New Ray Medicine International Holding Limited
新銳醫藥國際控股有限公司
(Incorporated in Bermuda with limited liability)
Stock Code : 8180

2013
Annual Report

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This report, for which the directors (the "Directors") of New Ray Medicine International Holding Limited (the "Company") collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange (the "GEM Listing Rules") for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquires, confirm that to the best of their knowledge and belief the information contained in this report is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this report misleading.

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Corporate Information

Board of Directors

Executive Directors

Mr. Zhou Ling *(Chairman)*
Mr. Dai Haidong *(Chief Executive Officer)*
Ms. Yang Fang
Mr. Lee Chik Yuet

Independent Non-executive Directors

Mr. Ho Hau Cheung, *BBS, MH*
Mr. Sung Hak Keung Andy
Mr. Leung Chi Kin

Board Committees

Audit Committee

Mr. Sung Hak Keung Andy *(Chairman)*
Mr. Ho Hau Cheung, *BBS, MH*
Mr. Leung Chi Kin

Remuneration Committee

Mr. Ho Hau Cheung, *BBS, MH (Chairman)*
Mr. Sung Hak Keung Andy
Mr. Leung Chi Kin

Nomination Committee

Mr. Leung Chi Kin *(Chairman)*
Mr. Ho Hau Cheung, *BBS, MH*
Mr. Sung Hak Keung Andy

Corporate Governance Committee

Mr. Lee Chik Yuet *(Chairman)*
Mr. Zhou Ling
Mr. Dai Haidong
Ms. Yang Fang

Company Secretary

Mr. Lai Kwok Wa, *HKICPA*

Auditors

Deloitte Touche Tohmatsu
Certified Public Accountants

Stock Code

8180

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Principal Share Registrar and Transfer Office

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Hong Kong Branch Share Registrar and Transfer Office

Tricor Investor Services Limited
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Financial Summary

2013 Financial Highlights

- The Group recorded revenue of approximately HK$192.9 million for the year ended 31 December 2013 (2012: approximately HK$175.0 million), representing an increase of approximately 10.2% as compared to 2012.

- The Group recorded a profit of approximately HK$17.4 million for the year ended 31 December 2013 (2012: approximately HK$15.3 million), representing an increase of approximately 13.7% as compared to 2012.

- The Group had a gearing ratio (defined as total bank and other borrowings divided by total equity) of zero as at 31 December 2013 (2012: 0.09).

- The Board recommended the payment of a final dividend HK2.5 cents per share for the year ended 31 December 2013 subject to the approval of the shareholders of the Company at the forthcoming annual general meeting of the Company.

Financial Summary

	2011 HK'000	2012 HK'000	**2013** **HK'000**
Operating results			
Revenue	159,686	175,042	**192,854**
Gross profit	23,286	38,993	**50,635**
Profit before tax	15,258	22,185	**28,724**
Profit for the year	10,412	15,327	**17,403**
Profitability			
Gross profit margin	14.6%	22.3%	**26.3%**
Net profit margin	6.5%	8.8%	**9.0%**
Asset status			
Total assets	145,254	166,275	**233,887**
Equity attributable to owners of the Company	117,923	134,393	**213,198**
Total liabilities	27,331	31,882	**20,689**
Bank balances and cash	22,686	26,289	**93,409**
Quick ratio (times)	4.4	4.6	**12.0**
Current ratio (times)	5.0	5.2	**12.5**

Chairman's Statement

On behalf of the board of directors (the "Board" or "Directors") of New Ray Medicine International Holding Limited ("New Ray Medicine" or "Company", together with its subsidiaries, "Group"), I am pleased to present the audited annual results of the Group for the year ended 31 December 2013 (the "Year"). The Group has continued to maintain its leading position in the prescription drug market in Zhejiang province with its unremitting efforts in business development. During the Year, the Group successfully implemented its strategy of product diversification and expansion of its distribution network through obtaining new exclusive distribution rights and enlarging market share by sourcing new products complementary to the Group's existing product portfolio. This has significantly enhanced the capabilities of the Group and has laid a solid foundation for the Group's future development.

The Year was a turning point for New Ray Medicine in its business development as the shares of the Company were successfully listed on the Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited ("Stock Exchange"). The Group completed the placing of 280,000,000 shares of HK$0.01 each of the Company at an issue price of HK$0.25 each, raising net proceeds of approximately HK$41 million. Continuous efforts were also made on identifying and procuring pharmaceutical products nationwide in the People Republic of China ("PRC") and the establishment of an efficient distribution network. We are pleased that New Ray Medicine sustained its growth momentum during the Year.

Throughout 2013, China's pharmaceutical industry continued to grow due to the acceleration of urbanization level, aging population and expanded medical insurance coverage in the country. In addition, the PRC government has increased its support to the pharmaceutical industry by positioning a national strategy to promote the innovation and healthy development of the industry. 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.

During the Year, the Group recorded revenue of approximately HK$192.9 million, representing an increase of approximately 10.2% from approximately HK$175.0 million in 2012. The gross profit margin was approximately 26.3%, increased by approximately 4.0%, from approximately 22.3% for the year ended 31 December 2012. Net profit attributable to equity shareholders for the Year amounted to approximately HK$17.4 million, representing an increase of approximately 13.7% from approximately HK$15.3 million for the year ended 31 December 2012.

The Group continued to enrich its strengths as one of the leading distributors of pharmaceutical products in Zhejiang province by connecting with pharmaceutical manufacturers and pharmaceutical distributors, hospitals or retailers to secure and expand its market share. Throughout the Year, the Group had been continuing to (i) identify and acquire new exclusive distribution rights from the suppliers; (ii) expand the customer base with a primarily focus in Zhejiang province; and (iii) maintain the profitability in the fragmented PRC's pharmaceutical market. The Group has strong financial position, proven track records and the ability to penetrate new markets. Encouraging achievements were also seen in marketing and sales of the Group. As at 31 December 2013, the Group sourced and procured pharmaceutical products through a network of 29 suppliers which comprised manufacturers and pharmaceutical companies, the Group sold all of its pharmaceutical products through its network of 114 distributor customers, which include 42 distributor customers being located in Zhejiang province with the remaining 72 distributors customers being spread over the remaining 18 regions in the PRC, including Shanghai, Chongqing, Anhui province, Sichuan province, Hebei province and Guangdong province. The Group made use of its financial resources and expertise in exploring and sourcing the distribution rights of products, as well as promoting the market development of the products.

