展改革委定價藥品目錄).

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

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

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

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

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

Note:

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

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

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

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

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

Note:

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

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

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

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

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

Product	Specification	Percentage of the decrease in the retail price in respect of the price control effective from 21 March 2012	Increase/ (Decrease) in the unit gross profit in respect of the price control effective from 21 March 2012 *(RMB)*	Gross profit margin immediately before the price control in 2012	Gross profit margin immediately after the price control in 2012
Ozagrel Sodium for Injection (注射用奧紮格雷鈉) *(Note 1 and 2)*	80 mg	37.7%	(31,4)	85.7%	86.0%
Ozagrel Sodium for Injection (注射用奧紮格雷鈉) *(Note 1 and 3)*	40 mg	37.5%	(2.1)	12.7%	13.8%
Ozagrel Sodium for Injection (注射用奧紮格雷鈉) *(Note 1 and 4)*	20 mg	37.5%	(7.6)	81.0%	82.3%

Note:

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

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

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

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

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

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

Note:

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

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

3. We renegotiated with the relevant suppliers to lower the purchase price by approximately 7.2%. However, the relevant Distributor Customers lower the selling price by approximately 7.5% to mitigate the impact of price adjustments on our products after the negotiation with us.

4. We renegotiated with the relevant suppliers to lower the purchase price by approximately 56.2%. However, the relevant Distributor Customers only lower the selling price by approximately 60.3% to mitigate the impact of price adjustments on our products after the negotiation with us.

5. We renegotiated with the relevant suppliers to lower the purchase price by approximately 91.4%. However, the relevant Distributor Customers only lower the selling price by approximately 60.3% to mitigate the impact of price adjustments on our products after the negotiation with us.

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

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

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

Note: We renegotiated with the relevant suppliers to lower the purchase price by approximately [6.4]%. However, the relevant Distributor Customers only lower the selling price by approximately [6.3]% to mitigate the impact o price adjustment on our products after the negotiation with us.

During the Track Record Period, 6 of our major types of products (including 9 specifications) affected by the above mentioned price adjustments accounted for approximately 32.2%, 32.2% and 28.5% of our total revenue. For the products affected by the abovementioned price adjustments, our relevant suppliers, our Distributor Customers and our Group have to lower the price to accommodate the effect of the price adjustments. To reduce the impact of price adjustments on our Group, we will evaluate the impact of each price adjustment and try to renegotiate with the suppliers and Distributor Customers to divert the impact on our affected products from the price adjustments to them. We will renegotiate with the suppliers on one hand to lower the purchase prices in order to lower our procurement cost and we will renegotiate with our Distributor Customers on the other hand to reduce the extent of the selling price reduction in order to maintain our profit margin. Our Directors consider that such renegotiation with the suppliers and Distributor Customers was successful as we have maintained the gross profit margin for most of the product that were affected by the abovementioned price adjustments where we only ceased the sales of [1] of our product, namely Ozagrel Sodium for Injection 20mg (注射用奥紮格雷鈉20mg) in October 2012 as the product was no longer profitable for us to continue its sales.

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

MANAGEMENT OF INVENTORY PROCUREMENT

(i) Our procurement management

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

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

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

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

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

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

During the Track Record Period, regarding one of our products, namely Sulbenicillin Sodium for Injection (注射用磺苄西林鈉), due its long cessation of supply and the resumption since October 2012, our Directors are of the view that it will take some time to pick up the sales in various provinces. Further, in view of the up-coming collective tendering process in various provinces, our Group has renegotiated the sales target with Type 1 Supplier A, and such Type 1 Supplier A has subsequently waive the original minimum purchase target that imposed on our Group.

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

(ii) Our inventory management

Our inventory primarily comprises finished products.

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

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

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

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

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

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

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

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

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

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

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

(iii) Logistics

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

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

(iv) Warehousing

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

Location	**Term**	**Monthly Rent** *(RMB)*	**Area**
Portion of No. 4789, Shidai Road, Wenyan Town, Xiaoshan District, Hangzhou, Zhejiang Province, the PRC	21 October 2011 – 20 October 2016	1st year – RMB19,935 (equivalent to HK$24,454) 2nd year – RMB21,781 (equivalent to HK$26,718) 3rd year – RMB23,627 (equivalent to HK$28,983) 4th year – RMB25,473 (equivalent to HK$31,247) 5th year – RMB27,318 (equivalent to HK$33,511)	2,215 sq.m.

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

MARKET ADJUSTMENTS

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

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

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

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

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

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

MAJOR PRODUCTS

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

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

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

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

Notes:

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

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

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

Levocarnitine Injection (左卡尼汀注射液)

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

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

HK$20.1 million, HK$52.2 million and HK$28.3 million, respectively, representing approximately 12.6%, 29.8% and 33.8% of the total revenue of our Group during the corresponding periods.

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

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

The pharmaceutical products distributed by our Group captured approximately 93.5%, 93.1% and 93.4% of the total sales value of Ozagrel of Sodium for Injection in Zhejiang province for each of the two years ended 31 December 2011 and 2012 and the three months ended 31 March 2013, respectively. Our Group obtained the exclusive distribution right in Zhejiang province from the manufacturer which took the first place out of three eligible manufacturers from the perspective of market share for both years of 2011 and 2012 and as at 31 March 2013 in Zhejiang province. For each of the two years ended 31 December 2011 and 2012 and for the six months ended 30 June 2013, our revenue generated from Ozagrel of Sodium for Injection amounted to approximately HK$12.7 million, HK$10.4 million and HK$81,000, respectively, representing approximately 8.0%, 6.0% and 0.1% of the total revenue of our Group during the corresponding periods. The substantial decrease of sales of such product as at the Latest Practicable Date was due to our Group's cessation in the sales of one of the specification of such product, namely Ozagrel Sodium for Injection 20mg (注射用奧紮格雷鈉20mg) since the unit gross profit amount of this product was limited after several price controls, and it became no longer profitable for us to continue the sales of this product.

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

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

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

such product as at the Latest Practicable Date substantially decreased since the Cefoxitin Sodium for Injection 0.5g (注射用頭孢西丁鈉0.5g) has fallen within the category of limited use under the Administrative Catalogue of the Clinical Use of 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)) issued by Zhejiang Provincial Health Bureau on 19 July 2012. The demands for these products decrease and we have not renewed the distribution agreement with the supplier of such product after expiration of the distribution agreement on 30 December 2012.

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

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

The pharmaceutical products distributed by our Group captured approximately 34.1%, 35.9% and 32.8% of the total sales value of Cefodizime Sodium for Injection in Zhejiang province for the two years ended 31 December 2011 and 2012 and the three months ended 31 March 2013, respectively. Our Group obtained the exclusive distribution rights in Zhejiang province from the manufacturer which took the fifth place out of twelve eligible manufacturers from the perspective of market share for 2011 and the fourth place out of twelve eligible manufacturers in 2012 and as at 31 March 2013. For each of the two years ended 31 December 2011 and 2012 and for the six months ended 30 June 2013, our revenue generated from Ceftizoxime Sodium for Injection was approximately HK$3.7 million, HK$6.9 million and HK$[3.7] million, representing approximately 2.3%, 3.9% and [4.4] % of the total revenue of our Group during the corresponding period.

Thoymosin α 1 for Injection (注射用胸腺法新)

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

The pharmaceutical products distributed by our Group captured approximately 29.7%, 28.3% and 26.4% of the total sales value of Thoymosin α 1 for Injection in Shanghai for each of the two years ended 31 December 2011 and 2012 and the three months ended 31 March 2013, respectively. Our Group obtained the exclusive distribution right in Shanghai from the manufacturer which took the second place out of four eligible manufacturers from the perspective of market share for both years of 2011 and 2012 and as at 31 March 2013 in Shanghai. For each of the two years ended 31 December 2011 and 2012 and for the six months ended 30 June 2013, our revenue generated from Thoymosin α 1 for Injection amounted to approximately HK$9.4

million, HK$12.9 million and HK$8.2 million, respectively, representing approximately 5.9%, 7.4% and 9.8% of the total revenue of our Group during the corresponding periods.

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

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

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

Cefixime Dispersible Tablet (頭孢克肟分散片)

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

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

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

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

The pharmaceutical products distributed by our Group captured approximately 81.3%, 71.7% and 80.9% of the total sales value of Alanyl Glutamine for Injection in Zhejiang province for each of the two years ended 31 December 2011 and 2012 and the three months ended 31 March 2013, respectively. Our Group obtained the exclusive distribution right in Zhejiang province from the manufacturer which took the first place out of two eligible manufacturers from the perspective of market share for both years of 2011 and 2012 and as at 31 March 2013 in Zhejiang province. For each of the two years ended 31 December 2011 and 2012 and for the six months ended 30 June 2013, our revenue generated from Alanyl Glutamine for Injection amounted to approximately HK$4.6 million, HK$9.2 million and HK$4.3 million, respectively, representing approximately 2.9%, 5.3% and 5.2% of the total revenue of our Group during the corresponding periods.

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

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

The pharmaceutical products distributed by our Group captured approximately 3.6%, 4.7% and 4.5% of the total sales value of Ceftizoxime Sodium for Injection in Zhejiang province for the year ended 31 December 2011 and 2012 and the three months ended 31 March 2013, respectively. Our Group obtained the exclusive distribution rights in Zhejiang province from the manufacturer which took the fourth place out of twelve eligible manufacturers from the perspective of market share for both years of 2011 and 2012 and as at 31 March 2013, our revenue generated from Ceftizoxime Sodium for Injection was approximately HK$3.7 million, HK$6.9 million and HK$[3.7] million, representing approximately 2.3%, 3.9% and [4.4]% of the total revenue of our Group during the Track Record Period.

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

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

The pharmaceutical products distributed by our Group captured approximately [12.4]%, [6.5]% and [20.8]% of the total sales value of Alanyl Glutamine for Injection in Zhejiang province for each of the two years ended 31 December 2011 and 2012 and the three months ended 31 March 2013, respectively. Our Group obtained the exclusive distribution right in Zhejiang province from the manufacturer which took the [third] place out of [four] eligible manufacturers from the perspective of market share for 2011, the fourth place out of four eligible manufacturers from the perspective of market share in 2012 in Zhejiang province and the third place out of four eligible manufacturers from the perspective of market share as at 31 March 2013. For each of the two years ended 31 December 2011 and 2012 and for the six months ended 30 June 2013, our revenue generated from Alanyl Glutamine for Injection amounted to approximately HK$[10.4] million, HK$642,000 and HK$4.0 million, respectively, representing approximately 6.5%, 0.4% and 4.8% of the total revenue of our Group during the corresponding periods.

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

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

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

QUALITY CONTROL

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

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

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

products procured from our suppliers" below. Below are the quality control inspection procedures in compliance with the applicable GSP standards that our Group has implemented.

Delivery of products from our suppliers

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

Inspection on products procured from our suppliers

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Storage of products

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

Delivery of products to our Distributor Customers

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

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

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

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

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

Return of products procured from our suppliers

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

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

Our Directors are of the view that the quality control inspectors of our Group have taken the necessary precautionary measures during the quality check process, where the expiration period problem on the batch of product supplied by Kaihongxin has been successfully identified. This demonstrates that our Group's quality control procedures have been successfully implemented. As we cannot guarantee the quality of the product provided by our

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

Incidents related to quality of the products we distributed

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

(1) In 2009, Zhejiang Xin Rui Pharmaceutical has entered into several sales contracts with a former Distributor Customer for the sale of a pharmaceutical product, namely, Naloxone Hydrochloride for Injection (鹽酸納洛酮注射液) which supplied by one of the former suppliers, which is a pharmaceutical manufacturer. The sales contracts contained, among other things, a warranty given by Zhejiang Xin Rui Pharmaceutical that the quality of these products distributed to that former Distributor Customer was in compliance with the national pharmaceutical standards. For each of the two years ended 31 December 2010 and 2011, the sales amount of Naloxone Hydrochloride for Injection (鹽酸納洛酮注射液) of the same type as the product to be inferior quality was amounted to approximately HK$298,000 and HK$442, respectively. Our Group did not distribute the product since the year ended 31 December 2012.

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

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

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

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

In March 2011, our Group has recovered our losses and damages of the abovementioned sum of approximately RMB1,062,000 from the relevant pharmaceutical manufacturer since such incidents were caused by the aforesaid fundamental quality problem of the product concerned and such amount has been recovered by our Group after the legal proceeding. As at the Latest Practicable Date, our Group did not have any contractual relationship with the former Distributor Customer and the pharmaceutical manufacturer which had supplied us with the product to be of inferior quality.

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

Our Directors believe that the abovementioned incidents were two isolated events and are due to the fundamental quality of the products manufactured by the pharmaceutical manufacturer. Our PRC legal adviser is of the opinion that our Group would have been entitled to seek compensation from the suppliers for the relevant losses in relation to the quality issues of the products if the fundamental quality problems of the products were caused by the default of the suppliers although our Group were held responsible for the two quality control incidents under the PRC laws and regulations. Since our Group is merely a pharmaceutical distributor which does not have any control on the quality of the product manufactured by the

suppliers, our Group, like the other pharmaceutical distributors, does not have any facilities to conduct any scientific test or clinical application of the products. However, we have engaged Hangzhou Institute of Drug Control (杭州市藥品檢驗所), a government controlled certified testing centre in Hangzhou province, to conduct clinical testing for our pharmaceutical products. In addition, our Group conduct quality inspection of the product by our quality control inspectors in compliance with the applicable GSP standards. Under the current GSP standards, the pharmaceutical operators are required to inspect the quality of the procured pharmaceuticals batch by batch by sampling within specified period at the designated spot, including without limitation checking the packages, tags, specifications, and other related documents of the pharmaceuticals and the quality inspection report and it is the ultimate responsibility of our Group's suppliers to guarantee the quality of the products and to make sure that the quality meet the standard as set out in the quality inspection report provided on each batch of the products delivered. Therefore, the aforesaid inspection measures taken by the Group are in compliance with the current GSP standards. For details, please refer to the paragraph headed "The brand name of the products we distribute as well as our corporate image and reputation may be materially and adversely affected as a result of any legal or administrative proceedings relating to the alleged inferior quality of the products we distribute and also the existence of counterfeit products in the pharmaceutical industry" under the sub-section headed "Risks relating to our business" under the "Risk Factors" section of this document.

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

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

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

(ii) we have further improved and strengthened the selection and assessment of potential supplier process by taking into consideration (i) the validity of GMP and/or GSP certificates of our suppliers; (ii) the reputation, product quality and the production capacities of our suppliers; and (iii) the historical quality control record of our suppliers. Our Group may also conduct site visits of our suppliers' production facilities as part of the selection and assessment process. We have completed the review on such process and implemented the relevant improvement

procedures in the third quarter of 2012. For further details, please refer to the paragraph headed "Selection of our suppliers" under the sub-section headed "Phase 1 – Acquisition of distribution rights of pharmaceutical products from our suppliers" under the "Business" section;

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

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

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

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

OCCUPATIONAL HEALTH AND SAFETY

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

PRODUCT DEVELOPMENT

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

INTELLECTUAL PROPERTY RIGHTS

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

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

COMPETITION

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

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

Moreover, our Directors believe that the increase in the general population in the PRC and the aging population, accompanied by the increasingly health concern in the PRC have led to an increase in demand for high quality pharmaceutical products in recent years, which may attract more enterprises to enter into the pharmaceutical distribution market in the PRC. The aggregate sales amount of the seven major categories of pharmaceutical products increased from approximately RMB300.0 billion in 2005 to approximately RMB1,112.8 billion in 2012, representing a CAGR of approximately 20.6%. Our major Distributor Customers are located, in Hangzhou and Shanghai, the heart of the Eastern China region of the PRC, which give us a more competitive edge as compared to other players in other regions in the PRC. The total sales value in Eastern China region increased from approximately 37.0% in 2005 to 42.0% in 2011, which was the highest compared to other regions in the PRC. Our Directors are of the view that the pharmaceutical industry in the PRC will continue to grow in the forthcoming years. We believe that these factors will foster a good environment and opportunity for the pharmaceutical distribution players in the PRC.

INFORMATION MANAGEMENT SYSTEM

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

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

INSURANCE

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

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

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

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

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

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

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

PROPERTIES

Head Office

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

Offices and warehouse

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

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

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

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

Location	Date of Acquisition	Gross Floor Area	Consideration *(RMB)*	Usage
Room 3702, Dikai International Centre, Jianggan District, Hangzhou City, Zhejiang Province, the PRC	15 January 2010	343.19 sq.m.	9,823,814 (equivalent to approximately HK$12,050,802)	Office

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

Location	Date of Acquisition	Gross Floor Area	Consideration *(RMB)*	Usage
Carparking Space Nos. 366, 366-1, 367 and 368 Dikai International Centre, Jianggan District, Hangzhou City, Zhejiang Province the PRC	20 January 2010	N/A	620,000 (equivalent to approximately HK$760,550)	Carparking

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

Location	Monthly Rent	Duration	Gross Floor Area	Usage
Room 3703, Dikai International Centre, Jianggan District, Hangzhou City, Zhejiang Province, the PRC	RMB45,873 (equivalent to approximately HK$56,272)	1 April 2012 – 31 March 2015	376.78 sq.m.	Office
Portion of No. 4789, Shidai Road, Wenyan Town, Xiaoshan District, Hangzhou City, Zhejiang Province, The PRC	1st year – RMB19,935 (equivalent to HK$24,454) 2nd year – RMB21,781 (equivalent to HK$26,718) 3rd year – RMB23,627 (equivalent to HK$28,983) 4th year – RMB25,473 (equivalent to HK$31,247) 5th year – RMB27,318 (equivalent to HK$33,511)	21 October 2011 – 20 October 2016	2,215 sq.m.	Warehouse
Room 1805, No. 42 Fengqi Road East, Jianggan District, Hangzhou City, Zhejiang Province, the PRC	N/A	1 June 2012 – 31 May 2017	42.64 sq.m.	Office

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

Ascent Partners Valuation Service Limited has valued the properties owned by us as at 30 June 2013 at RMB12,400,000 (equivalent to approximately HK$[15,662,000]), with RMB12,400,000 (equivalent to approximately HK$[15,662,000]) attributable to us. The text of the letter and the valuation certificates issued by Ascent Partners are set out in the valuation report set forth in Appendix III to this document.

EMPLOYEES

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

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

	Number of employees
Management	4
Sales and marketing	11
Accounting and Finance	5
Procurement	2
Quality Control	2
Logistics	5
Administration	6
Total	35

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

Our Group considers our team of employees to be a key factor in the success of our business. During the Track Record Period, our Group did not experience any significant difficulties in recruiting employees nor any significant staff turnover or labour disputes. Our

Directors represents that the decrease in employees during the Track Record Period was due to the other personal commitments of those employees and there were no disagreement or disputes between our Group and those employees. Our Group believes that the employer and employee relationship is satisfactory in general. Our Group believes that the management policies, working environment, career prospects and benefits extended to the employees have contributed to retention of employees and establishment of good employer and employee relationship.

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

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

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

LICENSES AND PERMITS

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

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

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

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

ANTI-CORRUPTION POLICY

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

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

Zhou was responsible for maintaining such internal control system. Both Mr. Lee and Mr. Zhou confirmed that as [at the Latest Practicable Date], none of them has received any incident reported by our employees.

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

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

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

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

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

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

During the Track Record Period and as at the Latest Practicable Date, our Directors confirmed that to their best knowledge and belief and after due and careful inquiry, our Group or our employees or affiliates did not receive any rebates or kickbacks from our suppliers and our Group did not pay any rebates or kickbacks to our Distributor Customers or medical institutions and medical practitioners.

Where required, an independent professional consultant will be appointed to assist our Company to review the effectiveness of the internal control systems and address the areas of improvement identified. However, there is no assurance that our employees or affiliates will not be engaged in corruption, bribery, abuse or other improper conduct or violate applicable PRC anti-corruption laws in the future. Please refer to the section headed "Risk Factors – Risks Relating to the Industry – We are subject to the risks in relation to action taken by us, our employees or our affiliates that constitute violations of anti-corruption measures taken by the PRC government to prevent fraud and abuses in the pharmaceutical industry" of this document. Our failure to comply with these measures, or effectively manage our employees and affiliates, could severely damage our reputation and have a material adverse effect on our results of business and operations.

LEGAL PROCEEDINGS AND NON-COMPLIANCE

(i) Legal proceedings relating to our Group

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

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

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

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

(ii) Non-compliance incidents relating to our Group

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

	Non-compliance incidents	Reason for the non-compliance	Measures taken/to be taken to prevent any future breaches and ensure on-going compliance
1.	Hong Kong New Rich failed to comply with the 15 months' requirement under section 111(1) of the Companies Ordinance in respect of its annual general meetings by way of shareholder's written resolutions for the years 2010 and 2011, respectively.	The oversight of the relevant staff at the material times.	Please see sub-section headed "Ongoing compliance measures" below for procedures in place to ensure ongoing compliance concerning these non-compliances.
2.	Hong Kong New Rich failed to lay the audited accounts at its relevant annual general meetings and/or failed to lay the audited accounts made up to a date falling not more than the relevant time requirement under section 122 of the Companies Ordinance in respect of its audited accounts for the period from 7 February 2005 (i.e. the date of its incorporation) to 31 December 2009.	The relevant staff of our Group in the PRC were not aware of the requirements under section 122 of the Companies Ordinance.	
3.	Hong Kong New Rich failed to lay the audited accounts made up to a date falling not more than the relevant time requirement under section 122 of the Companies Ordinance in respect of its audited accounts for the year ended 31 December 2010.	Oversight and miscommunication with the auditors.	

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

(iii) On-going compliance measures

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

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

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

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

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

(e) our Group [has retained] an external financial adviser and/or legal adviser to advise on compliance matters;

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

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

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

Our Directors are of the view that the aforesaid remedial measures and on-going compliance measures are sufficient and proven to be effective in preventing similar non-compliance incidents from re-occurring again in the future as no such similar non-compliance incidents have occurred since its implementation and up to the Latest Practicable Date.

EXEMPT CONTINUING CONNECTED TRANSACTIONS

Zhejiang Xin Rui Pharmaceutical Office

Zhejiang Xin Rui Pharmaceutical has entered into a tenancy agreement (as supplemented by a confirmation dated 15 August 2012) as tenant with Mr. Yang Qi (楊奇) and Ms. Tu Yue Li (屠月麗) as landlords (the "**Tenancy Agreement**") to lease the premises at Room 3703, Dikai International Centre, Jianggan District, Hangzhou City, Zhejiang Province, the PRC (中國浙江省杭州市江干區迪凱國際中心3703室) at an annual rental of RMB550,099 for a term of 3 years from 1 April 2012 to 31 March 2015 for its office use.

Ascent Partners Valuation Service Limited, an independent qualified valuer, has confirmed that the rent payable under the Tenancy Agreement is fair and reasonable and consistent with the market rents for similar premises in similar location at the time of commencement of the Tenancy Agreement and is on normal commercial terms.

Hong Rui Trading Office

Pursuant to an undated certification, Mr. Dai, an executive Director, has provided his premises at Room 1805, No. 42 Fengqi Road East, Jianggan District, Hangzhou City, Zhejiang Province, the PRC (中國浙江省杭州市江干區鳳起東路42號1805室), to Hong Rui Trading at nil consideration for a period of 5 years from 1 June 2012 to 31 May 2017 for its office use.

Our Directors (including our independent non-executive Directors) are of the view that the continuing connected transactions described in this section have been entered into on normal commercial terms or better terms to our Group and in the ordinary and usual course of business of our Group.

BOARD OF DIRECTORS

The Board currently consists of seven Directors, including four executive Directors, and three independent non-executive Directors.

Name	Age	Position	Date of Appointment to the Board	Responsibilities
ZHOU Ling (周凌) (spouse of Yang Fang)	36	Chairman and Executive Director	24 August 2012	Formulation of the overall business strategy and direction of the Group
DAI Haidong (戴海東)	36	Chief Executive Officer and Executive Director	24 August 2012	Overall operation of our Group's business and the overall development of sales and marketing management and strategies of our Group
YANG Fang (楊芳) (spouse of Zhou Ling)	37	Executive Director	24 August 2012	Overall procurement, quality control management of the pharmaceutical products, administrative and human resources function of our Group
LEE Chik Yuet (李植悦)	59	Executive Director	14 September 2012	Overall legal and regulatory compliance matters of our Group
HO Hau Cheung (何厚祥)	61	Independent non-executive Director	26 September 2013	Duties as chairman of remuneration committee and member of each of audit and nomination committees
SUNG Hak Keung, Andy (宋克强)	39	Independent non-executive Director	26 September 2013	Duties as chairman of audit committee and member of each of nomination and remuneration committees
LEUNG Chi Kin (梁志堅)	63	Independent non-executive Director	26 September 2013	Duties as chairman of nomination committee and member of each of audit and remuneration committees

Note: Save as disclosed above, none of our Directors is personally related with any other Director.

Executive Directors

Mr. Zhou Ling (周凌先生) ("**Mr. Zhou**"), aged [36], is the chairman of our Company and an executive Director, and one of the founding members of our Group since 2001. Mr. Zhou was appointed to our Board on 24 August 2012. He is responsible for formulation of the overall business strategy and direction of our Group. Mr. Zhou is currently a director of Max Goodrich, Hong Kong New Rich, Hong Rui Bio-medical, Haikou Xin Lang and Hong Rui Trading, and the manager of Hong Rui Bio-medieal and Haikou Xin Lang. He has over 14 years of experience in pharmaceutical industry. Mr. Zhou completed the technical secondary course in pharmacy at Jiaxing Health School (嘉興衛生學校) (currently known as Jiaxing University College of Medicine (嘉興學院醫學院)) in Zhejiang province in 1995. Mr. Zhou then graduated from the Correspondence Institute of the Party School of the Central Committee of Communist Party of China (中共中央黨校函授學院) in 2009, majoring in economics management. Mr. Zhou is the spouse of Ms. Yang and a substantial Shareholder of the Company. Mr. Zhou has not been a director of any publicly listed company during the three years preceding the date of this document.

Mr. Zhou was the shareholder and legal representative of Hangzhou Xin Rui Medical Investments Co., Ltd* (杭州新銳醫藥投資有限公司) ("**Hangzhou Xin Rui**"), which was a company established in the PRC on 29 July 2005. Mr. Zhou confirmed that as Hangzhou Xin Rui had not commenced operations since its establishment, shareholders of Hangzhou Xin Rui resolved to dissolve it. Hangzhou Xin Rui was dissolved (注銷) in August 2009.

Mr. Dai Haidong (戴海東先生) ("**Mr. Dai**"), aged 36, is the chief executive officer of our Company and an executive Director, and one of the founding members of our Group since 2001. Mr. Dai was appointed to our Board on 24 August 2012. He is responsible for the overall operation of our Group's business and the overall development of sales and marketing management and strategies of our Group. Mr. Dai is currently the president of Hong Kong New Rich and Hong Rui Bio-medical and the manager of Hong Rui Trading and Zhejiang Xin Rui Pharmaceutical. He has over 10 years of experience in pharmaceutical industry. Mr. Dai graduated from the Correspondence Institute of the Party School of the Central Committee of Communist Party of China (中共中央黨校函授學院) in 2009, majoring in economics management. As at the Latest Practicable Date, Mr. Dai was a substantial Shareholder and was interested in approximately 11.7% of the issued share capital of the Company (who would become interested in approximately [7.60]% of the issued share capital of the Company upon completion of [●]). Mr. Dai has not been a director of any publicly listed company during the three years preceding the date of this document.

Mr. Dai was a shareholder, the manager and legal representative of Chengdu Rui Qi Xing Pharmaceutical Technology Development Co., Ltd* (成都銳琪星醫藥科技發展有限公司) ("**Chengdu Rui Qi Xing**"), which was a company established in the PRC with an operation term of 20 years commencing from 8 January 2004. On 8 March 2010, Chengdu Administration for Industry and Commerce (Jiniu District) (成都市金牛工商行政管理局) issued a notice of administrative penalty (行政處罰決定書) ("**Notice**"). The Notice stated that 2,292 companies and enterprises, including Chengdu Rui Qi Xing, had failed, among others, to participate in the annual inspection for the years of 2007 and 2008 within the prescribed time. As a result, the business license of Chengdu Rui Qi Xing was revoked. Mr. Dai confirmed that Chengdu Rui Qi Xing had not commenced operations since its establishment and that an application for dissolving Chengdu Rui Qi Xing was submitted to the relevant PRC authority on 28 March 2013 [and as far as Mr. Dai is aware, no claim has been made against him as a result of such revocation.] Chengdu Rui Qi Xing was dissolved (注銷) in June 2013.

Ms. Yang Fang (楊芳女士) ("**Ms. Yang**"), aged 37, is an executive Director of the Company, the vice president of Hong Kong New Rich and quality controller of Zhejiang Xin Rui Pharmaceutical. Ms. Yang was appointed to our Board on 24 August 2012. She is responsible for the overall procurement, quality control management of the pharmaceutical products, administrative and human resources function of our Group. Ms. Yang joined the Group in 2005. Prior to joining our Group, Ms. Yang was a pharmacist of 浙江省監獄中心醫院 (Zhejiang Province Prison's Hospital) from 1995 to 2004 and a quality control officer of Hainan Rich Medicine Co., Ltd (海南銳琪醫藥有限公司) from 2004 to 2007. She has over 15 years of experience in the pharmaceutical industry. Ms. Yang completed an on-line post-secondary course in pharmacy at Institute of Distance Education of Zhejiang University (浙江大學遠程教育學院) in 2008. Ms. Yang is a registered pharmacist in the PRC. Ms. Yang is the spouse of Mr. Zhou. Ms. Yang has not been a director of any publicly listed company during the three years preceding the date of this document.

Mr. Lee Chik Yuet (李植悦先生) ("**Mr. Lee**"), aged 59, is an executive Director and the compliance officer of our Company. Mr. Lee was appointed to our Board on 14 September 2012. He is also a director of Max Goodrich and Hong Kong New Rich. He is primarily responsible for the overall legal and regulatory compliance matters of our Group. Mr. Lee was admitted as a solicitor in Hong Kong in 1993. Mr. Lee obtained a bachelor degree in social science from The Chinese University of Hong Kong in 1979. He also obtained a bachelor degree in laws in 1990 as well as a master degree in laws in 1994 from The University of Hong Kong. Mr. Lee is currently an executive director of Town Health International, one of our Controlling Shareholders, since October 2009. Mr. Lee was an executive director and the deputy chairman of China Gogreen Assets Investment Limited (now known as Jun Yang Solar Power Investments Limited) (stock code: 397), the issued shares of which are listed on the Main Board of the Stock Exchange from March 2007 to October 2009.

Mr. Lee was a director of Hero Holding Limited, a company incorporated in Hong Kong and was dissolved by deregistration on 30 September 2005 by the Registrar of Companies of Hong Kong as a defunct company pursuant to Section 291AA of the Companies Ordinance in September 2005. Under section 291AA of the Companies Ordinance, an application to deregister a private company can only be made if (a) all the members of the company agree to the deregistration; (b) the company has never commenced business or operation, or has ceased to carry on business or ceased operation for more than 3 months immediately before the application; and (c) the company has no outstanding liabilities.

Mr. Lee was also a director of Jinan Town Health Tianren Investment Co., Ltd (濟南康健天仁投資管理有限公司) ("**Jinan Town Health**"), which was a wholly-foreign owned enterprise established in the PRC. In December 2010, the relevant PRC authority has granted approval for dissolution of Jinan Town Health.

Independent non-executive Directors

Mr. Ho Hau Cheung, BBS, MH (何厚祥先生) ("**Mr. Ho**"), aged [61], was appointed as an independent non-executive Director on 26 September 2013. Mr. Ho is currently an elected member of Shatin District Council in Hong Kong. Mr. Ho was awarded the Medal of Honour in 2006 and the Bronze Bauhinia Star in 2011, respectively, by the Government of Hong Kong. Mr. Ho has been working in the education field in Hong Kong for more than 30 years. He obtained a bachelor degree in education in 1991 from Wolverhampton Polytechnic (currently known as University of Wolverhampton), United Kingdom. Mr. Ho has not been a director of any publicly listed company during the three years preceding the date of this document.

Mr. Sung Hak Keung, Andy (宋克强先生) ("**Mr. Sung**"), aged 39, was appointed as an independent non-executive Director on 26 September 2013. Mr. Sung has over 12 years of experience in accounting and finance industry. Prior to joining our Group, Mr. Sung has worked in an international accounting firm in Hong Kong. Mr. Sung is a member of Certified Public Accountants of the United States, an associate of Hong Kong Society of Accountants and Chartered Global Management Accountant of the United States. Mr. Sung has obtained a bachelor degree in commerce in 1997 from University of Toronto, Canada and obtained a master degree in business administration in 2007 from University of Manchester, United Kingdom. Mr. Sung is currently a vice president of Oriental City Holdings Group Limited (stock code: 8325), the issued shares of which are listed on GEM. He was a company secretary of Oriental City Holdings Group Limited (stock code: 8325) during the period from January 2009 to 11 January 2013. He has not been a director of any publicly listed company during the three years preceding the date of this document.

Mr. Sung was a director of Prime Pacific Limited, a company incorporated in Hong Kong, which was dissolved by deregistration on 7 October 2005 by the Registrar of Companies of Hong Kong as a defunct company pursuant to Section 291AA of the Companies Ordinance in October 2005. Under section 291AA of the Companies Ordinance, an application to deregister a private company can only be made if (a) all the members of the company agree to the deregistration; (b) the company has never commenced business or operation, or has ceased to carry on business or ceased operation for more than 3 months immediately before the application; and (c) the company has no outstanding liabilities.

Mr. Leung Chi Kin (梁志堅先生) ("**Mr. Leung**"), aged 63, was appointed as an independent non-executive Director on 26 September 2013. Mr. Leung was an elected member of the Shatin District Council in Hong Kong from 1994 to 2011. Mr. Leung was also awarded a Medal of Honour by the Government of Hong Kong. Mr. Leung was an independent non-executive director of each of Hanergy Solar Group Limited (formerly known as Apollo Solar Energy Technology Holdings Limited) (stock code: 566) (during the period from 1 May 2008 to 25 November 2009) and China Natural Investment Company Limited (stock code: 8250) (during the period from 27 November 2009 to 26 November 2012), the issued shares of which are listed on the Main Board of the Stock Exchange and GEM, respectively.

Mr. Leung was a director of Kwun Yum Yuen Limited, a company incorporated in Hong Kong, which was dissolved on 10 July 2009 by striking off by the Registrar of Companies of Hong Kong as a defunct company pursuant to Section 291 of the Companies Ordinance in November 2009. Striking off is an action initialed by the Registrar of Companies of Hong Kong to strike the name of a company off the register of the Companies Registry where he has reasonable cause to believe that the company is defunct and the company shall be dissolved when its name is struck off from the register of companies.

Save as disclosed in this document, each of our Directors has confirmed that there are no other matters in relation to his or her appointment that need to be brought to the attention of the Shareholders and there is no other information in relation to his or her appointment which is to be disclosed.

SENIOR MANAGEMENT

Name	Age	Position	Responsibilities
HE Linxing (賀林興)	39	Director of Zhejiang and national sales team	Overall sales management of our Group's business in the PRC.
LAI Kwok Wa (賴國華)	29	Company secretary and financial controller	Overall company secretarial matters and financial functions of our Group

Mr. He Linxing (賀林興先生) ("**Mr. He**"), aged 39, is currently the vice president of Hong Rui Bio-medical, and the director of the Zhejiang and national sales team. He is responsible for the overall sales management of our Group's business in the PRC. Mr. He is currently a director of Max Goodrich and Zhejiang Xin Rui Pharmaceutical. Mr. He joined the Group in [2001]. Prior to joining our Group, Mr. He was the district manager of Hunan Hansen Pharmaceutical Co., Ltd (湖南漢森醫藥有限公司) from 1998 to 2001. He was the sales manager of Hangzhou Xin Hong from 2002 to 2003. He was the sales manager of Hangzhou Hong Rui of Hainan Rich Medicine Co., Ltd. (海南銳琪醫藥有限公司) from 2003 to 2007. Mr. He has approximately 15 years of experience in pharmaceutical distribution and trading industry. Mr. He graduated from the Correspondence Institute of the Party School of the Central Committee of Communist Party of China (中共中央黨校函授學院) in 2009, majoring in economics management. Mr. He has not been a director of any publicly listed company during the three years preceding the date of this document.

Mr. Lai Kwok Wa (賴國華先生) ("**Mr. Lai**"), aged 29, has joined our Group on [June] 2012, and is the [company secretary and the financial controller of our Company. He is responsible for the overall company secretarial matters and financial functions of our Group.] Mr. Lai has approximately 5 years of experience in auditing. Prior to joining our Group, Mr. Lai has worked in the audit department of an international accounting firm in Hong Kong. Mr. Lai obtained a bachelor degree of business administration in Accounting in 2007 from City University of Hong Kong, Hong Kong. He is a member of the Hong Kong Institute of Certified Public Accountants. Mr. Lai has not been a director of any publicly listed company during the three years preceding the date of this document.

COMPANY SECRETARY

Mr. Lai serves as the company secretary and the financial controller of our Company. For details of Mr. Lai's background, please refer to the paragraph headed "Senior Management" in this section.

COMPLIANCE OFFICER

Mr. Lee serves as the compliance officer of our Company. For details of Mr. Lee's background, please refer to the paragraph headed "Executive Directors" in this section.

CORPORATE GOVERNANCE

The Directors recognise the importance of accounting good corporate governance in management and internal control procedures so as to achieve accountability and for this purpose, our Group has established four committees, namely the corporate governance committee, the audit committee, the remuneration committee and the nomination committee.

Corporate Governance Committee

Our Company has established a corporate governance committee on 18 March 2013 with written terms of reference.

Its primary functions include: (i) to develop and review our Company's policies and practices on corporate governance and make recommendations to our Board; (ii) to review and monitor the training and continuous professional development of directors and senior management; (iii) to review and monitor our Company's policies and practices on compliance with legal and regulatory requirements; (iv) to develop, review and monitor the code of conduct and compliance manual (if any) applicable to Directors and employees of our Group; and (v) to consider other matters, as authorised by the Board.

The corporate governance committee consists of four members, namely Mr. Zhou, Mr. Dai, Ms. Yang and Mr. Lee. The chairman of the corporate governance committee is Mr. Lee.

Audit Committee

Our Company has established an audit committee on 26 September 2013 with written terms of reference.

The main objective of the audit committee is to assist our Board in providing an independent review of the effectiveness of the financial reporting process, internal control and risk management system of our Group, overseeing the audit process, reviewing the completeness, accuracy, clarity and fairness of our Company's financial statements, considering the scope, approach and nature of both internal and external audit reviews and reviewing and monitoring connected transactions and performing other duties and responsibilities as may be assigned by our Board from time to time.

Its primary duties include: (i) to make recommendations to our Board on the appointment, reappointment and removal of the external auditor, and to approve the remuneration and terms of engagement of the external auditor, and any questions of its resignation or dismissal; (ii) to review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standards; (iii) discuss with the auditor the nature and scope of the audit and reporting obligations before the audit commences; (iv) to develop and implement policy on engaging an external auditor to supply non-audit services; (v) to report to our Board, identifying and making recommendations on any matters where action or improvement is needed; and (vi) to monitor integrity of our Company's financial statements, and to review significant financial reporting judgments contained in them.