Chairman's Statement

The Directors believe that the successful listing of the shares of the Company on GEM of the Stock Exchange by way of placing could enhance the Group's profile and its future development in the PRC pharmaceutical industry, as the net proceeds from the placing will strengthen the Group's financial position and enable the Group to implement its business plans. The Group aims to maintain its leading position in Zhejiang province and further expand its business operation to the second and third tier cities which the Group's distribution network has not yet covered. The Group is well-positioned to weather the challenges arising from the external government policy changes and market competition. More importantly, following the listing of the shares of the Company on GEM, the Group's management have become more motivated, mature and stable in order to encounter the already intensified competition in the PRC's pharmaceutical industry.

Looking ahead, as the Group continues to expand its footsteps to the other regions in the PRC, the development strategy of the Group becomes clearer, the Group will adhere to expand its market share by identifying, sourcing and acquiring new distribution rights of products through cooperative development with its suppliers and distributor customers. The Group will also equip itself to turn the challenges ahead into opportunities by closely monitoring the guidelines of the government policies and adapting to any political and market changes in the future. Furthermore, the PRC government has confirmed that the pharmaceutical industry is one of its strategic focuses for future development, and has announced policies which support the innovation in the industry. New Ray Medicine, a pharmaceutical trading company which primarily focused on prescription drugs with outstanding sales record and marketing effort, is poised to benefit from those strings of policies.

In 2014, the Group's objectives are to consolidate and strengthen its position as one of the leading distributors of pharmaceutical products in Zhejiang province. Leveraging its strong sales and marketing capabilities, a portfolio of quality products, experienced and professional management team, as well as our dedicated staff, the Group is confident with its future development in the challenging operating environment in 2014. New Ray Medicine has enhanced its competition advantage from product sourcing to product distribution in order to encounter the already intensified market competition. With its outstanding capabilities in sales and marketing, the Group is poised to exploit the trend of industry consolidation to achieve sustainable development going forward.

Finally, on behalf of the Board, I would like to express my sincere gratitude to our shareholders, investors, suppliers, distributor customers and business partners for their strong support to the Group. I would also like to express my heartfelt appreciation to our directors and all staff for their diligence and contribution throughout the Year.

Zhou Ling
Chairman and Executive Director

Hong Kong
18 March 2014

Management Discussion and Analysis

Overview

The Group achieved steady financial and operational performance during the year, which is the result of successful implementation of a series of operational strategies. Throughout the year of 2013, the PRC pharmaceutical market recorded a sustainable growth which was driven by governmental reforms, increasing household income, healthcare awareness as well as aging population that stimulate healthcare spending. During the year under review, the Group recorded revenue of approximately HK$192.9 million (2012: HK$175.0 million), representing an increase of approximately 10.2% over the same period last year. Gross profit margin reached approximately 26.3% (2012: 22.3%), increased by approximately 4% from the corresponding period in 2012. Net profit distributable to equity shareholders was approximately HK$17.4 million (2012: HK$15.3 million), representing an increase of approximately 13.7% over the same period last year.

The shares of the Company were successfully listed on GEM on 25 October 2013 ("Listing Date") ("Listing"). The Listing has enhanced the Group's leading position in the distribution of pharmaceutical products market in the Zhejiang province and demonstrated strong potential to expand the distribution network to other markets and hospitals throughout other regions in China. The increase in net profit attributable to equity shareholders was due to the increase in the sales of the Group's products with good profit margin and the successful implementation of the cost control of the Group during the year under review.

Business Review

During the recent years, the China's pharmaceutical market is growing due to favorable government policies as well as multiple social economic factors, such as increasing household disposable income and growth of GDP, aging and increasing life expectancy of the PRC population, increasing urbanization, increasing healthcare spending and heath awareness which stimulate healthcare spending. In addition, the PRC government's prioritization of health concerns also contributed to the growth. A number of broad policy pieces have been enacted guiding the development of China's healthcare industry, such as the "Twelve Five Year Plan", a blueprint providing clear strategies for shaping social and economic growth and industrial planning in key sectors and regions, and Healthy China 2020, which aims to reform the country's healthcare system and provide universal health care. According to the research report released in July 2013 by GlobalData, a London consultancy firm engaged in the provision of research and consulting solutions for the healthcare industries, the China's prescription drug market will expand at a 26% compound annual growth rate to USD315 billion in 2020 from USD48 billion in 2012. In addition, an increasing aging population also plays a key role in boosting China's pharmaceutical market revenue. With China's elderly population expected to account for 19% of its total population of 1.41 billion in 2020, it is expected to see a rising prevalence of chronic diseases, which will in turn spark an increasing demand for pharmaceutical products. The Group is confident that the rapid pace of growth and implementation plan for healthcare reform will support the effective business development of the Group.

As at 31 December 2013, the Group had 40 pharmaceutical products, of which 34 pharmaceutical products were included in the Medical Insurance Drugs Catalogs. Those drugs are applied to various diseases or illness such as cardiovascular diseases, cerebrovascular diseases, digestive system illness, rheumatism, urinary system illness, anti-viral infection and health supplements. The Group's injection drugs have generated a predominant portion of revenue; other products of the Group include tablet drugs and capsule drugs. The Group's current product portfolio comprised 27 injection drugs which are mainly prescription drugs. The table below sets out the revenue of the Group (by form of products) for the year ended 31 December 2012 and 2013, respectively.