The audit committee consists of three members, namely, Mr. Ho, Mr. Sung and Mr. Leung, all being independent non-executive Directors. The chairman of the audit committee is Mr. Sung.

Remuneration Committee

Our Company has established a remuneration committee on 26 September 2013 with written terms of reference.

The main objectives of the remuneration committee are to review and formulate policies in respect of remuneration structure for all Directors and senior management of our Company and make recommendations to our Board for its consideration.

The main functions of the remuneration committee include: (i) to make recommendations to our Board on our Company's policy and structure for all Directors' and senior management remuneration and on the establishment of a formal and transparent procedure for developing remuneration policy; (ii) to review and approve the management's remuneration proposals with reference to our Board's corporate goals and objectives; (iii) either to determine, with delegated responsibility, the remuneration packages of individual executive Directors and senior management or to make recommendations to our Board on the remuneration packages of individual executive Directors and senior management. This should include benefits in kind, pension rights and compensation payments, including any compensation payable for loss or termination of their office or appointment; (iv) to make recommendations to our Board on the remuneration of our non-executive Directors; (v) to consider salaries paid by comparable companies, time commitment and responsibilities and employment conditions elsewhere in our Group; (vi) to review and approve compensation payable to our executive Directors and our senior management for any loss or termination of office or appointment to ensure that it is consistent with contractual terms and is otherwise fair and not excessive; and (vii) to review and approve compensation arrangements relating to dismissal or removal of our Directors for misconduct to ensure they are consistent with contractual terms and are otherwise reasonable and appropriate; and (viii) to ensure that no Director or any of his associates (as defined in the relevant rules) is involved in deciding his own remuneration.

The remuneration committee consists of three members, namely Mr. Ho, Mr. Sung and Mr. Leung, all being independent non-executive Directors. The chairman of the remuneration committee is Mr. Ho.

Nomination Committee

Our Company has established a nomination committee on 26 September 2013 with written terms of reference.

The main objectives of the nomination committee are to implement a formal, transparent and objective procedure for appointing Board members and evaluating each Board member's performance and to provide clear disclosure of our Company's policies on nomination and evaluation of Board members in its [●].

Its primary functions include: (i) to review the structure, size, diversity and composition (including the skills, knowledge, experience and length of service) of our Board at least annually and make recommendations on any proposed changes to our Board to complement our Company's corporate strategy; (ii) to identify and nominate individuals suitably qualified to become Board members and to fill casual vacancies of Directors for our Board's approval and select or make recommendations to our Board on the selection of individuals nominated for directorships; (iii) to assess the independence of our independent non-executive Directors; and (iv) to make recommendations to our Board on the appointment or re-appointment of Directors and succession planning for Directors, in particular our chairman and our chief executive.

The remuneration committee consists of three members, namely Mr. Ho, Mr. Sung and Mr. Leung, all being independent non-executive Directors. The chairman of the nomination committee is Mr. Leung.

COMPENSATION OF DIRECTORS AND SENIOR MANAGEMENT

During the Track Record Period, the aggregate remuneration (including fees, salaries, discretionary bonus, defined contribution benefit plans (including pension), housing and other allowances, and other benefits in kind) paid to the Directors by the Company or any of its subsidiaries were approximately HK$709,000, HK$729,000 and HK$452,000, respectively.

Details of the Directors' remuneration are also set out in Note 13 to the Accountants' Report to Appendix I in this document.

The aggregate amount of fees, salaries, discretionary bonus, defined contribution benefit plans (including pension), housing and other allowances, and other benefits in kind paid to the five highest paid individuals of the Company, other than those already disclosed as Directors' remuneration above, during the Track Record Period were approximately HK$282,000, HK$418,000 and HK$318,000, respectively.

The Group has not paid any remuneration to the Directors or the five highest paid individuals as an inducement to join or upon joining the Company or as a compensation for loss of office during the Track Record Period. No Directors has waived or agreed to waive the respective remuneration during the Track Record Period.

REMUNERATION POLICY

The remuneration policy is based on position, duties and performance of the employees.

The employees' remuneration varies according to their positions, which may include salary, overtime allowance, bonus and various subsidies. The performance appraisal cycle varies according to the positions of the employees. The performance appraisal is supervised by the performance management committee.

Following [●], the overall remuneration structure and process is expected to remain the same, except that the remuneration committee will (i) recommend to the Board on the Company's policy and structure for all remuneration of the Directors and the senior management and on the establishment of a procedure for developing policy on such remuneration; and (ii) determine or recommend to the Board on the remuneration packages of all the executive Directors and the senior management, and recommend to the Board of the remuneration of the non-executive Directors.

RELATIONSHIP WITH STAFF

Our Group recruits personnel from open market. The Group provides training for its employees.

The compensation package of the employees includes salary, bonus and other cash subsidies. In general, we determine employees' salaries based on each employee's qualification, position and seniority. The determination on salary raise, bonus and promotion is based on evaluation of the performance of the employees through the review system of the Group.

In the PRC, our Group has participated in mandatory social insurances (including pension insurance, medical insurance, work-related injury insurance, unemployment insurance and maternity insurance) and housing fund contribution plans. Our Group is required to contribute a portion of the employees' total wages to the State's social insurances and housing fund plan in accordance with relevant national and local government regulation. The employees are responsible for payment of the employee's share of the contributions to the pension insurance, medical insurance, unemployment insurance and housing fund. The relevant members of our Group are required to withhold the applicable amounts from the employees' wages and pay such amounts to the relevant authorities on behalf of the employees. During the Track Record Period, our Group did not have any material labour dispute with its employees.

THE CONTROLLING SHAREHOLDERS

Town Health Pharmaceutical, which is wholly owned by Town Health (BVI), will be interested in 31.20% of the issued share capital of our Company upon [●]. Town Health International in turn holds the entire issued share capital of Town Health (BVI). Town Health International, Town Health (BVI) and Town Health Pharmaceutical will be our Controlling Shareholders upon [●].

Town Health International (together with its subsidiaries, the "**Town Health Group**") is a company incorporated in the Cayman Islands and continued in Bermuda with limited liability, whose shares are listed on the Main Board. It is an investment holding company. The Town Health Group has core businesses in both the medical and non-medical sectors in Hong Kong. In the medical sector, the Town Health Group is principally engaged in operating a number of medical and dental clinics in Hong Kong which provides consultation and healthcare services. The Town Health Group also sells hearing aid devices and its own brand of health supplements (known as "th's life") in its clinics in Hong Kong. Such supplements include fish oil omega-3, bilberry extract, glucosamine sulfate and chondroitin plus. The Town Health Group neither distributes nor intends to distribute health supplements in the PRC. Further, the Town Health Group produces and sells fluorodeoxyglucose, which is a radiopharmaceutical used in the medical imaging modality positron emission tomography in the form of injection without any therapeutic effect, in Hong Kong. The Town Health Group does not sell or distribute pharmaceutical products in the PRC. In the non-medical sector, the Town Health Group is principally engaged in securities and property investments in Hong Kong. In view of the above, our Directors consider that the businesses of the Town Health Group are clearly different from the business of distribution of pharmaceutical products of our Group in the PRC.

The Town Health Group has interests in a number of associated companies in which it holds 20% to 50% interests other than our Group ("**associated companies**"). As at the Latest Practicable Date, Best Pharmaceutical Limited ("**Best Pharmaceutical**", together with its subsidiaries, the "**Best Pharmaceutical Group**"), a company incorporated in the BVI, was held indirectly by Town Health International as to 48% of its issued share capital. The Best Pharmaceutical Group has no operating business other than investment holding in Longlife Group Holdings Limited ("**Longlife**") whose shares are listed on GEM. As at the Latest Practicable Date, Best Pharmaceutical held approximately 14.63% of the issued share capital of Longlife. The principal activities of Longlife Group and its subsidiaries (collectively, the "**Longlife Group**") are manufacture, research and development, sale and distribution of consumer cosmetic, health related and over-the-counter products, diagnostic reagents for diagnostic test (which are without any therapeutical effect), health supplement wine, dental materials and equipment in the PRC and Hong Kong, and trading of securities in Hong Kong. Although Best Pharmaceutical is the single largest shareholder of Longlife as at the Latest Practicable Date, Best Pharmaceutical does not have any board seats nor have any right to appoint director in Longlife and Best Pharmaceutical does not have control over Longlife. As abovementioned, Longlife is a company whose shares are listed on GEM. Longlife has also confirmed that all the products that the Longlife Group manufactures, sells and distributes do not overlap nor have similar therapeutic effect with our products. In view of the above, our Directors are of the view that the existing products of the Longlife Group are not in competition with the pharmaceutical products distributed by our Group.

Apart from our Group and the Best Pharmaceutical Group, the Town Health Group is also interested in other associated companies. Such companies include companies principally engaged in operation of medical clinics in Hong Kong and the PRC, operation of health check and medical diagnostic centres, provision of medical diagnostic services, operation of a hair transplant centre and property investments, which are clearly different from our distribution business.

In view of the above, our Controlling Shareholders and Directors are of the view that save as disclosed in this section above, none of them nor any of their respective associates is in competition with our Group. To the best of the Directors' knowledge having made all reasonable enquiries, none of the other Shareholders and senior management of our Group has any business competing with our Group.

Corporate Governance Measures

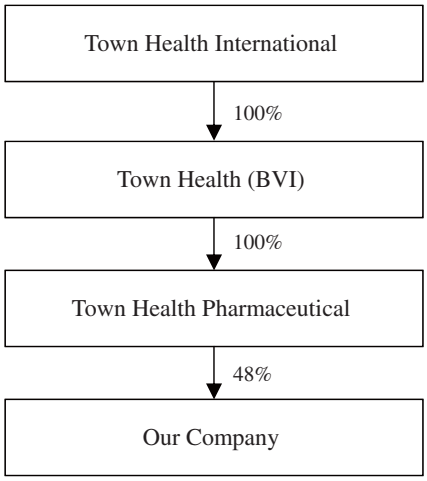
Our Company will adopt the corporate governance measures with the following principles to avoid potential conflict of interests between the Controlling Shareholders and our Group and to safeguard the interests of our Shareholders:

(a) we have appointed three independent non-executive Directors in our Board to ensure the effective exercise of independent judgment on its decision-making process and provide independent advice to the Shareholders; and

(b) except as permitted under the Bye-laws, any Director shall not vote (nor be counted in the quorum) on any resolution of the Board approving any contract or arrangement or other proposal in which he or any of his associates is materially interested.

INDEPENDENCE FROM CONTROLLING SHAREHOLDERS

The principal business of each of the Controlling Shareholders is investment holding. [As at the Latest Practicable Date,] the shareholding relationship between our Company, Town Health International, Town Health (BVI) and Town Health Pharmaceutical is summarised below:-



Further, [as at the Latest Practicable Date, 2,000,000, 1,500,000 and 2,800,000 share options granted by Town Health International, one of the Controlling Shareholders, to Mr. Lee, Mr. Zhou and Mr. Dai, respectively, pursuant to the share option scheme adopted by Town Health International on 16 September 2008 remained outstanding, and none of these share options have been exercised.]

Our Directors do not expect that there will be any transactions between our Group and the Controlling Shareholders or their respective associates upon [●].

Having considered the matters described above and the following factors, our Group believes that it is capable of carrying on its business independently from the Controlling Shareholders and their respective associates upon [●].

Management Independence

Our Group has its own management team with substantial experience and expertise in pharmaceutical industry in the PRC. All essential administration and daily operations of our Group had been and will continue to be independently carried out by our Group without any support from the Controlling Shareholders.

Our Board comprises 7 Directors, of which 3 are independent non-executive Directors who have extensive experience in different areas or professions to ensure that the decisions of our Board are made only after due consideration of independent and impartial opinions.

As disclosed in the sub-section headed "Directors, Senior Management and Staff – Board of Directors – Executive Directors" in this document, Mr. Lee, one of our executive Directors, is an executive director of Town Health International since October 2009 and he also holds other directorships and positions in subsidiaries and associated company of Town Health International. Mr. Lee is primarily responsible for the legal and regulatory compliance matters of the Company. Mr. Lee has confirmed to our Group that he intends to dedicate at least 50% of his working time to our Group's affairs after [●]. Our Group and Mr. Lee consider that such time allocation by Mr. Lee is appropriate.

Save for Mr. Lee holding directorships and positions in Town Health International and certain of its subsidiaries and associated company, none of the members of our Board hold any directorship or position in the Controlling Shareholders, and there is no overlapping of senior management as disclosed in the sub-section headed "Directors, Senior Management and Staff–Senior Management" in this document between our Group and the Controlling Shareholders.

Our Directors believe that the presence of Directors from different backgrounds provides a balance of opinions. Further, our Board acts collectively by majority decisions in accordance with the Bye-laws and the applicable laws, and no single Director is supposed to have any decision-making unless authorised by our Board. In addition, the presence of our independent non-executive Directors provides checks and balances over our Board's decision-making on significant transactions. Our Company will also adopt corporate governance measures to avoid potential conflict of interests between the Controlling Shareholders and our Group.

We have established a corporate governance committee, an audit committee, a remuneration committee and a nomination committee of our Board to recognise the importance of good corporate governance. For further details, please refer to the sub-section headed "Directors, Senior Management and Staff – Corporate Governance" in this document.

In light of the above, our Directors consider that we are capable of managing our business and operations independently from the Controlling Shareholders and we do not need to rely on any management support from the Controlling Shareholders.

Operational Independence

Although the Controlling Shareholders will retain 31.20% interests in our Company immediately after [●], our Board has full rights to make all decisions on, and to carry out, our Group's business operations independently. Our Group has established its own organisational structure comprising individual departments, each with specific areas of responsibilities. Our Group has also established various internal control procedures to facilitate the effective operation of its businesses.

Our Group operates independently from the Controlling Shareholders and their respective associates as our Group has established its business independent of the Controlling Shareholders. We do not rely on the Controlling Shareholders to establish or maintain our business relationships with new or existing customers or suppliers. We liaise, negotiate and enter into contracts with our customers and suppliers independently without the assistance or involvement of the Controlling Shareholders.

In light of the above, our Directors consider that we can manage our business and operations independently from the Controlling Shareholders and we do not need to rely on any management support from the Controlling Shareholders.

Financial Independence

We have our own accounting and finance department and independent financial system and make financial decisions according to our Group's own business need.

[As at the Latest Practicable Date, our Group [was not] indebted to the Controlling Shareholders.] Our Directors do not expect our Group to be financially dependent on the Controlling Shareholders after [●] and are of the view that after [●], our Group is capable of obtaining financing from external sources and there will be no financial dependence on the Controlling Shareholders.

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 (注射用磺苄西林鈉) 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 (注射用磺苄西林鈉); 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 α 1 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 (注射用奥扎格雷鈉) 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 (注射用奥紮格雷鈉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 (注射用奥紮格雷鈉) 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 (注射用奥紮格雷鈉). 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 (注射用奥紮格雷鈉) 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 *HK$'000*	Over 91 days *HK$'000*	Total amount *HK$'000*	*(%)*	Expiry date
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 2011	2012	Six months ended 30 June 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 (注射用奥紮格雷鈉) 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 (注射用奥紮格雷鈉) 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		Six months ended 30 June
	2011	2012	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 2011 Amount *(RMB'000)*	2012 Amount *(RMB'000)*	As at 30 June 2013 Amount *(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		Amount		Amount	
	RMB'000	*(%)*	*RMB'000*	*(%)*	*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.

BUSINESS OBJECTIVES AND STRATEGIES

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

To continue expanding through obtaining new exclusive distribution rights

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

During the Track Record Period and [as at the Latest Practicable Date], we identified and acquired [1] new product with exclusive national distribution rights and [6] new types of products (including 8 specifications) with exclusive provincial distribution rights of products in relation to antibiotics, medicines applied in treatment of [cardiovascular diseases], [digestive system illness], [rheumatism], [urinary system illness], [antiplatelet agents] and [anti-viral infection]. In addition, we also identified [1] market potential product with exclusive provincial distribution right in relation to medicine applied in treatment of [cerebral related diseases], where we have entered into a legally binding contract before entering into exclusive distribution agreement with the suppliers, the product is currently pending for the grant of the pharmaceutical production permit (藥品生產許可證) of the product acquired by the pharmaceutical manufacturer of the product. All of the aforementioned products which are all prescription drugs will complement our existing product portfolio and our growth strategy. For further details in the new distribution rights that our Group has acquired during the Track Record Period, please refer to the paragraph headed "Step 1 – Identifying new products in the market" under sub-section headed "Acquisition of Distribution Rights of Pharmaceutical Products from our suppliers" under the "Business" section of this document. In long term, we will continue to obtain exclusive distribution rights of pharmaceutical products with a focus on prescription drugs, which are complementary to our existing product portfolio. In addition, we will selectively acquire the new exclusive distribution rights of products which can obtain separate pricing status in PRC. In order for a product to obtain a separate pricing status from NDRC, the applicant and the product must satisfy the efficacy and safety conditions required by the relevant regulatory authority.

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

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

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

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

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

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

- obtaining new product distribution rights with commercial potential.

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

IMPLEMENTATION PLANS

To implement the abovementioned strategies, our Group has formulated and prepared the following implementation plans for the period from the Latest Practicable Date up to and including 31 December 2015. Our Group's implementation plan is based on certain bases and assumptions as set out in the paragraph headed "Bases and key assumptions of the business plans" below. It should also be noted that the following implementation plans only reflect our Directors' current understandings of the market situation and may be changed along with any changes in market conditions. Our Directors will use their best endeavors to implement the following plans:

1. For the Latest Practicable Date to 31 December 2013

Strategies	Implementation activities
To continue expanding and strengthening our distribution network and marketing efforts	• We are planning to recruit approximately 3 to 4 sales and marketing personnel into our sales and marketing team for our business expansion; • We will explore opportunities in organising, participating and sponsoring various medical seminars or conferences and product launching events; • We will maintain our strong presence in Zhejiang province and will extend our presence to the second to third tiers cities in the Zhejiang province and Eastern China region in the PRC. • We will cooperate with the medical institutions and practitioners in the PRC to participate more clinical applications. • We will organise and provide training programmes and marketing materials to medical practitioners and our Distributor Customers, respectively.

2. For the period from 1 January 2014 to 30 June 2014

Strategies	Implementation activities
To obtain exclusive distribution rights of new products	• We will evaluate, explore and obtain [1] exclusive national distribution right(s) of new pharmaceutical products with a focus on Zhejiang province and Eastern China region.

Strategies	Implementation activities
To continue expanding and strengthening our distribution network and marketing efforts	• We are planning to recruit approximately 3 to 4 sales and marketing personnel into our sales and marketing team for our business expansion; • We will explore opportunities in organising, participating and sponsoring various medical seminars or conferences and product launching events; • We will maintain our strong presence in Zhejiang province and will extend our presence to the second to third tiers cities in the Zhejiang province and Eastern China region in the PRC. • We will cooperate with the medical institutions and practitioners in the PRC to participate more clinical applications. • We will organise and provide training programmes and marketing materials to the medical practitioners and our Distributor Customers, respectively.

3. For the period from 1 July 2014 to 31 December 2014

Strategies	Implementation activities
To continue expanding and strengthening our distribution network and marketing efforts	• We are planning to recruit approximately 3 to 4 sales and marketing personnel into our sales and marketing team for our business expansion; • We will explore opportunities in organising, participating and sponsoring various medical seminars or conferences and product launching events; • We will maintain our strong presence in Zhejiang province and will extend our presence to the second to third tiers cities in the Zhejiang province and Eastern China region in the PRC. • We will cooperate with the medical institutions and practitioners in the PRC to participate more clinical applications. • We will organise and provide training programmes and marketing materials to medical practitioners and our Distributor Customers, respectively.