Management Discussion and Analysis

Business Review *(Continued)*

	Revenue contributed from each of the segment				Gross Profit Margin	
	2012		**2013**		2012	**2013**
	HK$'000	%	***HK$'000***	**%**	%	**%**
Injection drugs	151,242	86.4	**168,697**	**87.5**	21.8	**24.5**
Tablet drugs	14,501	8.3	**11,377**	**5.9**	23.2	**19.8**
Capsule drugs	6,636	3.8	**11,071**	**5.7**	40.2	**58.0**
Other drugs	2,663	1.5	**1,709**	**0.9**	2.4	**33.4**
Total	175,042	100.0	**192,854**	**100.0**	22.3	**26.3**

(i) Injection Drugs

The injection drugs segment generated a revenue of approximately HK$168.7 million for the year ended 31 December 2013 (2012: 151.2 million), representing an increase of approximately 11.6% as compared to 2012. Such increase was attributable to the increase in the sales of the Group's major products, namely Sulbenicillin Sodium for Injection (注射用磺苄西林鈉) and Levocarnitine Injection (左卡尼丁注射液) due to the continuing successful implementation of the Group's marketing effort on those products. The gross profit margin of the injection drugs segment was approximately 24.5% in 2013, as compared to approximately 21.8% in 2012, representing an increase of approximately 2.7% from the corresponding period in 2012.

(ii) Tablet Drugs

The tablet drugs segment generated a revenue of approximately 11.4 million for the year ended 31 December 2013 (2012: 14.5 million), representing a decrease of approximately 21.4% as compared to 2012. Such decrease was attributable to the decrease in the sales of the Group's major products, namely Cefixime Dispersible Tablet (頭孢克肟分散片) due to such product having fallen within the category of antibiotics which should be under limited use as stated in the Administrator Catalogue of the Clinical Use of Antibiotics of Zhejiang Province (2012 version). The gross profit margin of the tablet drugs segment was approximately 19.8% in 2013, as compared to approximately 23.2% in 2012, decreased by approximately 3.4% from corresponding period in 2012.

(iii) Capsule Drugs

The capsule drugs segment generated a revenue of approximately 11.1 million for the year ended 31 December 2013 (2012: 6.6 million), representing an increase of approximately 68.2% as compared to 2012. Such increase was attributable to the increase in sales of the Group's newly acquired product in September 2012, namely Clostridium Butyricum Capsule (酪酸梭菌活菌膠囊). The gross profit margin of the capsule drugs segment was approximately 58.0% in 2013, as compared to approximately 40.2% in 2012, increased by approximately 17.8% from the corresponding period in 2012.

Management Discussion and Analysis

Business Review *(Continued)*

In regards to distribution network, as of 31 December 2013, the Group procured pharmaceutical products throughout the PRC from 29 suppliers and the Group sold the pharmaceutical products through a network of 114 distribution customers, of which 42 distributor customers covering Zhejiang province with the remaining 72 distributor customers being spread over the remaining 18 regions in the PRC, including Shanghai, Chongqing, Anhui province, Sichuan province, Hebei province and Guangdong province. In addition, the Group successfully promoted its products to around 800 hospitals through the last tendering process in Zhejiang province. The Group will assist its suppliers by providing (i) its industry and market expertise; (ii) the marketing intelligence of the products and the provincial market; and (iii) the competitive price suggestions in relation to the collective tendering process, to the suppliers. The Directors believe those assistance providing to the suppliers will strengthen the relationship between the Group and its suppliers and will increase the Group's exposure in the China's pharmaceutical market in order to attract reputable suppliers and distributor customers.

Future Prospects

(i) Industry Outlook

In China, urbanization, environmental pollution and wealth disparities have led to widespread health problems. Serious health issues associated with China's rapid development include respiratory illnesses as well as growing incidences of cancer, cardiovascular disease and obesity problems. In response to the substantial demand for high quality and effective prescription drugs, healthcare expenditure and expectation, the Group will continue to identify and obtain new exclusive distribution rights of the prescription drugs to enhance its product portfolio.

It is inevitable that China will become one of the largest healthcare consumption markets in the world due to the huge demand potential of its over 1.3 billion population in the next 10 to 20 years, the Group will grasp the opportunities to promote and expand the distribution channels of the Group's pharmaceutical products to second and third tier cities and to new markets in Zhejiang province as well as to strengthen the Group's footsteps in the other Eastern China regions such as Shanghai, which has similar drug intake habit but generated less than 10% of total sales of the Group.

Moreover, throughout the year of 2013, the development of the Chinese pharmaceutical market has been driven by the expansion of the national medical insurance coverage, the rising per capita subsidy standard for medical insurance and the increasing maximum reimbursements ration for medical treatment. The consolidation in the Chinese pharmaceutical industry due to the various medical reform, and the increasing speed of urbanization, have benefited to the Group to seek potential business opportunities such as mergers or acquisitions and collaborations in order to maintain sustainable growth and bring positive return to stakeholders.

Management Discussion and Analysis

Future Prospects *(Continued)*

(ii) Growth Strategies

(a) Continue to diversify the existing product portfolio and expand the distribution network

The Group has been successfully identifying and acquiring the exclusive distribution rights of pharmaceutical products in order to maintain a diversified product portfolio, those products are applied in the treatment of a range of illness such as cardiovascular diseases, cerebrovascular diseases, digestive system illness, rheumatism, urinary system illness, anti-viral infection and health supplements. The Group has actively identified and obtained new exclusive distribution rights of products throughout the year in 2013. In February 2014, the Group has acquired a new exclusive distribution rights for the product, namely Cefamandole Nafate for Injection (注射用頭孢孟多酯鈉), the sales of which are expected to commence in April 2014. For further details in relation to the product, please refer to the paragraph headed "Recent Development" under the section headed "Management Discussion and Analysis".

In 2014, the Group will actively seek new business opportunities in order to diversify and improve the Group's product portfolio by fully utilized the Group's existing distribution network, resources and market position. The Group will actively identify and obtain new distribution rights of the pharmaceutical products from the existing and potential new suppliers in the PRC and overseas in order to improve and complement the Group's existing product portfolio. The Directors believe the aforesaid strategies will enhance the business and development of the Group.

(b) Continue to enhance and expand the sales and marketing capabilities

The Group has actively identified and hired additional sales and marketing personnel throughout the year in 2013 to strengthen the Group's sales and marketing capabilities. In addition, after the Listing, the Group is able to leverage with the Group's profile, brand recognition to approach various international pharmaceutical enterprises for business opportunities. In February 2014, the Group has acquired the exclusive national distribution rights of the products, namely Cefamandole Nafate for Injection (注射用頭孢孟多酯鈉), which are manufactured by a pharmaceutical manufacturer in Taiwan, the shares of which are listed on Taiwan Stock Exchange. For further details in relation to the product, please refer to the paragraph headed "Recent Development" under the section headed "Management Discussion and Analysis".