4. For the period from 1 January 2015 to 30 June 2015

Strategies	Implementation activities
To obtain exclusive distribution rights of new products	• We will evaluate explore and obtain [1] exclusive national distribution right(s) of new pharmaceutical products with a focus on Zhejiang province and Eastern China region.
To continue expanding and strengthening our distribution network and marketing efforts	• We are planning to recruit approximately 3 to 4 sales and marketing personnel into our sales and marketing team for our business expansion; • We will explore opportunities in organising, participating and sponsoring various medical seminars or conferences and product launching events; • We will maintain our strong presence in Zhejiang province and will extend our presence to the second to third tiers cities in the Zhejiang province and Eastern China region in the PRC. • We will cooperate with the medical institutions and practitioners in the PRC to participate more clinical applications. • We will organise and provide training programmes and marketing materials to medical practitioners and our Distributor Customers, respectively.

5. For the period from 1 July 2015 to 31 December 2015

Strategies	Implementation activities
To obtain exclusive distribution rights of new products	• We will evaluate, explore, and obtain [1] to [2] exclusive provincial distribution right(s) of new pharmaceutical products with a focus on Zhejiang province and Eastern China region.

BASES AND KEY ASSUMPTIONS OF THE BUSINESS PLANS

In formulating our business strategies and implementation plans set out above, our Directors have made reference to their industry knowledge and experience, after evaluating the existing market conditions and growth potential for our products, and based on a number of bases and assumptions in the preparation of the future plans for the period from the Latest Practicable Date up to and including 31 December 2015:

General assumptions:

- there will be no material changes in the existing laws (whether in the PRC, Hong Kong or any other part of the world), policies or industry or regulatory treatment relating to our Group, or in the political, economic or market conditions in which we operate;

- there will be no significant economic change, such as changes in interest rate, inflation rate, tax rate and currency exchange rate, or other aspects of fiscal or monetary policies, in the PRC and other jurisdictions where our Group is operating business or sells, directly or indirectly, such as through distributors or importers and exporters, that will adversely affect the business of our Group; and

- there will be no disasters, natural, political or otherwise, which will materially disrupt the business or operations of our Group or cause substantial loss, damage or destruction to our properties and facilities.

Specific assumptions:

- there will be no material adverse change in the existing pharmaceutical distribution market in the PRC;

- the current trend of increase in expenditure and investment in healthcare by the governments and peoples of the jurisdictions where we operate will continue;

- there will be no material changes in the estimated funding requirement for each of the near term implementation plans described herein;

- external financing will be readily available to our Group if and when needed;

- our Group is not materially and/or adversely affected by any of the risk factors set out in the section headed "Risk factors" in this document;

- our Group will retain key staff in our management and professional teams;

- there will be no significant changes in our business relationships with our existing strategic, business partner, major Distributor Customers and suppliers; and

- we will be able to continue its operations in substantially the same way as we have been operating and we will also be able to carry out our development plans without disruptions.

Date

The Directors
New Ray Medicine International Holding Limited

Dear Sirs,

We set out below our report on the financial information relating to New Ray Medicine International Holding Limited (the "**Company**") and its subsidiaries (hereinafter collectively referred to as the "**Group**"), for each of the two years ended 31 December 2011 and 2012, and the six months ended 30 June 2013 (the "**Track Record Period**") (the "**Financial Information**") for inclusion in the document of the Company dated [Date].

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

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

Name of company	Place and date of incorporation/ establishment	Attributable equity interest held by the Company				Issued and fully paid share capital/ registered capital	Principal activities
		31 December		30 June	Date of this		
		2011	2012	2013	report		
Max Goodrich International Limited ("**Max Goodrich**")	British Virgin Islands ("**BVI**") 21 September 2007	100%	100%	100%	100%	US$21,000	Investment holding
China New Rich Medicine Holding Co. Limited ("**China New Rich Medicine**")	Hong Kong 7 February 2005	100%	100%	100%	100%	HK$10,000	Investment holding
Hong Rui (Hangzhou) Bio-medical Technology Co. Ltd. ("**Hong Rui Bio-medical**") 泓銳(杭州)生物醫藥科技有限公司 *(notes i, iii & iv)*	The People's Republic of China (the "**PRC**") 8 July 2008	100%	100%	100%	100%	HK$75,000,000	Investment holding
Hangzhou Xin Hong Bio-medical Technology Co. Ltd. ("**Hangzhou Xin Hong**") 杭州新泓生物醫藥科技有限公司 *(notes i, ii & iv)*	PRC 14 March 2001	100%	N/A	N/A	N/A	RMB57,000,000	Investment holding

Name of company	Place and date of incorporation/ establishment	Attributable equity interest held by the Company				Issued and fully paid share capital/ registered capital	Principal activities
		31 December		30 June	Date of this		
		2011	2012	2013	report		
Zhejiang Xin Rui Pharmaceutical Co. Ltd. ("**Zhejiang Xin Rui Pharmaceutical**") 浙江新銳醫藥有限公司 *(notes ii & iv)*	PRC 26 April 2006	100%	100%	100%	100%	RMB65,000,000	Tradingof pharmaceutical products
Zhejiang Hong Rui Trading Co. Ltd. ("**Hong Rui Trading**") 浙江泓銳貿易有限公司 *(notes ii & iv)*	PRC 6 September 2005	100%	100%	100%	100%	RMB5,000,000	Inactive

Notes:

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

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

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

(iv) English translated name is for identification only.

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

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

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

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

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

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

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

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

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

A. FINANCIAL INFORMATION

COMBINED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

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

COMBINED STATEMENTS OF FINANCIAL POSITION

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

COMBINED STATEMENTS OF CHANGES IN EQUITY

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

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

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

COMBINED STATEMENTS OF CASH FLOWS

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

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

NOTES TO THE FINANCIAL INFORMATION

1. GENERAL

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

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

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

2. REORGANISATION AND BASIS OF PRESENTATION OF FINANCIAL INFORMATION

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

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

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

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

(d) On [●], Max Goodrich's shareholders namely, Town Health Pharmaceutical, Mr. Zhou, Mr. Dai, Mr. He, Ms. Yang and Festive Mood, as vendors, and the Company as purchaser entered into a sale and purchase agreement whereby Town Health Pharmaceutical, Mr. Zhou, Mr. Dai, Mr. He, Ms. Yang and Festive Mood have sold their respective interests in Max Goodrich to the Company at a consideration which has been satisfied by (i) the allocation and issue, credited as fully paid, of [●] shares to Town Health Pharmaceutical, Mr. Zhou, Mr. Dai, Mr. He, Ms. Yang and Festive Mood in proportion to their then shareholdings in Max Goodrich, that is [●] shares to Town Health Pharmaceutical, [●] shares to Mr. Zhou, [●] shares to Mr. Dai, [●] shares to Mr. He, [●] shares to Ms. Yang, [●] shares to Festive Mood; and (ii) the crediting as fully paid to par the one nil paid share previously allotted and issued to Town Health Pharmaceutical.

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

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

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

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

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

HKFRS 9 Financial Instruments

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

Key requirements of HKFRS 9 are described as follows:

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

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

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

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

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

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

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

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES

The Financial Information has been prepared in accordance with Hong Kong Financial Reporting Standards issued by the HKICPA. These policies have been consistently applied throughout the Track Record Period. In addition, the Financial Information includes applicable disclosures required by the relevant rules and by the Hong Kong Companies Ordinance.

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

The principal accounting policies are set out below.

Basis of combination

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

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

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

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

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

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

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

Investment in a joint venture

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

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

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

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

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

Revenue recognition

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

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

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

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

Property, plant and equipment

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

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

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

Leasing

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

The Group as lessee

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

Leasehold land and building

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

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

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

Foreign currencies

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

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

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

Borrowing costs

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

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

Retirement benefit costs

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

Taxation

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

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

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

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

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

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

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

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

Impairment losses on tangible assets

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

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

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

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

Inventories

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

Club debenture

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

Financial instruments

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

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

Financial assets

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

Effective interest method

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

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

Loans and receivables

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

Impairment of financial assets

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

An objective evidence of impairment could include:

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

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

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

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

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

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

Financial liabilities and equity instruments

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

Equity instruments

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

Effective interest method

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

Financial liabilities

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

Derecognition

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

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

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

5. KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

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

Estimated allowance for doubtful receivables

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

Allowance for inventories

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

6. CAPITAL RISK MANAGEMENT

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

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

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

7. FINANCIAL INSTRUMENTS

7a. Categories of financial instruments

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

7b. Financial risk management objectives and policies

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

Market risk

(i) Currency risk

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

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

Sensitivity analysis

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

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

(ii) Interest risk

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

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

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

Credit risk

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

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

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

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

The Group has concentration of credit risks on its outstanding trade and bills receivables and other receivables as 80%, 71% and 67% of its trade and other receivables were due from five, five and five customers in aggregate as at 31 December 2011 and 2012 and 30 June 2013 respectively. These five, five and five customers are distributors which engaged in trading and wholesaling of drugs in Zhejiang and Shanghai, as at 31 December 2011 and 2012 and 30 June 2013, respectively. In addition, the Group also has concentration of credit risks on its deposits paid to suppliers as 59%, 80% and 79% of its deposits paid to suppliers were paid to one, three and three suppliers in aggregate as at 31 December 2011, 2012 and 30 June 2013 respectively. Such suppliers are also

principally engaged in pharmaceutical trading and distribution in the PRC. As represented by the directors of the Company, all of these customers and suppliers have good credit quality by taking into account of their credit history. The Group has delegated a team responsible for determination of credit limits and monitoring procedures to ensure that follow-up action to recover overdue debts and to monitor credit risk on suppliers.

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

Liquidity risk

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

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

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

Liquidity table

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

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

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

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

7c. Fair value

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

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

8. REVENUE AND SEGMENT INFORMATION

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

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

(i) Injection drugs – trading of injection drugs

(ii) Tablet drugs – trading of tablet drugs

(iii) Capsule drugs – trading of capsule drugs

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

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

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

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

Year ended 31 December 2011

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

Year ended 31 December 2012

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

Six months ended 30 June 2012 (Unaudited)

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

Six months ended 30 June 2013

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

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

Geographical information

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

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

Other segment information

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

Revenue from major product and services

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

Information about major customers

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

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

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

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

9. OTHER INCOME, GAINS AND LOSSES

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

10. FINANCE COSTS

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

11. INCOME TAX EXPENSE

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

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

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

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

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

Details of deferred taxation are set out in note 28.

12. PROFIT FOR THE YEAR/PERIOD

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

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

(a) Directors' and chief executive's emoluments

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

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

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

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

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

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

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

(b) Employees' emoluments

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

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

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

14. DIVIDENDS

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

15. EARNINGS PER SHARE

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

16. PROPERTY, PLANT AND EQUIPMENT

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

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

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

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

17. PREPAID LEASE PAYMENTS

	As at 31 December		As at 30 June
	2011	**2012**	**2013**
	HK$'000	*HK$'000*	*HK$'000*
Analyzed for reporting purpose as:			
THE GROUP			
Current asset	189	191	194
Non-current asset	8,638	8,521	8,562
	8,827	8,712	8,756
The Group's prepaid lease payments comprise:			
Leasehold land outside Hong Kong:			
Medium-term lease	8,827	8,712	8,756

18. CLUB DEBENTURE

THE GROUP

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

19. DEPOSITS PAID TO SUPPLIERS

THE GROUP

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

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

The management has performed detail assessment on these contracts and no impairment losses nor provision were considered necessary in each of the end of reporting period.

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

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

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

Note:

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

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

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

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

* English translated name is for identification only

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

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

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

* English translated name is for identification only

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

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

note:

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

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

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

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

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

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

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

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

Significant restriction

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

22. INVENTORIES

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

23. TRADE, BILLS AND OTHER RECEIVABLES

	As at 31 December 2011 *HK$'000*	2012 *HK$'000*	As at 30 June 2013 *HK$'000*
THE GROUP			
Trade receivables	48,149	41,409	45,506
Bills receivables	–	292	–
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
Total trade, bills and other receivables	80,779	108,754	97,678

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

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

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

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

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

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

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

THE COMPANY

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

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

(I) Amount due from (to) related parties

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

Notes:

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

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

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

(II) Amount due to a subsidiary

THE COMPANY

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

25. BANK BALANCES AND CASH/PLEDGED BANK DEPOSITS

THE GROUP

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

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

26. TRADE, BILLS AND OTHER PAYABLES

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

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

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

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

THE COMPANY

The amounts at 31 December 2012 and 30 June 2013 represent accruals for professional fees in connection with [●].

27. BANK AND OTHER BORROWINGS

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

The bank and other borrowings are repayable as follows:

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

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

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

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

28. DEFERRED TAX LIABILITIES

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

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

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

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

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

29. SHARE CAPITAL

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

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

Share Capital of Max Goodrich

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

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

29A. RESERVE OF THE COMPANY

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

30. RETIREMENT BENEFIT PLANS

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

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

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

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

31. PLEDGE OF ASSETS

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

32. CONTINGENT LIABILITIES

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

The directors considered that there is no valid ground for the allegation of a breach of the distribution agreement, and, has instructed its lawyer in PRC to act for Zhejiang Xin Rui Pharmaceutical to defend for the litigation. The case has been heard in court in August 2012 and the second hearing took place on 15 April 2013, where the Plaintiff produced evidence in support of its claim. On 7 July 2013, the Court notified Zhejiang Xin Rui Pharmaceutical that the Plaintiff has submitted to the Court on 5 July 2013 that they decided to withdraw the legal proceedings against Zhejiang Xin Rui Pharmaceutical and the Court has subsequently given the permission of withdrawal of the legal proceedings against Zhejiang Xin Rui Pharmaceutical.

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

33. OPERATING LEASES

The Group as lessee

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

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

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

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

34. CAPITAL COMMITMENTS

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

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

35. RELATED PARTY DISCLOSURES

(I) Transactions

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

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

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

(II) Non-trade balances

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

(III) Compensation of key management personnel

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

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

B. DIRECTORS' REMUNERATION

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

Under the arrangement currently in force, the aggregate amount of remunerations payable to the Company's directors for the year ending 31 December 2013 is estimated to be approximately HK$950,000.

C. EVENTS AFTER END OF REPORTING PERIOD

(i) On 7 July 2013, the Court notified Zhejiang Xin Rui Pharmaceutical that the Plaintiff has submitted to the Court on 5 July 2013 that they decided to withdraw the legal proceedings against Zhejiang Xin Rui Pharmaceutical and the Court has subsequently given the permission of withdrawal of the legal proceedings against Zhejiang Xin Rui Pharmaceutical. Details of the litigation are set out in note 32.

No other significant events took place subsequent to [●] 2013.

D. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Group, the Company or any of its subsidiaries in respect of any period subsequent to 31 December 2012.

Yours faithfully,
[●]

The following is the text of a letter, summary of values and valuation certificates, prepared for the purpose of incorporation in this document received from Ascent Partners Valuation Service Limited, an independent valuer, in connection with its valuation as at [30 June 2013] of the property interests of the Group.

Date: [●]

The Board of Directors
New Ray Medicine International Holding Limited
Room 1001 on 10th Floor, Sino Centre
Nos. 582-592 Nathan Road
Kowloon, Hong Kong

Dear Sirs,

INSTRUCTIONS

In accordance with your instructions for us to value various properties in which New Ray Medicine International Holding Limited (the "**Company**") and its subsidiaries (hereinafter together referred to as the "**Group**") have interests in the People's Republic of China (the "**PRC**") and Hong Kong, we confirm that we have carried out property inspections, made relevant enquiries and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the market value of the property interests as at [30 June 2013] (referred to as the "**Valuation Date**").

This letter which forms part of our valuation report explains the basis and methodologies of valuation, clarifying assumptions, valuation considerations, title investigation and limiting conditions of this valuation.

BASIS OF VALUATION

Our valuation of the property interests represents the market value which we would define as intended to mean "the estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm's-length transaction after proper marketing and where the parties had each acted knowledgeably, prudently, and without compulsion".

PROPERTY INTERESTS CATEGORISATION

The property interests are categorised as follows:

Group I	–	Property interests held and occupied by the Group in the PRC
Group II	–	Property interests licensed to/rented by the Group in the PRC
Group III	–	Property interests rented by the Group in Hong Kong

VALUATION METHODOLOGY

We have valued the property interests of the property in Group I on market basis and the direct comparison method is adopted where comparison based on prices realised on actual sales and/or asking price of comparable properties is made. Comparable properties of similar size, character and location are analysed and carefully weighted against all the respective advantages and disadvantages of each property in order to arrive at a fair comparison of values.

We have attributed no commercial value to the property interests in Groups II and III which is licensed to/rented by the Group due to the prohibition against assignment and subletting or otherwise to the lack of substantial profit rents.

VALUATION CONSIDERATIONS

In valuing the property interests, we have complied with all the requirements contained in the relevant rules and the HKIS Valuation Standards (2012 Edition) published by The Hong Kong Institute of Surveyors.

VALUATION ASSUMPTIONS

Our valuations have been made on the assumption that the seller sells the property interests on the open market in their existing states without the benefit of a deferred term contracts, leasebacks, joint ventures, management agreements or any similar arrangements, which could serve to affect the values of the property interests.

In undertaking our valuation, we have assumed that, unless otherwise stated, transferable land use rights in respect of the property interests for specific terms at nominal annual land use fees have been granted and that any premium payable has already been fully paid. We have also assumed that the owners of the properties have enforceable titles to the properties and have free and uninterrupted rights to use, occupy or assign the properties for the whole of the respective unexpired terms as granted.

No allowance has been made in our report for any outstanding or additional land premium, charges, mortgages or amounts owing on the property interests valued nor for any expenses or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the property interests are free from encumbrances, restrictions and outgoings of an onerous nature, which could affect their values.

Other special assumptions of the property interests, if any, have been stated out in the footnotes of the valuation certificates attached herewith.

TITLE INVESTIGATION

We have been, in some instances, shown copies of various title documents and other documents relating to the property interests and have made relevant enquiries. We also caused searches to be made at the Land Registry in respect of the property interests located in Hong Kong and have made relevant enquiries. We have not examined the original documents to verify the existing title to the property interests and any material encumbrances that might be attached to the property interests or any lease amendments. However, we have relied considerably on the information given by the Company's PRC legal adviser, [Commerce & Finance Law Offices (通商律師事務所)], concerning the validity of the Group's title to the property interests located in the PRC.

All legal documents provided by the Group have been used for reference only. No responsibility regarding legal title to the property interests is assumed in this valuation report.

LIMITING CONDITIONS

We have inspected the exterior, and wherever possible, the interior of the properties but no structural survey had been made. In the course of our inspection, we did not note any serious defects. We are not, however, able to report that the properties are free from rot, infestation or any other structural defects. Further, no test has been carried out on any of the building services. All dimensions, measurements and areas are only approximates. We have not been able to carry out detailed on-site measurements to verify the site and floor areas of the properties and we have assumed that the areas shown on the copies of documents handed to us are correct.

The site inspection of the property was carried out in [between July and September 2012 and March 2013] by [Mr. Ian K. F. Ng, who is a chartered surveyor, and/or [Mr. Charles Choi, ASc (Estate Surveying)].

We have relied to a considerable extent on information provided by the Group and have accepted advice given to us on such matters, in particular, but not limited to, the sales records, tenure, planning approvals, statutory notices, easements, particulars of occupancy, site and floor areas and all other relevant matters in the identification of the property interests.

We have had no reason to doubt the truth and accuracy of the information provided to us by the Group. We have also been advised by the Group that no material factors have been omitted from the information supplied. We consider that we have been provided with sufficient information to reach an informed view, and we have no reason to suspect that any material information has been withheld.

Liability in connection with this valuation report is limited to the client to whom this report is addressed and for the purpose for which it is carried out only. We will accept no liability to any other parties or any other purposes.