Meanwhile, in order to strengthen the competitive advantages over the Group's competitor, in Zhejiang province, the Group will continue to enhance its local distribution network and sales and marketing capabilities in the future. In addition, the Group has been exploring different opportunities to enhance its distribution capabilities (e.g. through use of online distribution platform or expansion of the Group's geographical distribution network).

Management Discussion and Analysis

Recent Development

In February 2014, the Group has entered into a distribution agreement ("Distribution Agreement") with a distributor in the PRC, pursuant to which the Group shall be granted an exclusive national distribution rights for the products namely, Cefamandole Nafate for Injection (注射用頭孢孟多酯鈉) ("Products") under two different specifications (i.e. 0.5g and 1.0g) in the PRC. Pursuant to the Distribution Agreement, the distribution period shall commence from 1 February 2014 to 31 December 2014 ("Distribution Period"). Pursuant to the terms of the Distribution Agreement, the Group had paid RMB15 million as the deposits for obtaining the distribution rights of the Products ("Deposit"). The Deposit shall be refundable upon expiry of the Distribution Period, subject to deduction in proportion to the amount of the Products which did not meet the 85% of the sales target as stipulated in the Distribution Agreement. The Group expects sales of the Products to begin in April 2014.

The Products are a second generation broad spectrum cephalosporin antibiotic which apply to the treatment of pneumonia, urinary system infection, intestinal infection and bone infection. The Products are currently under Grade B of the Medical Insurance Drugs Catalogs of 16 provinces in the PRC, including Guangdong province, Fujian province, Hunan province, Hubei province, Henan province, Hebei province, Shandong province and Liaoning province.

The Group has commissioned 廣州標點醫藥信息有限公司 (in English, for identification purpose, Guangzhou PICO Medicine Information Co., Ltd.) ("PICO"), a market research company to conduct a detailed analysis of and report on the Products. According to such report, the sales value of Cefamandole Nafate for Injection in the PRC was approximately RMB2,276.0 million in year 2013. The Products which are distributed by the Group was manufactured by a pharmaceutical manufacturer in Taiwan, the shares of which are listed on Taiwan Stock Exchange. The sales value of such product manufactured by such manufacturer had a market share of approximately 16.21%, which ranked the second largest in terms of sales value and market size of the Products in the PRC in year 2013.

In the future, the Group will continue to make progress in acquiring new products in order to enhance the product portfolio to meet with the increasing demand for high quality pharmaceutical products and to maintain the leading position in the pharmaceutical distribution market, especially in Zhejiang province.

Financial Review

Revenue

The total revenue for the year ended 31 December 2013 was approximately HK$192.9 million, representing an increase of approximately 10.2% from approximately HK$175.0 million for the year ended 31 December 2012. The increase was primarily due to (1) the sales from current major products of the Group being steady; (2) growth in revenue generated from the new products which were acquired during year 2012 and 2013.

Cost of sales

The cost of sales for the year ended 31 December 2013 was approximately HK$142.2 million, representing an increase of approximately 4.6% from approximately HK$136.0 million for the year ended 31 December 2012. The increase in cost of sales corresponded to the increase in revenue.

Management Discussion and Analysis

Financial Review *(Continued)*

Gross profit and gross profit margin

Gross profit increased by approximately HK$11.6 million, or approximately 29.7%, from approximately HK$39.0 million for the year ended 31 December 2012 to approximately HK$50.6 million for the year ended 31 December 2013 due to more revenue generated from the Group's products and the increase in average gross profit margin. The Group's gross profit margin increased from approximately 22.3% for the year ended 31 December 2012 to approximately 26.3% for the year ended 31 December 2013. The increase in gross profit was mainly attributable to growth in revenue generated from the new products which were acquired during the years 2012 and 2013. The unit gross profit margin of the newly acquired products in 2012 and 2013 was higher than most of the current major products. Hence, growth in revenue generated from the new products which were acquired during year 2012 and 2013 had improved the average gross profit margin of the Group.

Other income, gains and losses

Other income, gains and losses for the year ended 31 December 2013 was approximately HK$1.7 million, representing an increase of approximately 13.3% from approximately HK$1.5 million for the year ended 31 December 2012. Such increase was primarily due to (i) a gain on disposal of property, plant and equipment; and (ii) increase in bank interest income even though there was a decrease in imputed interest on deposits paid to suppliers.

Selling and distribution expenses

Selling and distribution expenses for the year ended 31 December 2013 was approximately HK$4.0 million, representing an increase of approximately 29.0% from approximately HK$3.1 million for the year ended 31 December 2012, which was primarily due to the Group's strategy on enhancing and expanding the Group's market share, distribution network and marketing efforts through (i) increasing headcount of the Group's marketing team, (ii) participating in drugs fair held by PharmChina, a national pharmaceutical trade exhibition, to promote the Group's brand name and (iii) organizing and providing training programs and marketing materials to medical practitioners and the Group's distributor customers since October 2013.

Administrative expenses

Administrative expenses for the year ended 31 December 2013 was approximately HK$7.0 million, representing an increase of approximately 6.1% from approximately HK$6.6 million for the corresponding period last year which was primarily due to the increase in salary of the Group's employees.

Listing and other expenses

Listing and other expenses for the year under review represented the professional fees and other expenses relating to the listing, which was approximately HK$10.2 million as compared to approximately HK$8.6 million for the year ended 31 December 2012, representing an increase of approximately 18.6%, due to the one-off additional expenses incurred in relation to the Listing.

Management Discussion and Analysis

Financial Review *(Continued)*

Finance costs

Finance costs for the year ended 31 December 2013 was approximately HK$2.4 million as compared to HK$38,000 for the year ended 31 December 2012. The increase was mainly due to (i) imputed interest adjustment on deposit paid to suppliers upon initial recognition net of reversal of approximately HK$0.9 million and (ii) an increase in the Group's borrowings for listing expenses and for payment in relation to the obtaining of distribution rights by the Group in the end of 2012 and early 2013.

Income tax expenses

Income tax expenses for the year ended 31 December 2013 was approximately HK$11.3 million, representing an increase of approximately 63.8% from approximately HK$6.9 million for the corresponding period in 2012. The increase was mainly due to (i) the increase in profit before tax and (ii) the increase in the tax effect of expense not deductible for tax purpose resulted from the payment of the listing expenses and the imputed interest adjustment on deposit paid to suppliers upon initial recognition.

Profit for the year

Profit for the year ended 31 December 2013 was approximately HK$17.4 million, representing an increase of approximately 13.7% from approximately HK$15.3 million for the year ended 31 December 2012. The increase was primarily due to the increase in gross profit in relation to the increase in revenue and improvement in the average gross profit margin although it was partially offset by (i) the significant increase in finance cost as a result of increase of borrowings for listing expenses and loan for distribution rights in end of 2012 and early 2013; (ii) the increase in listing and other expenses of approximately HK$1.6 million; and (iii) the increase in selling and administrative expenses.

Liquidity and Financial Resources

During the year under review, the long-term funding and working capital required by the Group were primarily derived from income generated from its core business operations and the net proceeds from the Listing and were used to settle the suppliers trade payable and the initial deposit paid for obtaining distribution right of new products. The Group's liquidity position was well-managed in the year 2013.

The Group's gearing ratio (total bank and other borrowings divided by total equity) dropped to 0% (2012: 8.9%) as the Group had no outstanding bank and other borrowings as at 31 December 2013.

The Group had net cash (total cash and cash equivalents less bank and other borrowings) of approximately HK$93.4 million as at 31 December 2013 (2012: approximately HK$14.3 million, net cash). The Group's cash and cash equivalents amounted to approximately HK$93.4 million in total as at 31 December 2013 (2012: HK$26.3 million). Total bank and other borrowings as at 31 December 2013 was nil (2012: approximately HK$12 million).

The Group's financial resources are sufficient to support its business operations. The Group would also consider other financing activities when appropriate business opportunities arise under favorable market conditions.

Management Discussion and Analysis

Financial Review *(Continued)*

Employee Information

As at 31 December 2013, the Group had 38 employees (2012: 35). Staff costs, including Directors' remuneration for the year ended 31 December 2013, amounted to approximately HK$4.6 million (2012: 3.8 million). The Group's 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 Group offers a comprehensive and competitive remuneration and benefits package to all its employees. In addition, the Group has adopted a share option scheme for the purpose of providing incentives and rewards to eligible persons who contribute to the success of the Group's operations.

The Group has also adopted other employee benefit including a provident fund scheme for its employees in Hong Kong, as required under the Mandatory Provident Fund Schemes Ordinance, and has participated in employee pension schemes organised and governed by the relevant local governments for its employees in the PRC.

Contingent Liabilities

As at 31 December 2013, the Group did not have any significant contingent liabilities.

Material Acquisitions or Disposals

Except for the transactions in connection with the Group's Reorganization in preparation for the Listing as disclosed in prospectus of the Company dated 18 October 2013 ("Prospectus"), there has been no material acquisition or disposal of subsidiaries and affiliated companies during the year ended 31 December 2013.

Capital Structure

The shares of the Company were listed on GEM of the Stock Exchange on the Listing Date. There has been no change in the capital structure of the Company since the Listing Date. The capital of the Company comprises only ordinary shares.

Pledge of assets

The Group has pledged the buildings and prepaid lease payments with aggregate carrying values of approximately HK$12.7 million (2012: HK$12.7 million) as at 31 December 2013 to secure general banking facilities granted to the Group.

Property interest

The Group has included a property valuation report in Appendix III of the Prospectus, the market value of the Group's property interest as at 31 August 2013 for the purpose of incorporation into the Prospectus was RMB12.4 million. The additional depreciation charge against the income statement for the year ended 31 December 2013 had those assets been stated at such valuation on 31 August 2013 would be HK$76,000.

Results on clinical testing

The Group has engaged Hangzhou Institute of Drug Control (杭州市藥品檢驗所) ("HIDC"), a government controlled certified testing center in Hangzhou City, the PRC, to conduct clinical testing for its pharmaceutical products. As stated in the Prospectus of the Company dated 18 October 2013, the Group had submitted 9 types of products (including 12 specifications) for such clinical testing. All 9 types of products (including 12 specifications) had completed such testing with the result in compliance with requirement as set out in the Pharmacopoeia of People's Republic of China (2010 Edition) (中國藥典2010年版). The Group has obtained those results during the year ended 31 December 2013.

Financial Review *(Continued)*

Return of deposits

As disclosed in the prospectus of the Company dated 18 October 2013, on 3 July 2013, Zhongcheng Huida Pharmaceutical Trading Company Limited (保定中誠匯達醫藥貿易有限公司) ("Zhongcheng Huida"), and Beijing Kaihongxin Pharmaceutical Company Limited (北京凱宏鑫醫藥有限責任公司) ("Kaihongxin") confirmed to return the deposits of approximately RMB8 million and RMB7 million, paid by the Group to each of Zhongcheng Huida and Kaihongxi, under the distribution agreements both dated 1 January 2013 entered into between the Group and Zhongcheng Huida and Kaihongxin respectively, upon the Listing of the Group. In July, 2013, the Group entered into an exclusive provincial distribution agreement with Jiangsu Baichang Pharmaceutical Co., Ltd. (江蘇百暢醫藥有限公司) ("Jiangsu Baichang") in relation to a product, namely Kangfuxin Ye (康复新液), Jiangsu Baichang has also confirmed to return the deposits of approximately RMB1 million, paid by the Group to Jiangsu Baichang under the distribution agreement entered into between the Group and Jiangsu Baichang, upon the Listing of the Group. The said returns of deposits are based on the conditions that the Company will procure the Group's wholly owned subsidiary, Hong Rui (Hangzhou) Bio-medical Technology Co. Ltd. (泓鋭(杭州)生物醫藥科技有限公司) ("Hong Rui Bio-medical") or any other subsidiary of the Company to act as the guarantor for Zhongcheng Huida, Kaihongxin and Jiangsu Baichang and Hong Rui Bio-medical has to maintain a minimum cash balance of RMB3 million, RMB2 million for each of Zhongcheng Huida and Kaihongxin, respectively for the terms of the respective distribution agreements.