This report is to be used only for the purpose stated herein, any use or reliance for any other purpose, by you or third parties, is invalid. No reference to our name or our report in whole or in part, in any document you prepare and/ or distribute to third parties may be made without written consent.

EXCHANGE RATE

Unless otherwise stated, all monetary amounts stated in this report are in Renminbi (RMB).

Our summary of values and valuation certificates are herewith attached.

Yours faithfully,
[●]

SUMMARY OF VALUES

	Property	Market Value in Existing State as at [30 June 2013] *RMB*	Interest Attributable to the Group *(%)*	Value Attributable to the Group as at [30 June 2013] *RMB*
Group I – Property interests held and occupied by the Group in the PRC				
1	Room 3702, Dikai International Centre, Jianggan District, Hangzhou City, Zhejiang Province, the PRC	[12,400,000]	100	[12,400,000]
2	Carparking Space Nos. 366, 366-1, 367 and 368, Dikai International Centre, Jianggan District, Hangzhou City, Zhejiang Province, the PRC	No Commercial Value		No Commercial Value
	Sub-total:	[12,400,000]		[12,400,000]
Group II – Property interests licensed to/rented by the Group in the PRC				
3	Room 3703, Dikai International Centre, Jianggan District, Hangzhou City, Zhejiang Province, the PRC	No Commercial Value		No Commercial Value
4	Portion of No. 4789 Shidai Road, Wenyan Town, Xiaoshan District, Hangzhou City, Zhejiang Province, the PRC	No Commercial Value		No Commercial Value
5	Room 1805, No. 42 Fengqi Road East, Jianggan District, Hangzhou City, Zhejiang Province, the PRC	No Commercial Value		No Commercial Value
6	Room 15J, Block A, Chengtian Garden, No. 8 Jinmao Road West, Longhua District, Haikou City, Hainan Province, the PRC	No Commercial Value		No Commercial Value
	Sub-total:	Nil		Nil
Group III – Property interests rented by the Group in Hong Kong				
7	Room 1001 on 10th Floor, Sino Centre, Nos. 582–592 Nathan Road, Kowloon	No Commercial Value		No Commercial Value
	Sub-total:	Nil		Nil
	Grand Total:	[12,400,000]		[12,400,000]

VALUATION CERTIFICATE

Group I – Property interests held and occupied by the Group in the PRC

	Property	Description and Tenure	Particular of Occupancy	Market Value in Existing State as at [30 June 2013]
1	Room 3702, Dikai International Centre, Jianggan District, Hangzhou City, Zhejiang Province, the PRC	The property comprises an office unit on Level 37 of a 41-storey office building plus 2 basement levels completed in 2010. The gross floor area of the property is approximately 343.19 sq.m. The land use rights of the property were granted for a term expiring on 30 March 2056 for office use.	The property is currently occupied by the Group for office use	RMB[12,400,000] (Renminbi [Twelve Million Four Hundred Thousand]) 100% Interest Attributable to the Group: RMB[12,400,000]

Notes:

(1) Pursuant to a Building Ownership Certificate – Hang Fang Quan Zheng Jiang Yi Zi Di No. 10889632 issued by Hangzhou Housing Management Bureau registered on 29 November 2010, the building ownership rights of the property with a gross floor area of approximately 343.19 sq.m. are owned by Hong Rui (Hangzhou) Bio-medical Technology Co. Ltd. (泓銳(杭州)生物醫藥科技有限公司), which is an indirect wholly-owned subsidiary of the Company, for office use.

(2) Pursuant to a State-owned Land Use Rights Certificate – Hang Jiang Guo Yong (2010) Di No. 020454 issued by Hangzhou Bureau of Land and Resources dated 29 November 2010, the land use rights of the property with an apportioned site area of approximately 22.7 sq.m. were granted to Hong Rui (Hangzhou) Bio-medical Technology Co. Ltd. for a term expiring on 30 March 2056 for office use.

(3) Pursuant to a Sale and Purchase Contract entered into between Zhejiang Dikai Real Estate Co. Ltd. (浙江迪凱房地產有限公司) and Hong Rui (Hangzhou) Bio-medical Technology Co. Ltd. dated 15 January 2010, the property was sold to Hong Rui (Hangzhou) Bio-medical Technology Co. Ltd. at a consideration of RMB9,823,814.

(4) Pursuant to a Maximum Amount Mortgage Contract dated 29 November 2012 entered into between Hong Rui (Hangzhou) Bio-medical Technology Co. Ltd. and Agricultural Bank of China Limited – Hangzhou Jiefang Road Branch, the property is pledged for a loan to an extent of RMB12,510,000 for a term commencing on 29 November 2012 and expiring on 28 November 2015.

(5) We have been provided with a legal opinion regarding the property interests by the Company's PRC legal adviser, which contains, inter alia, the following:

(i) [Hong Rui (Hangzhou) Bio-medical Technology Co. Ltd. legally owns the property and is entitled to lease, transfer, mortgage and dispose of the property subject to the prior consent from the mortgagee; and]

(ii) [The property is subject to a mortgage in favour of Agricultural Bank of China Limited – Hangzhou Jiefang Road Branch.]

(6) The unit selling price of office space within the Dikai International Centre, as at the Valuation Date, was in the range between RMB33,000 per sq.m. and RMB37,000 per sq.m. The unit rate adopted to arrive at the value of the property, which is located at higher floor level, is RMB36,000 per sq.m.

VALUATION CERTIFICATE

	Property	Description and Tenure	Particular of Occupancy	Market Value in Existing State as at [30 June 2013]
2	Carparking Space Nos. 366, 366-1, 367 and 368, Dikai International Centre, Jianggan District, Hangzhou City, Zhejiang Province, the PRC	The property comprises four carparking spaces on Basement Level 2 of a 41-storey office building plus 2 basement levels completed in 2010.	The property is currently occupied by the Group for carparking use.	No Commercial Value

Notes:

(1) Pursuant to three Transfer Contracts entered into between Zhejiang Dikai Real Estate Co. Ltd. and Hong Rui (Hangzhou) Bio-medical Technology Co. Ltd. all dated 20 January 2010, the property was sold to Hong Rui (Hangzhou) Bio-medical Technology Co. Ltd. at a total consideration of RMB620,000.

(2) We have attributed no commercial value to the property as the relevant title certificates have not yet obtained. For reference purpose, we are of the opinion that the market value in existing states, assuming that the relevant title certificates have been obtained and the property is freely disposed of in the market, as at the Valuation Date, would be RMB840,000.

(3) We have been provided with a legal opinion regarding the property interests by the Company's PRC legal adviser, which contains, *inter alia*, the following:

(i) [Hong Rui (Hangzhou) Bio-medical Technology Co. Ltd. legally acquired the rights to use the property; and]

(ii) [The three Transfer Contracts are legal, valid and enforceable on the contractual parties.]

VALUATION CERTIFICATE

Group II – Property interests licensed to/rented by the Group in the PRC

	Property	Description and Tenancy Particulars	Market Value in Existing State as at [30 June 2013]
3	Room 3703, Dikai International Centre, Jianggan District, Hangzhou City, Zhejiang Province, the PRC	The property comprises an office unit on Level 37 of a 41-storey office building plus 2 basement levels completed in 2010. The gross floor area of the property is approximately 376.78 sq.m. The property is occupied by the Group for office purpose. Pursuant to a tenancy agreement (as supplemented by a confirmation dated 15 August 2012) entered into between Zhejiang Xin Rui Pharmaceutical Co., Ltd. (浙江新銳醫藥有限公司), as lessee which is an indirect wholly-owned subsidiary of the Company, and Yang Qi (楊奇) & Tu Yue Li (屠月麗) as lessor [which are connected persons of the Company], the property was rented to the Group for a term commencing on 1 April 2012 and expiring on 31 March 2015 at an annual rental of RMB550,098.8 for office uses exclusive of management fee.	No Commercial Value

Notes:

We have been provided with a legal opinion regarding the property interests by the Company's PRC legal adviser, which contains, *inter alia*, the following:

(i) [The tenancy agreement has been registered; and]

(ii) [The tenancy agreement is legal, valid and enforceable on the contractual parties.]

	Property	Description and Tenancy Particulars	Market Value in Existing State as at [30 June 2013]
4	Portion of No. 4789 Shidai Road, Wenyan Town, Xiaoshan District, Hangzhou City, Zhejiang Province, the PRC	The property comprises a whole Level 2 of a 5-storey warehouse building plus a mezzanine floor completed in 2011. The gross floor area of the properties is approximately 2,215 sq.m. The property is occupied by the Group for warehouse purpose. Pursuant to a tenancy agreement dated 1 September 2011 entered into between Zhejiang Xin Rui Pharmaceutical Co., Ltd., as lessee, and Hanzhou Xiaoshan Hangcheng Gongju Ltd. (杭州蕭山恒成工具有限公司) as lessor which is an independent third party, the property was rented to the Group for a term commencing on 21 October 2011 and expiring on 20 October 2016. The current rental is RMB261,370 per annum exclusive of management fee.	No Commercial Value

Notes:

We have been provided with a legal opinion regarding the property interests by the Company's PRC legal adviser, which contains, *inter alia*, the following:

(i) [The tenancy agreement has been registered; and]

(ii) [The tenancy agreement is legal, valid and enforceable on the contractual parties.]

	Property	Description and Tenancy Particulars	Market Value in Existing State as at [30 June 2013]
5	Room 1805, No. 42 Fengqi Road East, Jianggan District, Hangzhou City, Zhejiang Province, the PRC	The property comprises an office unit on Level 18 of a 19-storey non-domestic building plus one basement level completed in 2003. The gross floor area of the property is approximately 42.64 sq.m. The property is occupied by the Group for office purpose. Pursuant to a document – Proof for occupying a property without compensation (房屋無償使用證明) issued by Mr. Dai (戴海東), which is [a connected person of the Company], as landlord, Zhejiang Hong Rui Trading Co., Ltd. (浙江泓銳貿易有限公司), which is an indirect wholly-owned subsidiary of the Company, was licensed to occupy the property for a term commencing on 1 June 2012 and expiring on 31 May 2017 at nil licence fee for office use.	No Commercial Value

Note:

We have been provided with a legal opinion regarding the property interests by the Company's PRC legal adviser, which contains, *inter alia*, the following:

[Zhejiang Hong Rui Trading Co., Ltd. has the rights to occupy the property in the period for office use and its rights are protected by the PRC's law.]

	Property	Description and Tenancy Particulars	Market Value in Existing State as at [30 June 2013]
6	Room 15J, Block A, Chengtian Garden, No. 8 Jinmao Road West, Longhua District, Haikou City, Hainan Province, the PRC	The property comprises an office unit on Level 15 of a 29-storey residential building completed in 2005. The gross floor area of the property is approximately 155.19 sq.m. The property is occupied by the Group for office purpose. Pursuant to a document – Proof for a site (場地證明) issued by [Hainan Lang Tian Pharmaceutical Co., Ltd.] (海南朗天醫藥有限公司), which is [a connected party of the Company], as landlord, Haikou Xin Lang Pharmaceutical Technology Co., Ltd. (海口新朗醫藥科技有限公司), which is owned as to 50.1% by Zhejiang Xin Rui Pharmaceutical Co., Ltd. and 49.9% by [an independent third party], was licensed to occupy the property for a term commencing on 29 March 2011 and expiring on 28 March 2016 at nil licence fee for office use.	No Commercial Value

Notes:

(1) Pursuant to a document – Permit for commercial use of a property (經營性用房證明書) issued by Shimao Community Committee of Jinmao Jiedao Office, Longhua District, Haikou City (海口市龍華區金貿街道辦事處世貿社區居委會), the change of residential use of the property to commercial use is permitted.

(2) We have been provided with a legal opinion regarding the property interests by the Company's PRC legal adviser, which contains, *inter alia*, the following:

[Haikou Xin Lang Pharmaceutical Technology Co. has the rights to occupy the property for office use in the period and its rights are protected by the PRC's law.]

VALUATION CERTIFICATE

Group III – Property interests rented by the Group in Hong Kong

	Property	Description and Tenancy Particulars	Market Value in Existing State as at [30 June 2013]
7	Room 1001 on 10th Floor, Sino Centre, Nos. 582-592 Nathan Road, Kowloon	The property comprises an office unit on 10th floor of a 23-storey commercial building plus a basement completed in 1979. The gross floor area of the property is approximately [391 sq.ft.] The property is occupied by the Group for office purpose. Pursuant to a tenancy agreement dated 1 September 2012 entered into between China New Rich Medicine Co. Limited, as lessee which is an indirect wholly-owned subsidiary of the Company, and Utmost Vantage Limited, as lessor which is an independent third party, the property was rented to the Group for a term of one year commencing on 1 September 2012 and expiring on 31 August 2013 at a monthly rental of HK$14,000 for office use inclusive of management fee, Government rent and rates.	No Commercial Value

Notes:

(1) The registered owner of the property, as at the Valuation Date, was Utmost Vantage Limited.

(2) The property is subject to a Deed of Mutual Covenant vide memorial no. UB1812848 dated 28 November 1979.

(3) The current registered owner of the property is Asia Ascent Limited vide memorial no. 13082800390020 dated 31 July 2013.

(4) Pursuant to a tenancy agreement dated 22 August 2013 entered into between China New Rich Medicine Co. Limited and Asia Ascent Limited, which is an independent third party, the property is to be rented to the Group for a term of one year commencing on 1 September 2013 and expiring on 31 August 2014 at a monthly rental of HK$16,200 for office use inclusive of management fee, Government rent and rates.

Set out below is a summary of certain provisions of the Memorandum of Association and the Bye-laws of the Company and of certain aspects of Bermuda company law.

1. MEMORANDUM OF ASSOCIATION

The Memorandum of Association states, inter alia, that the liability of members of the Company is limited to the amount, if any, for the time being unpaid on the Shares respectively held by them and that the Company is an exempted company as defined in the Companies Act. The Memorandum of Association also sets out the objects for which the Company was formed which are unrestricted and that the Company has the capacity, rights, powers and privileges of a natural person. As an exempted company, the Company will be carrying on business outside Bermuda from a place of business within Bermuda.

In accordance with and subject to section 42A of the Companies Act, the Memorandum of Association empowers the Company to purchase its own shares and pursuant to its Bye-laws, this power is exercisable by the board of Directors (the "**board**") upon such terms and subject to such conditions as it thinks fit.

2. BYE-LAWS

The Bye-laws were conditionally adopted on 26 September 2013. The following is a summary of certain provisions of the Bye-laws:

(a) Directors

(i) Power to allot and issue shares and warrants

Subject to any special rights conferred on the holders of any shares or class of shares, any share may be issued with or have attached thereto such rights, or such restrictions, whether with regard to dividend, voting, return of capital, or otherwise, as the Company may by ordinary resolution determine (or, in the absence of any such determination or so far as the same may not make specific provision, as the board may determine). Subject to the Companies Act, any preference shares may be issued or converted into shares that are liable to be redeemed, at a determinable date or at the option of the Company or, if so authorised by the Memorandum of Association, at the option of the holder, on such terms and in such manner as the Company before the issue or conversion may by ordinary resolution determine. The board may issue warrants conferring the right upon the holders thereof to subscribe for any class of shares or securities in the capital of the Company on such terms as it may from time to time determine.

Subject to the provisions of the Companies Act, the Bye-laws, any direction that may be given by the Company in general meeting and, where applicable, the rules of any Designated Stock Exchange (as defined in the Bye-laws) and without prejudice to any special rights or restrictions for the time being attached to any shares or any class of shares, all unissued shares in the Company shall be at the disposal of the board, which may offer, allot, grant options over or otherwise dispose of them to such persons, at such times, for such consideration and on such terms and conditions as it in its absolute discretion thinks fit, but so that no shares shall be issued at a discount.

Neither the Company nor the board shall be obliged, when making or granting any allotment of, offer of, option over or disposal of shares, to make, or make available, any such allotment, offer, option or shares to members or others with registered addresses in any particular territory or territories being a territory or territories where, in the absence of a registration statement or other special formalities, this would or might, in the opinion of the board, be unlawful or impracticable. Members affected as a result of the foregoing sentence shall not be, or be deemed to be, a separate class of members for any purpose whatsoever.

(ii) Power to dispose of the assets of the Company or any of its subsidiaries

There are no specific provisions in the Bye-laws relating to the disposal of the assets of the Company or any of its subsidiaries.

Note: The Directors may, however, exercise all powers and do all acts and things which may be exercised or done or approved by the Company and which are not required by the Bye-laws or the Companies Act to be exercised or done by the Company in general meeting.

(iii) Compensation or payments for loss of office

Payments to any Director or past Director of any sum by way of compensation for loss of office or as consideration for or in connection with his retirement from office (not being a payment to which the Director is contractually entitled) must be approved by the Company in general meeting.

(iv) Loans and provision of security for loans to Directors

There are no provisions in the Bye-laws relating to the making of loans to Directors. However, the Companies Act contains restrictions on companies making loans or providing security for loans to their directors, the relevant provisions of which are summarised in the paragraph headed "Bermuda Company Law" in this Appendix.

(v) Financial assistance to purchase shares of the Company

Subject to compliance with the rules and regulations of the Designated Stock Exchange (as defined in the Bye-laws) and any other relevant regulatory authority, the Company may give financial assistance for the purpose of or in connection with a purchase made or to be made by any person of any shares in the Company.

(vi) Disclosure of interests in contracts with the Company or any of its subsidiaries

A Director may hold any other office or place of profit with the Company (except that of auditor of the Company) in conjunction with his office of Director for such period and, subject to the Companies Act, upon such terms as the board may determine, and may be paid such extra remuneration (whether by way of salary, commission, participation in profits or otherwise) in addition to any remuneration provided for by or pursuant to any other Bye-laws. A Director may be or become a director or other officer of, or a member of, any company

promoted by the Company or any other company in which the Company may be interested, and shall not be liable to account to the Company or the members for any remuneration, profits or other benefits received by him as a director, officer or member of, or from his interest in, such other company. Subject as otherwise provided by the Bye-laws, the board may also cause the voting power conferred by the shares in any other company held or owned by the Company to be exercised in such manner in all respects as it thinks fit, including the exercise thereof in favour of any resolution appointing the Directors or any of them to be directors or officers of such other company, or voting or providing for the payment of remuneration to the directors or officers of such other company.

Subject to the Companies Act and to the Bye-laws, no Director or proposed or intending Director shall be disqualified by his office from contracting with the Company, either with regard to his tenure of any office or place of profit or as vendor, purchaser or in any other manner whatsoever, nor shall any such contract or any other contract or arrangement in which any Director is in any way interested be liable to be avoided, nor shall any Director so contracting or being so interested be liable to account to the Company or the members for any remuneration, profit or other benefits realised by any such contract or arrangement by reason of such Director holding that office or the fiduciary relationship thereby established. A Director who to his knowledge is in any way, whether directly or indirectly, interested in a contract or arrangement or proposed contract or arrangement with the Company shall declare the nature of his interest at the meeting of the board at which the question of entering into the contract or arrangement is first taken into consideration, if he knows his interest then exists, or in any other case, at the first meeting of the board after he knows that he is or has become so interested.

A Director shall not vote (nor be counted in the quorum) on any resolution of the board approving any contract or arrangement or other proposal in which he or any of his associates is materially interested but this prohibition shall not apply to any of the following matters, namely:

(aa) any contract or arrangement for giving to such Director or his associate(s) any security or indemnity in respect of money lent by him or any of his associates or obligations incurred or undertaken by him or any of his associates at the request of or for the benefit of the Company or any of its subsidiaries;

(bb) any contract or arrangement for the giving of any security or indemnity to a third party in respect of a debt or obligation of the Company or any of its subsidiaries for which the Director or his associate(s) has himself/themselves assumed responsibility in whole or in part whether alone or jointly under a guarantee or indemnity or by the giving of security;

(cc) any contract or arrangement concerning an offer of shares or debentures or other securities of or by the Company or any other company which the Company may promote or be interested in for

subscription or purchase, where the Director or his associate(s) is/are or is/are to be interested as a participant in the underwriting or sub-underwriting of the offer;

(dd) any contract or arrangement in which the Director or his associate(s) is/are interested in the same manner as other holders of shares or debentures or other securities of the Company by virtue only of his/their interest in shares or debentures or other securities of the Company; and

(ee) any proposal or arrangement concerning the adoption, modification or operation of a share option scheme, a pension fund or retirement, death, or disability benefits scheme or other arrangement which relates both to Directors, his associates and employees of the Company or of any of its subsidiaries and does not provide in respect of any Director, or his associate(s), as such any privilege or advantage not accorded generally to the class of persons to which such scheme or fund relates.