During the period between the Listing Date up to 31 December 2013 ("Review Period"), the Group's wholly owned subsidiary, Hong Rui Bio-medical acted as the guarantor for Zhongcheng Huida, Kaihongxin and Jiangsu Baichang and Hong Rui Bio-medical had also maintained a minimum cash balance of RMB3 million and RMB2 million for each of Zhongcheng Huida and Kaihongxin, respectively for the terms of the respective distribution agreements. During the Review Period, Zhongcheng Huida, Kaihongxin and Jiangsu Baichang had returned the deposits of RMB8 million, RMB7 million and RMB1 million to the Group respectively.

Financial Review *(Continued)*

Comparison between Business Plan and Actual Business Progress:

The following is a comparison between the Group's business plan as set out in the Prospectus and the actual business progress during the Review Period:

Business objectives as set out in the Prospectus	Implementation activities during the Review Period
The Group will recruit approximately 3 to 4 sales and marketing personnel in its sales and marketing team for its business expansion	The Group increased 3 headcounts in its marketing team
The Group will explore opportunities in organising, participating and sponsoring various medical seminars or conferences and product launching events	The Group has participated in drugs fair held by PharmChina in Guangzhou, a national pharmaceutical trade exhibition in December 2013
The Group will maintain its strong presence in Zhejiang province and will extend its presence to the second and third tier cities in the Zhejiang province and Eastern China region in the PRC	The Group has recruited the marketing agents to carry out the marketing activities on promoting the Group's products in Zhejiang province
The Group will cooperate with medical institutions and practitioners in the PRC to participate more clinical applications	The Group has cooperated with certain medical institutions and practitioners in the PRC to participate in clinical applications
The Group will organise and provide training programmes and marketing materials to medical practitioners and the Group's distributor customers, respectively	The Group has organised and provided training programmes and marketing materials to medical practitioners and the Group's distributor customers

Management Discussion and Analysis

Financial Review *(Continued)*

Use of proceeds from placing

On 25 October 2013, 280,000,000 shares of HK$0.01 each of the Company were issued at an issue price of HK$0.25 each by way of placing ("Placing"). The net proceeds arising from the Placing were approximately HK$41 million, which was calculated based on the final placing price of HK$0.25 per share and after deducting the actual expenses related to the Listing. During the Review Period, the net proceeds from the Placing had been applied as follows:

	Intended use of proceeds as shown in the Prospectus during the Review Period HK$ million	**Actual use of the proceeds during the Review Period** HK$ million
To obtain new exclusive distribution rights of product	–	–
To continue expanding and strengthening the Group's distribution network and marketing efforts	1.2	1.1
To repay a portion of the Group's principal and interest of bank loan facilities	6.0	6.0
General working capital	4.1	4.1

The Board will constantly evaluate the Group's business objective and will change or modify plans against the changing market conditions to ascertain the business growth of the Group.

Biographical Details of Directors and Senior Management

Executive Directors

Mr. Zhou Ling, ("Mr. Zhou") aged 37, has been the Chairman and an executive Director of the Company since October 2013, and one of the founding members of the Company and its subsidiaries (collectively the "Group"). Mr. Zhou joined the Group in 2001. He has over 14 years of experience in pharmaceutical distribution industry. He graduated from the Correspondence Institute of the Party School of the Central Committee of Communist Party of China, majoring in economics management. He is responsible for the operation of our Group's business and the overall sales and marketing strategies of the Group. He is also a director of a number of subsidiaries of the Company. He is the spouse of Ms. Yang Fang, who is an executive Director of the Company. He and Ms. Yang Fang collectively are interested in approximately 18.4% issued shares in the Company.

Mr. Dai Haidong, ("Mr. Dai") aged 37, has been Chief Executive Officer and an executive Director of the Company since October 2013, and one of the founding members of our Group. Mr. Dai joined the Group in 2001. 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, majoring in economics management. He is responsible for the operation of our Group's business and the overall development of sales and marketing management and strategies of the Group. He is interested in approximately 7.6% issued shares in the Company.

Ms. Yang Fang, ("Ms. Yang") aged 37, has been an executive Director of the Company since October 2013. Ms. Yang joined the Group in 2005. Prior to joining our Group, Ms. Yang was a pharmacist of Zhejiang Province Prison's Hospital from 1995 to 2004 and a quality control officer of Hainan Rich Medicine Co., Ltd from 2004 to 2007. She has over 15 years of experience in the pharmaceutical industry. She completed an on-line post-secondary course in pharmacy at Institute of Distance Education of Zhejiang University in 2008. Ms. Yang is a registered pharmacist in the PRC. She is responsible for the overall administrative and human resource function of our Group. She is the spouse of Mr. Zhou Ling who is an executive Director of the Company. She and Mr. Zhou Ling collectively are interested in approximately 18.4% issued shares in the Company.

Mr. Lee Chik Yuet, ("Mr. Lee") aged 59, has been an executive director and the compliance officer of the Company since October 2013. Mr. Lee joined the Group in 2012. Mr. Lee graduated from The Chinese University of Hong Kong with a bachelor degree in Social Science. He also holds a bachelor degree and a master degree in Laws from The University of Hong Kong. Prior to joining the Group, Mr. Lee had been a practising solicitor for more than 13 years in Hong Kong specialized in commercial, corporate finance and investment laws and practice in Hong Kong and the People's Republic of China (the "PRC"). Mr. Lee is currently a director of Town Health International Investments Limited, which is our controlling shareholder and is interested in approximately 31.2% issued shares in the Company. Mr. Lee is a director of a number of subsidiaries of the Company.

Biographical Details of Directors and Senior Management

Independent Non-executive Directors

Mr. Ho Hau Cheung, *BBS, MH*, ("Mr. Ho") aged 61, has been an independent non-executive Director of the Company since 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. Sung Hak Keung, Andy, ("Mr. Sung") aged 40, has been an independent non-executive Director of the Company since 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, a certified public accountant of the Hong Kong Institute of Certified Public 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 was a vice president of Oriental City Group Holdings Limited (stock code: 8325) during the period from August 2009 to 13 November 2013, the issued shares of which are listed on GEM. He was a company secretary of Oriental City Group Holdings Limited (stock code: 8325) during the period from January 2009 to 11 January 2013.

Mr. Leung Chi Kin, ("Mr. Leung") aged 64, has been an independent non-executive Director of the Company since 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.

Senior Management

Mr. He Linxing, ("Mr. He") aged 39, he is a director of a number of subsidiaries of the Company and is responsible for the overall sales management of our Group's business in the PRC. He joined the Group in 2001. Mr. He has approximately 16 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 in 2009, majoring in economics management.

Mr. Lai Kwok Wa, ("Mr. Lai") aged 29, has joined the Group in June 2012, and is the company secretary and the financial controller of the Company. Mr. Lai has approximately 7 years of experience in auditing and accounting. 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 certified public accountant of the Hong Kong Institute of Certified Public Accountants.

Report of the Directors

The Directors present their annual report and the audited consolidated financial statements of the Company and the Group for the year ended 31 December 2013.

Corporate Reorganisation

The Company was incorporated and registered as an exempted company with limited liability in Bermuda on 9 August 2012. Pursuant to a reorganisation to rationalise the group structure in preparation for the Listing, the Company became the holding company of the Group. Details of the reorganisation are set out in the section headed "History and Development" of the Prospectus. The Company's shares have been listed on GEM of the Stock Exchange since the Listing Date.

Principal Activities

The Company acts as an investment holding company.

Principal Subsidiaries and Jointly Controlled Entities

Details of the principal subsidiaries and jointly controlled entities as at 31 December 2013 are set out in notes 35 and 19 to the consolidated financial statements respectively.

Results and Appropriations

The results of the Group for the year ended 31 December 2013 are set out in the consolidated statements of profit or loss and other comprehensive income on pages 36.

The Board has recommended, subject to shareholders' approval at the forthcoming annual general meeting of the Company (the "AGM"), the payment of a final dividend of HK2.5 cents per share for the year.

Donations

Charitable donations made by the Group during the year ended 31 December 2013 amounted to HK$668,000.

Property, Plant and Equipment

Details of movements during the year ended 31 December 2013 in the property, plant and equipment of the Group are set out in note 15 to the consolidated financial statements.

Share Capital

Details of movements during the year ended 31 December 2013 in the share capital of the Company are set out in note 27 to the consolidated financial statements.

Pre-emptive Rights

There is no provision for pre-emptive rights under the bye-laws of the Company ("Bye-laws") and the laws of Bermuda, being the jurisdiction in which the Company was incorporated which would oblige the Company to offer new shares on a pro-rata basis to its existing shareholders.

Reserves and Distributable Reserves

Details of movements during the year in the reserves of the Group are set out on page 38 of this report. As at 31 December 2013, the reserves available for distribution to the Company 's shareholders are set out in note 28 to the consolidated financial statements.

Directors

The Directors who held office during the year and as at the date of this report are:

Executive Directors:

Mr. Zhou Ling *(Chairman)* (Note 1)
Mr. Dai Haidong *(Chief Executive Officer)* (Note 1)
Ms. Yang Fang (Note 1)
Mr. Lee Chik Yuet (Note 2)

Independent Non-executive Directors:

Mr. Ho Hau Cheung, *BBS, MH* (Note 3)
Mr. Sung Hak Keung, Andy (Note 3)
Mr. Leung Chi Kin (Note 3)

Notes:

1. Appointed on 24 August 2012
2. Appointed on 14 September 2012
3. Appointed on 26 September 2013

Directors' Services Contracts

Each of the executive Directors has entered into a service contract with the Company and has been appointed for a term of 3 years commencing from the Listing Date. Each of the independent non-executive Directors has entered into a letter of appointment with the Company and has been appointed for a term of 2 years commencing from the Listing Date. They are all subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the Bye-laws.

In accordance with bye-law 87(1) of the bye-laws of the Company (the "Bye-Laws"), Mr. Zhou Ling, Mr. Dai Haidong and Ms. Yang Fang will retire from office by rotation at the forthcoming annual general meeting of the Company and being eligible, offer themselves for re-election.

None of the Directors who are being proposed for re-election at the forthcoming annual general meeting of the Company has a service contract with the Company or any of its subsidiaries which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

Independent Non-executive Directors

The Company has received from each of the independent non- executive Directors an annual confirmation of his independence pursuant to rule 5.09 of the Rules Governing the Listing of Securities on GEM ("GEM Listing Rules"). The Company still considers that each of the independent non-executive Directors to be independent.

Directors' and Chief Executive's Interests and Short Positions In Shares, Underlying Shares and Debentures

As at 31 December 2013, the interest and short position of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO") as recorded in the register required to be kept under Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the required standard of dealings by Directors as referred to in Rule 5.46 of the GEM Listing Rules, were as follows:

Name of Director	Capacity	Number of ordinary shares	Position	Approximate % of the total issued shares
Zhou Ling ("Mr. Zhou")	Beneficial owner and interest of spouse	147,160,000 (Note)	Long	18.40%
Yang Fang ("Ms. Yang")	Beneficial owner and interest of spouse	147,160,000 (Note)	Long	18.40%
Dai Haidong	Beneficial owner	60,840,000	Long	7.60%

Note:

Mr. Zhou and Ms. Yang, being husband and wife, are deemed to be interested in all the 147,160,000 shares of the Company which comprise of 104,396,190 shares and 42,763,810 shares of the Company held by Mr. Zhou and Ms. Yang respectively.

Save as disclosed above, as at 31 December 2013, none of the Directors and chief executives of the Company had any interests or short positions in the shares, underlying shares and debentures of the Company and its associated corporations.

Substantial Shareholders

As at 31 December 2013, other than the interests disclosed above in respect of certain Directors and Chief Executives, the following persons had an interest or a short position in the shares or underlying shares of the Company as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO.

Long Position in Shares

Name of Director	Capacity	Number of ordinary shares	Approximate % of the total issued shares
Town Health Pharmaceutical Limited ("Town Health Pharmaceutical") (Note1 and 2)	Beneficial owner	249,600,000	31.20%
Town Health (BVI) Limited ("Town Health (BVI)") (Note1 and 2)	Interest of a controlled corporation	249,600,000	31.20%
Town Health International Investments Limited ("Town Health International") (Note1 and 2)	Interest of a controlled corporation	249,600,000	31.20%

Note:

1. Town Health Pharmaceutical is wholly-owned by Town Health (BVI) which is in turn wholly-owned by Town Health International. Accordingly, Town Health International and Town Health (BVI) are deemed to be interested in all the 249,600,000 shares of the Company held by Town Health Pharmaceutical by virtue of the SFO.