(vii) Remuneration

The ordinary remuneration of the Directors shall from time to time be determined by the Company in general meeting, such remuneration (unless otherwise directed by the resolution by which it is voted) to be divided amongst the Directors in such proportions and in such manner as the board may agree or, failing agreement, equally, except that any Director holding office for part only of the period in respect of which the remuneration is payable shall only rank in such division in proportion to the time during such period for which he held office. The Directors shall also be entitled to be prepaid or repaid all travelling, hotel and incidental expenses reasonably incurred or expected to be incurred by them in attending any board meetings, committee meetings or general meetings or separate meetings of any class of shares or of debentures of the Company or otherwise in connection with the discharge of their duties as Directors.

Any Director who, by request, goes or resides abroad for any purpose of the Company or who performs services which in the opinion of the board go beyond the ordinary duties of a Director may be paid such extra remuneration (whether by way of salary, commission, participation in profits or otherwise) as the board may determine and such extra remuneration shall be in addition to or in substitution for any ordinary remuneration provided for by or pursuant to any other Bye-law. A Director appointed to be a managing director, joint managing director, deputy managing director or other executive officer shall receive such remuneration (whether by way of salary, commission or participation in profits or otherwise or by all or any of those modes) and such other benefits (including pension and/or gratuity and/or other benefits on retirement) and allowances as the board may from time to time decide. Such remuneration may be either in addition to or in lieu of his remuneration as a Director.

The board may establish or concur or join with other companies (being subsidiary companies of the Company or companies with which it is associated in business) in establishing and making contributions out of the Company's monies to any schemes or funds for providing pensions, sickness or compassionate allowances, life assurance or other benefits for employees (which expression as used in this and the following paragraph shall include any Director or ex-Director who may hold or have held any executive office or any office of profit with the Company or any of its subsidiaries) and ex-employees of the Company and their dependants or any class or classes of such persons.

The board may pay, enter into agreements to pay or make grants of revocable or irrevocable, and either subject or not subject to any terms or conditions, pensions or other benefits to employees and ex-employees and their dependants, or to any of such persons, including pensions or benefits additional to those, if any, to which such employees or ex-employees or their dependants are or may become entitled under any such scheme or fund as is mentioned in the previous paragraph. Any such pension or benefit may, as the board considers desirable, be granted to an employee either before and in anticipation of, or upon or at any time after, his actual retirement.

(viii) Retirement, appointment and removal

At each annual general meeting, one third of the Directors for the time being (or if their number is not a multiple of three, then the number nearest to but not less than one third) will retire from office by rotation provided that every Director shall be subject to retirement at least once every three years. The Directors to retire in every year will be those who have been longest in office since their last re-election or appointment but as between persons who became or were last re-elected Directors on the same day those to retire will (unless they otherwise agree among themselves) be determined by lot.

Note: There are no provisions relating to retirement of Directors upon reaching any age limit.

The Directors shall have the power from time to time and at any time to appoint any person as a Director either to fill a casual vacancy on the board or, subject to authorisation by the members in general meeting, as an addition to the existing board but so that the number of Directors so appointed shall not exceed any maximum number determined from time to time by the members in general meeting. Any Director appointed by the board to fill a casual vacancy shall hold office until the first general meeting of Members after his appointment and be subject to re-election at such meeting and any Director appointed by the board as an addition to the existing board shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election. Neither a Director nor an alternate Director is required to hold any shares in the Company by way of qualification.

A Director may be removed by an ordinary resolution of the Company before the expiration of his period of office (but without prejudice to any claim which such Director may have for damages for any breach of any contract between him and the Company) provided that the notice of any such meeting convened for the purpose of removing a Director shall contain a statement of the

intention to do so and be served on such Director fourteen (14) days before the meeting and, at such meeting, such Director shall be entitled to be heard on the motion for his removal. Unless otherwise determined by the Company in general meeting, the number of Directors shall not be less than two. There is no maximum number of Directors unless otherwise determined from time to time by members of the Company.

The board may from time to time appoint one or more of its body to be managing director, joint managing director, or deputy managing director or to hold any other employment or executive office with the Company for such period (subject to their continuance as Directors) and upon such terms as the board may determine and the board may revoke or terminate any of such appointments (but without prejudice to any claim for damages that such Director may have against the Company or vice versa). The board may delegate any of its powers, authorities and discretions to committees consisting of such Director or Directors and other persons as the board thinks fit, and it may from time to time revoke such delegation or revoke the appointment of and discharge any such committees either wholly or in part, and either as to persons or purposes, but every committee so formed shall, in the exercise of the powers, authorities and discretions so delegated, conform to any regulations that may from time to time be imposed upon it by the board.

(ix) Borrowing powers

The board may from time to time at its discretion exercise all the powers of the Company to raise or borrow money, to mortgage or charge all or any part of the undertaking, property and assets (present and future) and uncalled capital of the Company and, subject to the Companies Act, to issue debentures, bonds and other securities of the Company, whether outright or as collateral security for any debt, liability or obligation of the Company or of any third party.

Note: These provisions, in common with the Bye-laws in general, can be varied with the sanction of a special resolution of the Company.

(b) Alterations to constitutional documents

The Bye-laws may be rescinded, altered or amended by the Directors subject to the confirmation of the Company in general meeting. The Bye-laws state that a special resolution shall be required to alter the provisions of the Memorandum of Association, to confirm any such rescission, alteration or amendment to the Bye-laws or to change the name of the Company.

(c) Alteration of capital

The Company may from time to time by ordinary resolution in accordance with the relevant provisions of the Companies Act:

(i) increase its capital by such sum, to be divided into shares of such amounts as the resolution shall prescribe;

(ii) consolidate and divide all or any of its capital into shares of larger amount than its existing shares;

(iii) divide its shares into several classes and without prejudice to any special rights previously conferred on the holders of existing shares as the directors may determine;

(iv) sub-divide its shares or any of them into shares of smaller amount than is fixed by the Memorandum of Association;

(v) change the currency denomination of its share capital;

(vi) make provision for the issue and allotment of shares which do not carry any voting rights; and

(vii) cancel any shares which, at the date of passing of the resolution, have not been taken, or agreed to be taken, by any person, and diminish the amount of its capital by the amount of the shares so cancelled.

The Company may, by special resolution, subject to any confirmation or consent required by law, reduce its authorised or issued share capital or, save for the use of share premium as expressly permitted by the Companies Act, any share premium account or other undistributable reserve.

(d) Variation of rights of existing shares or classes of shares

Subject to the Companies Act, all or any of the special rights attached to the shares or any class of shares may (unless otherwise provided for by the terms of issue of that class) be varied, modified or abrogated either with the consent in writing of the holders of not less than three-fourths of the issued shares of that class or with the sanction of a special resolution passed at a separate general meeting of the holders of the shares of that class. To every such separate general meeting the provisions of the Bye-laws relating to general meetings will *mutatis mutandis* apply, but so that the necessary quorum (other than at an adjourned meeting) shall be two persons or (in the case of a member being a corporation) its duly authorised representative holding or representing by proxy not less than one-third in nominal value of the issued shares of that class and at any adjourned meeting two holders present in person or (in the case of a member being a corporation) its duly authorised representative or by proxy whatever the number of shares held by them shall be a quorum. Every holder of shares of the class shall be entitled on a poll to one vote for every such share held by him.

(e) Special resolution-majority required

A special resolution of the Company must be passed by a majority of not less than three-fourths of the votes cast by such members as, being entitled so to do, vote in person or, in the case of such members as are corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting of which notice of not less than twenty-one (21) clear days and not less than ten (10) clear business days specifying the intention to propose the resolution as a special resolution, has been duly given. Provided that if permitted by the Designated Stock Exchange (as defined in the Bye-laws), except in the case of an annual general meeting, if it is so agreed by a majority in number of the members having a right to attend and vote at such

meeting, being a majority together holding not less than ninety-five per cent. (95%) in nominal value of the shares giving that right and, in the case of an annual general meeting, if so agreed by all members entitled to attend and vote thereat, a resolution may be proposed and passed as a special resolution at a meeting of which notice of less than twenty-one (21) clear days and not less than ten (10) clear business days has been given.

(f) Voting rights

Subject to any special rights or restrictions as to voting for the time being attached to any shares by or in accordance with the Bye-laws, at any general meeting on a poll every member present in person or by proxy or (being a corporation) by its duly authorised representative shall have one vote for every fully paid share of which he is the holder but so that no amount paid up or credited as paid up on a share in advance of calls or installments is treated for the foregoing purposes as paid up on the share.

A member entitled to more than one vote need not use all his votes or cast all the votes he uses in the same way.

At any general meeting a resolution put to the vote of the meeting is to be decided by way of a poll save that the chairman of the meeting may in good faith, allow a resolution which relates purely to a procedural or administrative matter to be voted on by a show of hands in which case every member present in person (or being a corporation, is present by a duly authorised representative), or by proxy(ies) shall have one vote provided that where more than one proxy is appointed by a member which is a clearing house (or its nominee(s)), each such proxy shall have one vote on a show of hands.

If a recognised clearing house (or its nominee(s)) is a member of the Company it may authorise such persons as it thinks fit to act as its representative(s) at any meeting of the Company or at any meeting of any class of members of the Company provided that, if more than one person is so authorised, the authorisation shall specify the number and class of shares in respect of which each such person is so authorised. A person authorised pursuant to this provision shall be deemed to have been duly authorised without further evidence of the facts and be entitled to exercise the same powers on behalf of the recognised clearing house (or its nominee(s)) as if such person was the registered holder of the shares held by that clearing house (or its nominee(s)) in respect of the number and class of shares specified in the relevant authorisation including, where a show of hands is allowed, the right to vote individually on a show of hands.

Where the Company has any knowledge that any shareholder is, under the rules of the Designated Stock Exchange (as defined in the Bye-laws), required to abstain from voting on any particular resolution of the Company or restricted to voting only for or only against any particular resolution of the Company, any votes cast by or on behalf of such shareholder in contravention of such requirement or restriction shall not be counted.

(g) Requirements for annual general meetings

An annual general meeting of the Company must be held in each year other than the year in which its statutory meeting is convened at such time (within a period of not more than 15 months after the holding of the last preceding annual general meeting unless a longer period would not infringe the rules of any Designated Stock Exchange (as defined in the Bye-laws)) and place as may be determined by the board.

(h) Accounts and audit

The board shall cause true accounts to be kept of the sums of money received and expended by the Company, and the matters in respect of which such receipt and expenditure take place, and of the property, assets, credits and liabilities of the Company and of all other matters required by the provisions of the Companies Act or necessary to give a true and fair view of the Company's affairs and to explain its transactions.

The accounting records shall be kept at the registered office or, subject to the Companies Act, at such other place or places as the board decides and shall always be open to inspection by any Director. No member (other than a Director) shall have any right of inspecting any accounting record or book or document of the Company except as conferred by law or authorised by the board or the Company in general meeting.

Subject to the Companies Act, a printed copy of the Directors' report, accompanied by the balance sheet and profit and loss account, including every document required by law to be annexed thereto, made up to the end of the applicable financial year and containing a summary of the assets and liabilities of the Company under convenient heads and a statement of income and expenditure, together with a copy of the auditors' report, shall be sent to each person entitled thereto at least twenty-one (21) days before the date of the general meeting and at the same time as the notice of annual general meeting and laid before the Company at the annual general meeting in accordance with the requirements of the Companies Act provided that this provision shall not require a copy of those documents to be sent to any person whose address the Company is not aware or to more than one of the joint holders of any shares or debentures; however, to the extent permitted by and subject to compliance with all applicable laws, including the rules of the Designated Stock Exchange (as defined in the Bye-laws), the Company may send to such persons summarised financial statements derived from the Company's annual accounts and the directors' report instead provided that any such person may by notice in writing served on the Company, demand that the Company sends to him, in addition to summarised financial statements, a complete printed copy of the Company's annual financial statement and the directors' report thereon.

Subject to the Companies Act, at the annual general meeting or at a subsequent special general meeting in each year, the members shall appoint an auditor to audit the accounts of the Company and such auditor shall hold office until the members appoint another auditor. Such auditor may be a member but no Director or officer or employee

of the Company shall, during his continuance in office, be eligible to act as an auditor of the Company. The remuneration of the auditor shall be fixed by the Company in general meeting or in such manner as the members may determine.

The financial statements of the Company shall be audited by the auditor in accordance with generally accepted auditing standards. The auditor shall make a written report thereon in accordance with generally accepted auditing standards and the report of the auditor shall be submitted to the members in general meeting. The generally accepted auditing standards referred to herein may be those of a country or jurisdiction other than Bermuda. If the auditing standards of a country or jurisdiction other than Bermuda are used, the financial statements and the report of the auditor should disclose this fact and name such country and jurisdiction.

(i) Notices of meetings and business to be conducted thereat

An annual general meeting shall be called by notice of not less than twenty-one (21) clear days and not less than twenty (20) clear business days and any special general meeting at which it is proposed to pass a special resolution shall (save as set out in sub-paragraph (e) above) be called by notice of at least twenty-one (21) clear days and not less than ten (10) clear business days. All other special general meeting shall be called by notice of at least fourteen (14) clear days and not less than ten (10) clear business days. The notice must specify the time and place of the meeting and, in the case of special business, the general nature of that business. The notice convening an annual general meeting shall specify the meeting as such.

(j) Transfer of shares

All transfers of shares may be effected in any manner permitted by and in accordance with the rules of the Designated Stock Exchange or by an instrument of transfer in the usual or common form or in a form prescribed by the Designated Stock Exchange or in such other form as the board may approve and which may be under hand or, if the transferor or transferee is a clearing house or its nominee(s), by hand or by machine imprinted signature or by such other manner of execution as the board may approve from time to time. The instrument of transfer shall be executed by or on behalf of the transferor and the transferee provided that the board may dispense with the execution of the instrument of transfer by the transferee in any case in which it thinks fit, in its discretion, to do so and the transferor shall be deemed to remain the holder of the share until the name of the transferee is entered in the register of members in respect thereof. The board may also resolve either generally or in any particular case, upon request by either the transferor or the transferee, to accept mechanically executed transfers.

The board in so far as permitted by any applicable law may, in its absolute discretion, at any time and from time to time transfer any share upon the principal register to any branch register or any share on any branch register to the principal register or any other branch register.

Unless the board otherwise agrees, no shares on the principal register shall be transferred to any branch register nor may shares on any branch register be transferred to the principal register or any other branch register. All transfers and other documents of title shall be lodged for registration and registered, in the case of shares on a branch register, at the relevant registration office and, in the case of shares on the principal register, at the registered office in Bermuda or such other place in Bermuda at which the principal register is kept in accordance with the Companies Act.

The board may, in its absolute discretion, and without assigning any reason, refuse to register a transfer of any share (not being a fully paid up share) to a person of whom it does not approve or any share issued under any share incentive scheme for employees upon which a restriction on transfer imposed thereby still subsists, and it may also refuse to register any transfer of any share to more than four joint holders or any transfer of any share (not being a fully paid up share) on which the Company has a lien.

The board may decline to recognise any instrument of transfer unless a fee of such maximum sum as any Designated Stock Exchange (as defined in the Bye-laws) may determine to be payable or such lesser sum as the Directors may from time to time require is paid to the Company in respect thereof, the instrument of transfer, if applicable, is properly stamped, is in respect of only one class of share and is lodged at the relevant registration office or registered office or such other place at which the principal register is kept accompanied by the relevant share certificate(s) and such other evidence as the board may reasonably require to show the right of the transferor to make the transfer (and if the instrument of transfer is executed by some other person on his behalf, the authority of that person so to do).

The registration of transfers may be suspended and the register closed on giving notice by advertisement in an appointed newspaper and, where applicable, any other newspapers in accordance with the requirements of any Designated Stock Exchange (as defined in the Bye-laws), at such times and for such periods as the board may determine and either generally or in respect of any class of shares. The register of members shall not be closed for periods exceeding in the whole thirty (30) days in any year.

(k) Power for the Company to purchase its own shares

The Bye-laws supplement the Company's Memorandum of Association (which gives the Company the power to purchase its own shares) by providing that the power is exercisable by the board upon such terms and conditions as it thinks fit.

(l) Power for any subsidiary of the Company to own shares in the Company

There are no provisions in the Bye-laws relating to ownership of shares in the Company by a subsidiary.

(m) Dividends and other methods of distribution

Subject to the Companies Act, the Company in general meeting may declare dividends in any currency to be paid to the members but no dividend shall be declared in excess of the amount recommended by the board. The Company in general meeting may

also make a distribution to its members out of contributed surplus (as ascertained in accordance with the Companies Act). No dividend shall be paid or distribution made out of contributed surplus if to do so would render the Company unable to pay its liabilities as they become due or the realisable value of its assets would thereby become less than its liabilities.

Except in so far as the rights attaching to, or the terms of issue of, any share may otherwise provide, (i) all dividends shall be declared and paid according to the amounts paid up on the shares in respect whereof the dividend is paid but no amount paid up on a share in advance of calls shall for this purpose be treated as paid up on the share and (ii) all dividends shall be apportioned and paid pro rata according to the amount paid up on the shares during any portion or portions of the period in respect of which the dividend is paid. The Directors may deduct from any dividend or other monies payable to a member by the Company on or in respect of any shares all sums of money (if any) presently payable by him to the Company on account of calls or otherwise.

Whenever the board or the Company in general meeting has resolved that a dividend be paid or declared on the share capital of the Company, the board may further resolve either (a) that such dividend be satisfied wholly or in part in the form of an allotment of shares credited as fully paid up, provided that the shareholders entitled thereto will be entitled to elect to receive such dividend (or part thereof) in cash in lieu of such allotment, or (b) that shareholders entitled to such dividend will be entitled to elect to receive an allotment of shares credited as fully paid up in lieu of the whole or such part of the dividend as the board may think fit. The Company may also upon the recommendation of the board by an ordinary resolution resolve in respect of any one particular dividend of the Company that it may be satisfied wholly in the form of an allotment of shares credited as fully paid up without offering any right to shareholders to elect to receive such dividend in cash in lieu of such allotment.

Whenever the board or the Company in general meeting has resolved that a dividend be paid or declared the board may further resolve that such dividend be satisfied wholly or in part by the distribution of specific assets of any kind.

All dividends or bonuses unclaimed for one year after having been declared may be invested or otherwise made use of by the board for the benefit of the Company until claimed and the Company shall not be constituted a trustee in respect thereof. All dividends or bonuses unclaimed for six years after having been declared may be forfeited by the board and shall revert to the Company.

(n) Proxies

Any member of the Company entitled to attend and vote at a meeting of the Company is entitled to appoint another person as his proxy to attend and vote instead of him. A member who is the holder of two or more shares may appoint more than one proxy to represent him and vote on his behalf at a general meeting of the Company or at a class meeting. A proxy need not be a member of the Company. In addition, a proxy or proxies representing either a member who is an individual or a member which is a corporation shall be entitled to exercise the same powers on behalf of the member which he or they represent as such member could exercise.

(o) Call on shares and forfeiture of shares

Subject to the Bye-laws and to the terms of allotment, the board may from time to time make such calls upon the members in respect of any monies unpaid on the shares held by them respectively (whether on account of the nominal value of the shares or by way of premium). A call may be made payable either in one lump sum or by installments. If the sum payable in respect of any call or instalment is not paid on or before the day appointed for payment thereof, the person or persons from whom the sum is due shall pay interest on the same at such rate not exceeding twenty per cent. (20%) per annum as the board may agree to accept from the day appointed for the payment thereof to the time of actual payment, but the board may waive payment of such interest wholly or in part. The board may, if it thinks fit, receive from any member willing to advance the same, either in money or money's worth, all or any part of the monies uncalled and unpaid or installments payable upon any shares held by him, and upon all or any of the monies so advanced the Company may pay interest at such rate (if any) as the board may decide.

If a member fails to pay any call on the day appointed for payment thereof, the board may serve not less than fourteen (14) clear days' notice on him requiring payment of so much of the call as is unpaid, together with any interest which may have accrued and which may still accrue up to the date of actual payment and stating that, in the event of non-payment at or before the time appointed, the shares in respect of which the call was made will be liable to be forfeited.

If the requirements of any such notice are not complied with, any share in respect of which the notice has been given may at any time thereafter, before the payment required by the notice has been made, be forfeited by a resolution of the board to that effect.

Such forfeiture will include all dividends and bonuses declared in respect of the forfeited share and not actually paid before the forfeiture.

A person whose shares have been forfeited shall cease to be a member in respect of the forfeited shares but shall, notwithstanding, remain liable to pay to the Company all monies which, at the date of forfeiture, were payable by him to the Company in respect of the shares, together with (if the board shall in its discretion so require) interest thereon from the date of forfeiture until the date of actual payment at such rate not exceeding twenty per cent. (20%) per annum as the board determines.

(p) Inspection of register of members

The register and branch register of members shall be open to inspection between 10:00 a.m. and 12:00 noon during business hours by members of the public without charge at the registered office or such other place in Bermuda at which the register is kept in accordance with the Companies Act, unless the register is closed in accordance with the Companies Act.

(q) Quorum for meetings and separate class meetings

For all purposes the quorum for a general meeting shall be two members present in person or (in the case of a member being a corporation) by its duly authorised representative or by proxy and entitled to vote. In respect of a separate class meeting (other than an adjourned meeting) convened to sanction the modification of class rights the necessary quorum shall be two persons holding or representing by proxy not less than one-third in nominal value of the issued shares of that class.

(r) Rights of the minorities in relation to fraud or oppression

There are no provisions in the Bye-laws relating to rights of minority shareholders in relation to fraud or oppression. However, certain remedies are available to shareholders of the Company under Bermuda law, as summarised in paragraph 4(e) of this Appendix.

(s) Procedures on liquidation

A resolution that the Company be wound up by the court or be wound up voluntarily shall be a special resolution.

If the Company shall be wound up (whether the liquidation is voluntary or by the court) the liquidator may, with the authority of a special resolution and any other sanction required by the Companies Act, divide among the members in specie or kind the whole or any part of the assets of the Company whether the assets shall consist of property of one kind or shall consist of properties of different kinds and the liquidator may, for such purpose, set such value as he deems fair upon any one or more class or classes of property to be divided as aforesaid and may determine how such division shall be carried out as between the members or different classes of members. The liquidator may, with the like authority, vest any part of the assets in trustees upon such trusts for the benefit of members as the liquidator, with the like authority, shall think fit, but so that no contributory shall be compelled to accept any shares or other property in respect of which there is a liability.

(t) Untraceable members

The Company may sell any of the shares of a member who is untraceable if (i) all cheques or warrants (being not less than three in total number) for any sum payable in cash to the holder of such shares have remained uncashed for a period of 12 years; (ii) upon the expiry of the 12 year period, the Company has not during that time received any indication of the existence of the member; and (iii) the Company has caused an advertisement to be published in accordance with the rules of the Designated Stock Exchange (as defined in the Bye-laws) giving notice of its intention to sell such shares and a period of three months, or such shorter period as may be permitted by the Designated Stock Exchange (as defined in the Bye-laws), has elapsed since such advertisement and the Designated Stock Exchange (as defined in the Bye-laws) has been notified of such intention. The net proceeds of any such sale shall belong to the

Company and upon receipt by the Company of such net proceeds, it shall become indebted to the former member of the Company for an amount equal to such net proceeds.

(u) Other provisions

The Bye-laws provide that to the extent that it is not prohibited by and is in compliance with the Companies Act, if warrants to subscribe for shares have been issued by the Company and the Company does any act or engages in any transaction which would result in the subscription price of such warrants being reduced below the par value of a share, a subscription rights reserve shall be established and applied in paying up the difference between the subscription price and the par value of a share on any exercise of the warrants.

The Bye-laws also provide that the Company is required to maintain at its registered office a register of directors and officers in accordance with the provisions of the Companies Act and such register is open to inspection by members of the public without charge between 10:00 a.m. and 12:00 noon during business hours.

3. VARIATION OF MEMORANDUM OF ASSOCIATION AND BYE-LAWS

The Memorandum of Association may be altered by the Company in general meeting. The Bye-laws may be amended by the Directors subject to the confirmation of the Company in general meeting. The Bye-laws state that a special resolution shall be required to alter the provisions of the Memorandum of Association or to confirm any amendment to the Bye-laws or to change the name of the Company. For these purposes, a resolution is a special resolution if it has been passed by a majority of not less than three-fourths of the votes cast by such members of the Company as, being entitled to do so, vote in person or, in the case of such members as are corporations, by their respective duly authorised representatives or, where proxies are allowed, by proxy at a general meeting of which not less than twenty-one (21) clear days' and not less than ten clear business days' notice specifying the intention to propose the resolution as a special resolution has been duly given. Except in the case of an annual general meeting, the requirement of twenty-one (21) clear days' notice may be waived by a majority in number of the members having the right to attend and vote at the relevant meeting, being a majority together holding not less than 95 percent in nominal value of the shares giving that right.

4. BERMUDA COMPANY LAW

The Company is incorporated in Bermuda and, therefore, operates subject to Bermuda law. Set out below is a summary of certain provisions of Bermuda company law, although this does not purport to contain all applicable qualifications and exceptions or to be a complete review of all matters of Bermuda company law and taxation, which may differ from equivalent provisions in jurisdictions with which interested parties may be more familiar:

(a) Share capital

The Companies Act provides that where a company issues shares at a premium, whether for cash or otherwise, a sum equal to the aggregate amount or value of the premiums on those shares shall be transferred to an account, to be called the "share

premium account", to which the provisions of the Companies Act relating to a reduction of share capital of a company shall apply as if the share premium account was paid up share capital of the company except that the share premium account may be applied by the company:

(i) in paying up unissued shares of the company to be issued to members of the company as fully paid bonus shares;

(ii) in writing off:

(aa) the preliminary expenses of the company; or

(bb) the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the company; or

(iii) in providing for the premiums payable on redemption of any shares or of any debentures of the company.

In the case of an exchange of shares the excess value of the shares acquired over the nominal value of the shares being issued may be credited to a contributed surplus account of the issuing company.

The Companies Act permits a company to issue preference shares and subject to the conditions stipulated therein to convert those preference shares into redeemable preference shares.

The Companies Act includes certain protections for holders of special classes of shares, requiring their consent to be obtained before their rights may be varied. Where provision is made by the memorandum of association or bye-laws for authorising the variation of rights attached to any class of shares in the company, the consent of the specified proportions of the holders of the issued shares of that class or the sanction of a resolution passed at a separate meeting of the holders of those shares is required, and where no provision for varying such rights is made in the memorandum of association or bye-laws and nothing therein precludes a variation of such rights, the written consent of the holders of three-fourths of the issued shares of that class or the sanction of a resolution passed as aforesaid is required.

(b) Financial assistance to purchase shares of a company or its holding company

There is no longer any statutory restriction in Bermuda on the provision of financial assistance by a company to another person for the purchase of, or subscription for, its own or its holding company's shares. Accordingly, a company may provide financial assistance if the directors of the company consider, in accordance with their fiduciary duties to the company, that such assistance can properly be given. Such assistance should be on an arm's-length basis.

(c) Purchase of shares and warrants by a company and its subsidiaries

A company may, if authorised by its memorandum of association or bye-laws, purchase its own shares. Such purchases may only be effected out of the capital paid up on the purchased shares or out of the funds of the company otherwise available for dividend or distribution or out of the proceeds of a fresh issue of shares made for the purpose. Any premium payable on a purchase over the par value of the shares to be purchased must be provided for out of funds of the company otherwise available for dividend or distribution or out of the company's share premium account. Any amount due to a shareholder on a purchase by a company of its own shares may (i) be paid in cash; (ii) be satisfied by the transfer of any part of the undertaking or property of the company having the same value; or (iii) be satisfied partly under (i) and partly under (ii). Any purchase by a company of its own shares may be authorised by its board of directors or otherwise by or in accordance with the provisions of its bye-laws. Such purchase may not be made if, on the date on which the purchase is to be effected, there are reasonable grounds for believing that the company is, or after the purchase would be, unable to pay its liabilities as they become due. The shares so purchased may either be cancelled or held as treasury shares. Any purchased shares that are cancelled will, in effect, revert to the status of authorised but unissued shares. If shares of the company are held as treasury shares, the company is prohibited to exercise any rights in respect of those shares, including any right to attend and vote at meetings, including a meeting under a scheme of arrangement, and any purported exercise of such a right is void. No dividend shall be paid to the company in respect of shares held by the company as treasury shares; and no other distribution (whether in cash or otherwise) of the company's assets (including any distribution of assets to members on a winding up) shall be made to the company in respect of shares held by the company as treasury shares. Any shares allotted by the company as fully paid bonus shares in respect of shares held by the company as treasury shares shall be treated for the purposes of the Companies Act as if they had been acquired by the company at the time they were allotted.

A company is not prohibited from purchasing and may purchase its own warrants subject to and in accordance with the terms and conditions of the relevant warrant instrument or certificate. There is no requirement under Bermuda law that a company's memorandum of association or its bye-laws contain a specific provision enabling such purchases.

Under Bermuda law, a subsidiary may hold shares in its holding company and in certain circumstances, may acquire such shares. A company, whether a subsidiary or a holding company, may only purchase its own shares if it is authorised to do so in its memorandum of association or bye-laws pursuant to section 42A of the Companies Act.

(d) Dividends and distributions

A company may not declare or pay a dividend, or make a distribution out of contributed surplus, if there are reasonable grounds for believing that (i) the company is, or would after the payment be, unable to pay its liabilities as they become due; or (ii) the realisable value of the company's assets would thereby be less than its liabilities. Contributed surplus is defined for purposes of section 54 of the Companies Act to

include the proceeds arising from donated shares, credits resulting from the redemption or conversion of shares at less than the amount set up as nominal capital and donations of cash and other assets to the company.

(e) Protection of minorities

Class actions and derivative actions are generally not available to shareholders under the laws of Bermuda. The Bermuda courts, however, would ordinarily be expected to permit a shareholder to commence an action in the name of a company to remedy a wrong done to the company where the act complained of is alleged to be beyond the corporate power of the company or is illegal or would result in the violation of the company's memorandum of association and bye-laws. Furthermore, consideration would be given by the court to acts that are alleged to constitute a fraud against the minority shareholders or, for instance, where an act requires the approval of a greater percentage of the company's shareholders than actually approved it.

Any member of a company who complains that the affairs of the company are being conducted or have been conducted in a manner oppressive or prejudicial to the interests of some part of the members, including himself, may petition the court which may, if it is of the opinion that to wind up the company would unfairly prejudice that part of the members but that otherwise the facts would justify the making of a winding up order on just and equitable grounds, make such order as it thinks fit, whether for regulating the conduct of the company's affairs in future or for the purchase of shares of any members of the company by other members of the company or by the company itself and in the case of a purchase by the company itself, for the reduction accordingly of the company's capital, or otherwise. Bermuda law also provides that the company may be wound up by the Bermuda court, if the court is of the opinion that it is just and equitable to do so. Both these provisions are available to minority shareholders seeking relief from the oppressive conduct of the majority, and the court has wide discretion to make such orders as it thinks fit.

Except as mentioned above, claims against a company by its shareholders must be based on the general laws of contract or tort applicable in Bermuda.

A statutory right of action is conferred on subscribers of shares in a company against persons, including directors and officers, responsible for the issue of a prospectus in respect of damage suffered by reason of an untrue statement therein, but this confers no right of action against the company itself. In addition, such company, as opposed to its shareholders, may take action against its officers including directors, for breach of their statutory and fiduciary duty to act honestly and in good faith with a view to the best interests of the company.

(f) Management

The Companies Act contains no specific restrictions on the power of directors to dispose of assets of a company, although it specifically requires that every officer of a company, which includes a director, managing director and secretary, in exercising his powers and discharging his duties must do so honestly and in good faith with a view to

the best interests of the company and exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances. Furthermore, the Companies Act requires that every officer should comply with the Companies Act, regulations passed pursuant to the Companies Act and the bye-laws of the company. The directors of a company may, subject to the bye-laws of the company, exercise all the powers of the company except those powers that are required by the Companies Act or the bye-laws to be exercised by the members of the company.

(g) Accounting and auditing requirements

The Companies Act requires a company to cause proper records of accounts to be kept with respect to (i) all sums of money received and expended by the company and the matters in respect of which the receipt and expenditure takes place; (ii) all sales and purchases of goods by the company and (iii) the assets and liabilities of the company.

Furthermore, it requires that a company keeps its records of account at the registered office of the company or at such other place as the directors think fit and that such records shall at all times be open to inspection by the directors or the resident representative of the company. If the records of account are kept at some place outside Bermuda, there shall be kept at the office of the company in Bermuda such records as will enable the directors or the resident representative of the company to ascertain with reasonable accuracy the financial position of the company at the end of each three month period, except that where the company is listed on an appointed stock exchange, there shall be kept such records as will enable the directors or the resident representative of the company to ascertain with reasonable accuracy the financial position of the company at the end of each six month period.

The Companies Act requires that the directors of the company must, at least once a year, lay before the company in general meeting financial statements for the relevant accounting period. Further, the company's auditor must audit the financial statements so as to enable him to report to the members. Based on the results of his audit, which must be made in accordance with generally accepted auditing standards, the auditor must then make a report to the members. The generally accepted auditing standards may be those of a country or jurisdiction other than Bermuda or such other generally accepted auditing standards as may be appointed by the Minister of Finance of Bermuda under the Companies Act; and where the generally accepted auditing standards used are other than those of Bermuda, the report of the auditor shall identify the generally accepted auditing standards used. All members of the company are entitled to receive a copy of every financial statement prepared in accordance with these requirements, at least five (5) days before the general meeting of the company at which the financial statements are to be tabled. A company the shares of which are listed on an appointed stock exchange may send to its members summarised financial statements instead. The summarised financial statements must be derived from the company's financial statements for the relevant period and contain the information set out in the Companies Act. The summarised financial statements sent to the company's members must be accompanied by an auditor's report on the summarised financial statements and a notice stating how a member may notify the company of his election to receive financial statements for the relevant period and/or for subsequent periods.

The summarised financial statements together with the auditor's report thereon and the accompanied notice must be sent to the members of the company not less than twenty-one (21) days before the general meeting at which the financial statements are laid. Copies of the financial statements must be sent to a member who elects to receive the same within seven (7) days of receipt by the company of the member's notice of election.

(h) Auditors

Unless the requirement to appoint an auditor is waived by all of the shareholders and all of the directors, either in writing or at the general meeting, any auditor appointed shall hold office until a successor is appointed by the members or if the members fail to do so until the directors appoint a successor.

A person, other than an incumbent auditor, shall not be capable of being appointed auditor at a general meeting unless notice in writing of an intention to nominate that person to the office of auditor has been given not less than twenty-one (21) days before the general meeting. The company must send a copy of such notice to the incumbent auditor and give notice thereof to the members not less than seven (7) days before the general meeting. An incumbent auditor may, however, by notice in writing to the secretary of the company waive the requirements of the foregoing.

Where an auditor is appointed to replace another auditor, the new auditor must seek from the replaced auditor a written statement as to the circumstances of the latter's replacement. If the replaced auditor does not respond within fifteen (15) days, the new auditor may act in any event. An appointment as auditor of a person who has not requested a written statement from the replaced auditor is voidable by a resolution of the shareholders at a general meeting. An auditor who has resigned, been removed or whose term of office has expired or is about to expire, or who has vacated office is entitled to attend the general meeting of the company at which he is to be removed or his successor is to be appointed; to receive all notices of, and other communications relating to, that meeting which a member is entitled to receive; and to be heard at that meeting on any part of the business of the meeting that relates to his duties as auditor or former auditor.

(i) Exchange control

An exempted company is usually designated as "non-resident" for Bermuda exchange control purposes by the Bermuda Monetary Authority. Where a company is so designated, it is free to deal in currencies of countries outside the Bermuda exchange control area which are freely convertible into currencies of any other country. The permission of the Bermuda Monetary Authority is required for the issue of shares and securities by the company and the subsequent transfer of such shares and securities. In granting such permission, the Bermuda Monetary Authority accepts no responsibility for the financial soundness of any proposals or for the correctness of any statements made or opinions expressed in any document with regard to such issue. Before the company can issue or transfer any further shares and securities in excess of the amounts already approved, it must obtain the prior consent of the Bermuda Monetary Authority.

The Bermuda Monetary Authority has granted general permission for the issue and transfer of shares and securities to and between persons regarded as resident outside Bermuda for exchange control purposes without specific consent for so long as any equity securities, including shares, are listed on an appointed stock exchange (as defined in the Companies Act). Issues to and transfers involving persons regarded as "resident" for exchange control purposes in Bermuda will be subject to specific exchange control authorisation.

(j) Taxation

Under present Bermuda law, no Bermuda withholding tax on dividends or other distributions, nor any Bermuda tax computed on profits or income or on any capital asset, gain or appreciation will be payable by an exempted company or its operations, nor is there any Bermuda tax in the nature of estate duty or inheritance tax applicable to shares, debentures or other obligations of the company held by non-residents of Bermuda. Furthermore, a company may apply to the Minister of Finance of Bermuda for an assurance, under the Exempted Undertakings Tax Protection Act 1966 of Bermuda, that no such taxes shall be so applicable until 31st March 2035, although this assurance will not prevent the imposition of any Bermuda tax payable in relation to any land in Bermuda leased or let to the company or to persons ordinarily resident in Bermuda.

(k) Stamp duty

An exempted company is exempt from all stamp duties except on transactions involving "Bermuda property". This term relates, essentially, to real and personal property physically situated in Bermuda, including shares in local companies (as opposed to exempted companies). Transfers of shares and warrants in all exempted companies are exempt from Bermuda stamp duty.

(l) Loans to directors

Bermuda law prohibits the making of loans by a company to any of its directors or to their families or companies in which they hold more than a twenty per cent. (20%) interest, without the consent of any member or members holding in aggregate not less than nine-tenths of the total voting rights of all members having the right to vote at any meeting of the members of the company. These prohibitions do not apply to (a) anything done to provide a director with funds to meet the expenditure incurred or to be incurred by him for the purposes of the company, provided that the company gives its prior approval at a general meeting or, if not, the loan is made on condition that it will be repaid within six months of the next following annual general meeting or in the case of a company that has made an election to dispense with annual general meetings in accordance with the Companies Act, at or before the next following general meeting which shall be convened within 12 months of the authorisation of the making of the loan, if the loan is not approved at or before such meeting, (b) in the case of a company whose ordinary business includes the lending of money or the giving of guarantees in connection with loans made by other persons, anything done by the company in the ordinary course of that business, or (c) any advance of moneys by the company to any officer or auditor under Section 98(2)(c) of the Companies Act which allows the company to advance moneys to an officer or auditor of the company for the costs incurred in defending any civil or criminal proceedings against them, on condition that

the officer or auditor shall repay the advance if any allegation of fraud or dishonesty is proved against them. If the approval of the company is not given for a loan, the directors who authorised it will be jointly and severally liable for any loss arising therefrom.

(m) Inspection of corporate records

Members of the general public have the right to inspect the public documents of a company available at the office of the Registrar of Companies in Bermuda which will include the company's certificate of incorporation, its memorandum of association (including its objects and powers) and any alteration to the company's memorandum of association. The members of the company have the additional right to inspect the bye-laws of a company, minutes of general meetings and the company's audited financial statements. Minutes of general meetings of a company are also open for inspection by directors of the company without charge for not less than two (2) hours during business hours each day. The register of members of a company is open for inspection by members of the public without charge. The company is required to maintain its share register in Bermuda but may, subject to the provisions of the Companies Act, establish a branch register outside Bermuda. Any branch register of members established by the company is subject to the same rights of inspection as the principal register of members of the company in Bermuda. Any person may on payment of a fee prescribed by the Companies Act require a copy of the register of members or any part thereof which must be provided within fourteen (14) days of a request. Bermuda law does not, however, provide a general right for members to inspect or obtain copies of any other corporate records.

A company is required to maintain a register of directors and officers at its registered office and such register must be made available for inspection for not less than two (2) hours in each day by members of the public without charge. If summarised financial statements are sent by a company to its members pursuant to section 87A of the Companies Act, a copy of the summarised financial statements must be made available for inspection by the public at the registered office of the company in Bermuda.

(n) Winding up

A company may be wound up by the Bermuda court on application presented by the company itself, its creditors or its contributors. The Bermuda court also has authority to order winding up in a number of specified circumstances including where it is, in the opinion of the Bermuda court, just and equitable that such company be wound up.

A company may be wound up voluntarily when the members so resolve in general meeting, or, in the case of a limited duration company, when the period fixed for the duration of the company by its memorandum expires, or the event occurs on the occurrence of which the memorandum provides that the company is to be dissolved. In the case of a voluntary winding up, such company is obliged to cease to carry on its business from the time of passing the resolution for voluntary winding up or upon the expiry of the period or the occurrence of the event referred to above. Upon the appointment of a liquidator, the responsibility for the company's affairs rests entirely in his hands and no future executive action may be carried out without his approval.

Where, on a voluntary winding up, a majority of directors make a statutory declaration of solvency, the winding up will be a members' voluntary winding up. In any case where such declaration has not been made, the winding up will be a creditors' voluntary winding up.

In the case of a members' voluntary winding up of a company, the company in general meeting must appoint one or more liquidators within the period prescribed by the Companies Act for the purpose of winding up the affairs of the company and distributing its assets. If the liquidator at any time forms the opinion that such company will not be able to pay its debts in full, he is obliged to summon a meeting of creditors.

As soon as the affairs of the company are fully wound up, the liquidator must make up an account of the winding up, showing how the winding up has been conducted and the property of the company has been disposed of, and thereupon call a general meeting of the company for the purposes of laying before it the account and giving an explanation thereof. This final general meeting requires at least one month's notice published in an appointed newspaper in Bermuda.

In the case of a creditors' voluntary winding up of a company, the company must call a meeting of creditors of the company to be summoned on the day following the day on which the meeting of the members at which the resolution for winding up is to be proposed is held. Notice of such meeting of creditors must be sent at the same time as notice is sent to members. In addition, such company must cause a notice to appear in an appointed newspaper on at least two occasions.

The creditors and the members at their respective meetings may nominate a person to be liquidator for the purposes of winding up the affairs of the company provided that if the creditors nominate a different person, the person nominated by the creditors shall be the liquidator. The creditors at the creditors' meeting may also appoint a committee of inspection consisting of not more than five persons.

If a creditors' winding up continues for more than one year, the liquidator is required to summon a general meeting of the company and a meeting of the creditors at the end of each year to lay before such meetings an account of his acts and dealings and of the conduct of the winding up during the preceding year. As soon as the affairs of the company are fully wound up, the liquidator must make an account of the winding up, showing how the winding up has been conducted and the property of the company has been disposed of, and thereupon shall call a general meeting of the company and a meeting of the creditors for the purposes of laying the account before such meetings and giving an explanation thereof.

5. GENERAL

Conyers Dill & Pearman, the Company's legal advisers on Bermuda law, have sent to the Company a letter of advice summarising certain aspects of Bermuda company law. This letter, together with a copy of the Companies Act, is available for inspection as referred to in the paragraph headed "Documents available for inspection" in Appendix VI. Any person wishing to have a detailed summary of Bermuda company law or advice on the differences between it and the laws of any jurisdiction with which he is more familiar is recommended to seek independent legal advice.

I. FURTHER INFORMATION ABOUT OUR COMPANY

1. Incorporation of our Company

Our Company was incorporated in Bermuda under the Companies Act as an exempted company with limited liability on 9 August 2012. Our Company has established its principal place of business in Hong Kong at Room 1001, 10th Floor, Sino Centre, Nos. 582-592 Nathan Road, Kowloon, Hong Kong and has been registered as a non-Hong Kong company in Hong Kong under Part XI of the Companies Ordinance since 25 September 2012. In connection with such registration, Lai Kwok Wa of Room 1001, 10th Floor, Sino Centre, Nos. 582-592, Nathan Road, Kowloon, Hong Kong has been appointed as the authorised representative of our Company for the acceptance of service of process and notices on behalf of our Company in Hong Kong.

As our Company is incorporated in Bermuda, it operates subject to the Companies Act and to its constitution comprising the Memorandum and the Bye-laws. A summary of various provisions of our Company's constitution and certain relevant aspects of Bermuda company law is set out in Appendix IV to this document.

2. Changes in the share capital of our Company

As at the date of incorporation of our Company, its authorised share capital was HK$100,000 divided into 10,000,000 Shares of HK$0.01 each.

On 23 August 2012, 1 Share was allotted and issued to Town Health Pharmaceutical at nil consideration.

On 26 September 2013, the authorised share capital of our Company was increased from HK$100,000 to HK$10,000,000 by the creation of an additional 990,000,000 Shares.

On 26 September 2013, our Company (i) credited as fully paid at par the one nil-paid Share held by Town Health Pharmaceutical and (ii) allotted and issued a total of 20,999 Shares to the Max Goodrich Shareholders as set out below in consideration of the Max Goodrich Shareholders transferring in aggregate of 21,000 shares of US$1 each in the share capital of Max Goodrich (representing the entire issued share capital of Max Goodrich) to our Company:

Name	Number of Shares
Town Health Pharmaceutical	10,079
Mr. Zhou	4,216
Mr. Dai	2,457
Ms. Yang	1,727
Mr. He	1,260
Festive Mood Group Ltd	1,260

Save as disclosed herein and under paragraph 4 headed "Corporate reorganisation" below, there has been no alteration in the share capital of our Company since its incorporation.

3. Resolutions in writing of the sole Shareholder passed on 26 September 2013

On 26 September 2013, written resolutions of the sole Shareholder were passed pursuant to which, amongst other things:

(a) the authorised share capital of our Company was increased from HK$100,000 to HK$10,000,000 by the creation of an additional 990,000,000 Shares;

(b) our Company approved a deed of sale and purchase dated 26 September 2013 between (i) the Max Goodrich Shareholders as vendors (ii) the Max Goodrich Shareholders, Town Health International and Mr. Chau Kai Man as warrantors and (iii) our Company as purchaser, pursuant to which our Company agreed to acquire from the Max Goodrich Shareholders the entire issued share capital of Max Goodrich in consideration of (1) the allotment and issue by our Company of an aggregate of 20,999 Shares to the Max Goodrich Shareholders credited as fully paid and (2) our Company crediting as fully paid at par the one nil-paid Share held by Town Health Pharmaceutical; and our Directors were authorised to (i) allot and issue, credited as fully paid, a total of 20,999 Shares to the Max Goodrich Shareholders and (ii) credit as fully paid at par the one nil-paid Share held by Town Health Pharmaceutical in accordance with the terms and conditions of the deed of sale and purchase;

(c) our Company conditionally approved and adopted the Bye-laws.

4. Corporate reorganisation

The companies comprising our Group underwent a reorganisation to rationalise our Group's structure. Please refer to the section headed "History and Development – Reorganisation" for further details.

5. Changes in the share capital of the subsidiaries of our Company

The subsidiaries of our Company are referred to in the accountants' report for our Company, the text of which is set out in Appendix I to this document.

No alterations in the share capital of the subsidiaries of our Company have taken place within the two years preceding the date of this document.

II. FURTHER INFORMATION ABOUT THE BUSINESS OF OUR GROUP

1. Summary of material contracts

The following contracts (not being contracts entered into in the ordinary course of business) have been entered into by our Company or its subsidiaries within the two years immediately preceding the date of this document and are or may be material:

(a) a share transfer agreement dated 6 February 2012 entered into between Hangzhou Xin Hong as transferor and Hong Rui Bio-medical as transferee, pursuant to which Hangzhou Xin Hong transferred its entire shareholding interests in Zhejiang Xin Rui Pharmaceutical to Hong Rui Bio-medical at a consideration of RMB65,000,000;

(b) a deed of sale and purchase dated 26 September 2013 between (i) the Max Goodrich Shareholders as vendors; (ii) the Max Goodrich Shareholders, Town Health International and Mr. Chau Kai Man as warrantors and (iii) our Company as purchaser pursuant to which our Company agreed to acquire from (i) Town Health Pharmaceutical its 10,080 shares in Max Goodrich; (ii) Mr. Zhou his 4,216 shares in Max Goodrich; (iii) Mr. Dai his 2,457 shares in Max Goodrich; (iv) Ms. Yang her 1,727 shares in Max Goodrich; (v) Mr. He his 1,260 shares in Max Goodrich; and (vi) Festive Mood Group Ltd its 1,260 shares in Max Goodrich, in consideration of (1) the allotment and issue by our Company of 10,079 Shares, 4,216 Shares, 2,457 Shares, 1,727 Shares, 1,260 Shares and 1,260 Shares, credited as fully paid, to Town Health Pharmaceutical, Mr. Zhou, Mr. Dai, Ms. Yang, Mr. He and Festive Mood Group Ltd, respectively and (2) our Company crediting as fully paid at par the one nil-paid Share held by Town Health Pharmaceutical;

(c) the Deed of Indemnity.

2. Intellectual property rights

(a) As at the Latest Practicable Date, our Group had registered the following trademarks which are or may be material to the business of our Group:

Trademark	Registered Owner	Class	Place of Registration	Registration Number	Validity Period
nrm New Ray Medicine International Holding Limited 新銳醫藥國際控股有限公司	Max Goodrich	5, 35, 42	Hong Kong	302393938	28 September 2012 to 27 September 2022
nrm New Ray Medicine 新銳醫藥	Max Goodrich	5, 35, 42	Hong Kong	302393929	28 September 2012 to 27 September 2022

(b) As at the Latest Practicable Date, our Group had registered the following domain name which are or may be material to the business of our Group:

Registrant	Domain Name	Expiry Date
Max Goodrich	www.newraymedicine.com	21 August 2014

Note: The contents at the above website do not form part of this document.

III. FURTHER INFORMATION ABOUT DIRECTORS, SENIOR MANAGEMENT AND STAFF

1. Particulars of our Directors' service agreements and letters of appointment

Each of our executive Directors has entered into a service agreement with our Company for a term of three years commencing from [●]. Particulars of the service agreements of our Directors, except as indicated, are in all material respects the same and summarised below:

(i) Each service agreement is of an initial term of three years commencing from [●] unless terminated in accordance with the terms of the agreement. Under the agreement, either party may terminate the agreement at any time by giving to the other not less than three months' prior written notice. Their appointments are subject to the provisions of retirement by rotation of Directors under the Bye-laws. Our Company may also terminate the service agreement without notice if the relevant executive Director is guilty of, among others, dishonesty or grave misconduct or willful default or neglect in the discharge of his duties, becomes bankrupt or of unsound mind, be guilty of conduct tending to bring himself/herself or any companies in our Group into disrepute or be prohibited by law from fulfilling his/her duties under the service agreement.

(ii) For the first year from [●], the annual salary for each of Mr. Zhou, Mr. Dai, Ms. Yang, and Mr. Lee Chik Yuet shall be HK$10,000, HK$10,000, HK$10,000 and HK$120,000 respectively and shall accrue on a day to day basis, such salary to be reviewed annually by the remuneration committee of our Board.

(iii) Each of our executive Directors is entitled to a discretionary performance bonus as may be determined by our Board.

(iv) Each of our executive Directors shall abstain from voting and not be counted in the quorum in respect of any resolution of our Board or any committee of our Board regarding the amount of annual salary or discretionary bonus payable to him/her.

Each of Mr. Zhou, Mr. Dai and Ms. Yang has executed a labour contract with Zhejiang Xin Rui for a term of [three] years commencing from [●]. The [monthly salary] for each of Mr. Zhou, Mr. Dai and Ms. Yang shall be [RMB[●]], [RMB[●]] and [RMB[●]] respectively.

Each of our independent non-executive Directors has executed letters of appointment with our Company for a term of two years commencing from [●]. The annual director's fee for each of Mr. Leung Chi Kin, Mr. Ho Hau Cheung and Mr. Sung Hak Keung, Andy shall be HK$72,000, HK$72,000 and HK$72,000 respectively. Their appointments are subject to the provisions of retirement by rotation of Directors under the Bye-laws.

4. Remuneration of our Directors

(i) Approximately HK$[709,000] and HK$[729,000] was paid to our Directors by our Group as remuneration (including housing allowances, other allowances and benefits in kind) in respect of each of the two financial years ended 31 December 2011 and 2012, respectively.

(ii) Approximately HK$988,000 (excluding any management bonus, if any) as remuneration is estimated to be paid to our Directors by our Group in respect of the financial year ending 31 December 2013 pursuant to the present arrangement.

5. Disclaimers

[Save as disclosed in this document, as at the Latest Practicable Date:

(a) none of our Directors is interested in the promotion of our Company, or in any assets which have been within the 2 years immediately preceding the issue of this document, acquired or disposed of by or leased to, or are proposed to be acquired or disposed of by or leased to any member of our Group;

(b) none of our Directors is materially interested in any contract or arrangement subsisting at the date of this document which is significant in relation to the business of our Group; and

(c) none of our Directors has entered into or has proposed to enter into any service agreements with our Company or any member of our Group (other than contracts expiring or determinable by the employer within one year without payment of compensation other than statutory compensation).

IV. OTHER INFORMATION

1. Estate duty, tax indemnity and other indemnities

Indemnity on estate duty and taxation

[Town Health International] (the "**Indemnifier**") has, pursuant to the Deed of Indemnity referred to in the paragraph headed "Summary of material contracts" under the section headed "Further information about the business of our Group" in this Appendix, given indemnities in favour of our Group in connection with, among other things, any taxation which might be payable by any member of our Group in respect of any income, profits or gains earned, accrued or received or alleged to have been earned, accrued or received on or before [●] (the "**Effective Date**"). The Indemnifier has also undertaken to, among other things, indemnify and at all times keep each member of our Group fully indemnified on demand against all actions, claims, losses, damages, costs (including all legal costs), expenses or other liabilities which any member of our Group may make, suffer or incur in respect of or arising directly or indirectly from or on the basis of or in connection with any taxation payable by Town Health Pharmaceutical under SAT Circular No. 698.

The Indemnifier has also pursuant to the Deed of Indemnity referred to above, given indemnities in favour of our Group in connection with, among other things, any estate duty which is or thereafter becomes payable by any member of our Group by virtue of the Estate Duty Ordinance (Chapter 111 of the Laws of Hong Kong) by reason of the death of any person and by reason of the assets of any members of our Group or any of such assets being deemed for the purpose of estate duty to be included in the property passing on his death by reason of that person making or having made a relevant transfer to our Group or any member of our Group at any time prior to 11 February 2006 (i.e. being the date on which The Revenue (Abolition of Estate Duty) Ordinance 2005 came into effect).

The Indemnifier will, however, not be liable under the Deed of Indemnity for taxation where:

(a) to the extent that provision or allowance has been made for such taxation in the audited consolidated accounts of our Group for each of the two years ended 31 December 2011 and 2012 and for the six months ended 30 June 2013 (the "**Accounts**");

(b) the taxation falling on any member of our Group in respect of any accounting period commencing on or after [1 July 2013], where liability for such taxation would not have arisen but for some act or omission of, or transaction voluntarily effected by members of our Group or any of them (whether alone or in conjunction with some other act, omission or transaction, whenever occurring), without the prior consent or agreement of the Indemnifier, otherwise than (i) in the ordinary course of business or in the ordinary course of acquiring and disposing of capital assets on or before the Effective Date; or (ii) pursuant to a legally binding commitment created on or before the Effective Date; or (iii) pursuant to any statement of intention made in this document;

(c) to the extent of any provision or reserve made for taxation in the Accounts which is finally established to be an over-provision or an excessive reserve, in which case the Indemnifier's liability (if any) in respect of taxation shall be reduced by an amount not exceeding such provision or reserve, provided that the amount of any such provision or reserve applied to reduce the Indemnifier's liability in respect of taxation shall not be available in respect of any such liability arising thereafter; or

(d) to the extent that such taxation claim arises or is incurred as a result of the imposition of taxation as a consequence of any retrospective change in the law, rules and regulations or the interpretation or practice thereof by the Hong Kong Inland Revenue Department or the taxation authority of the PRC or any other relevant authority (whether in Hong Kong or the PRC or any other part of the world) coming into force after the Effective Date or to the extent that such taxation claim arises or is increased by an increase in rates of taxation after the Effective Date with retrospective effect.

Pursuant to the Deed of Indemnity, the Indemnifier has also given indemnities in favour of our Group on demand against all claims, actions, demands, proceedings, judgments, losses, damages, costs (including all legal costs), charges, fees, expenses, fines, penalties or liability suffered, sustained or incurred by any member of our Group directly or indirectly as a result of or in connection with the non-compliance with sections 111(1) and 122 of the Companies Ordinance by Hong Kong New Rich occurred prior to the Effective Date, details of which are set out in the sub-section headed "Legal proceedings and non-compliance – (ii) Non-compliance incidents relating to our Group" in the section headed "Business" of this document.

Our Directors have been advised that no material liability for estate duty is likely to fall on our Company or any of its subsidiaries under the laws of Hong Kong, the PRC, the BVI or Bermuda, being jurisdictions in which one or more of the companies comprising our Group are incorporated.

2. Litigation

No member of our Group is engaged in any litigation or arbitration of material importance and no litigation or claim of material importance is known to our Directors to be pending or threatened against any member of our Group.

3. Miscellaneous

(a) Save as disclosed in this Appendix, within the two years immediately preceding the date of this document:

(i) no share or loan capital of our Company or any of its subsidiaries has been issued or agreed to be issued fully or partly paid either for cash or for a consideration other than cash;

(ii) no share or loan capital of our Company or any of its subsidiaries is under option or is agreed conditionally or unconditionally to be put under option;

(iii) no commissions, discounts, brokerages or other special terms have been granted in connection with the issue or sale of any capital of our Company or any of our subsidiaries;

(iv) no founder, management or deferred shares of our Company or any of our subsidiaries have been issued or agreed to be issued;

(b) Since 30 June 2013, being the date to which the latest audited consolidated financial results of our Group as set out in Appendix I to this document were made up, there has been no material adverse change in the financial or trading position or prospects of our Group;

(c) the Company has no outstanding convertible debt securities;

(d) there are no arrangements in existence under which future dividends are to be or agreed to be waived; and

(e) there has not been any interruption in the business of our Group which may have or have had a significant effect on the financial position of our Group within 24 months preceding the date of this document.

4. Bilingual Document

The English language and Chinese language versions of this document are being published separately.