2. Mr. Lee Chik Yuet who is the executive Director of the Company, is currently also a Director of Town Health International Investments Limited, Town Health (BVI) Limited and Town Health Pharmaceutical Limited.

Save as disclosed above, no person had any interests or short positions in the shares or underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO.

Major Customers and Suppliers

For the year ended 31 December 2013, the percentage of turnover attributable to the Group's five largest customers is approximately 69% of the Group's total turnover and the percentage of turnover attributable to the Group's largest customers is approximately 27% of the Group's total turnover. The Group's five largest suppliers accounted for approximately 90% of the Group's total purchase and the Group's largest suppliers accounted for approximately 47% of the Group's total purchase.

None of the Directors or any of their associates, or any shareholder of the Company, (which to the knowledge of the Directors owns more than 5% of the Company's issued share capital), had any interest in any of the five largest customers or suppliers of the Group for the year ended 31 December 2013.

Director's Interest in Competing Business

None of the Directors nor their respective associates had an interest in a business, apart from the businesses of the Group, which competes or is likely to compete, either directly or indirectly, with the businesses of the Group pursuant to Rule 8.10 of the GEM Listing Rules during the year ended 31 December, 2013.

Report of the Directors

Directors' Rights to Acquire Shares or Debentures

Save as disclosed above, at no time during the year was the Company or any of its subsidiaries, a party to any arrangement to enable the Directors or Chief Executives or their spouse or children under 18 years of age to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

Interests of the Compliance Adviser and Its Directors, Employees and Associates

As confirmed by Kingsway Capital Limited ("Kingsway"), the compliance adviser of the Company, none of Kingsway or its directors, employees or associates is interested in the shares of the Company or materially interested in any contract or arrangement of the Company at the end of the year ended 31 December 2013 or at any time during the year ended 31 December 2013.

Directors' Interest in Contracts of Significance

Pursuant to a deed for sale and purchase dated 26 September 2013 entered into between, among other parties, Mr. Zhou, Mr. Dai and Ms. Yang, each being an executive Director, as vendors and the Company as purchaser, the Company agreed to acquire from, among other parties, (i) Mr. Zhou his 4,216 shares in Max Goodrich International Limited ("Max Goodrich"); (ii) Mr. Dai his 2,457 shares in Max Goodrich; (iii) Ms. Yang her 1,727 shares in Max Goodrich, in consideration of, among other matters, the allotment and issue by the Company of 4,216 shares, 2,457 shares and 1,727 shares of the Company, credited as fully paid, to Mr. Zhou, Mr. Dai and Ms. Yang respectively, details of which are set out in the sub-section headed "History and development – Reorganisation" in the prospectus of the Company dated 18 October 2013.

Save as disclosed above, no contracts of significance to which the Company, its controlling shareholder or its subsidiaries was a party and in which a Director had a material interest, whether directly or indirectly, subsisted during the year ended 31 December 2013 or at any time during such period.

Use of Proceeds

The Company's shares were listed on GEM on the Listing Date. The proceeds (net of underwriting fees and other listing expenses) from the issue of 280,000,000 new shares of the Company under the placing as set out in the Prospectus were approximately HK$41 million. For details of the use of the above net proceeds during the Review Period, please refer to the "Use of proceeds from placing" paragraph under the section headed "MANAGEMENT DISCUSSION AND ANALYSIS" on page 18 of this annual report.

Share Option Scheme

The Company operates the Scheme for the purpose of providing incentives and rewards to eligible persons who contribute to the success of the Group's operations. The Scheme has been approved by the then sole shareholder on 26 September 2013. No share options were granted, exercised or cancelled by the Company under the Scheme during the year ended 31 December 2013 and there were no outstanding share options under the Scheme as at 31 December 2013. Details of the Scheme are set out in note 29 to the consolidated financial statements.

Purchase, Sale or Redemption of the Company's Listed Securities

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities since the Listing Date.

Corporate Governance

Principal corporate governance practices adopted by the Company are set out in the Corporate Governance Report on page 28 of this annual report.

Related Party Transactions

Details of the related party transactions are set out in notes 34 to the consolidated financial statements and below:

The Group's wholly owned subsidiary Zhejiang Xin Rui Pharmaceutical Co., Ltd. (浙江新銳醫藥有限公司) has entered into a tenancy agreement (as supplemented by a confirmation dated 15 August 2012) as tenant with Mr. Yang Qi and Ms. Tu Yue Li as landlords (the "Tenancy Agreement") to lease the premises at Room 3703, Dikai International Centre, Jianggan District, Hangzhou City, Zhejiang Province, the PRC 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.

Mr. Yang Qi and his spouse, Ms. Tu Yue Li, are the respective brother and sister-in-law of Ms. Yang Fang, an executive Director. Mr. Yang Qi and Ms. Tu Yue Li are therefore associates of Ms. Yang Fang and are connected persons of the Company under the GEM Listing Rules.

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.

As the above transaction is on normal commercial terms and all of the applicable percentage ratios are, on an annual basis, less than 5% and the annual rental under the Tenancy Agreement is less than HK$1 million, the above transaction constitutes de minimis continuing connected transaction exempt pursuant to Rule 20.33(3) of the GEM Listing Rules and is exempted from the reporting, annual review, announcement and independent shareholders' approval requirements.

Saved as disclosed above, there were no other transactions which constituted connected transaction(s) or continuing connected transaction(s) of the Company under Chapter 20 of the GEM Listing Rules during the Review Period. The Directors confirm that the Company has complied with the disclosure requirements (if any) in accordance with Chapter 20 of the GEM Listing Rules.

Emolument Policy

The emolument policy of the employees of the Group is set up by the Board on the basis of position, duties and performance of the employees.

The emoluments of the Directors are decided by the board of Directors, having regard to the Company's operating results, individual performance and comparable market statistics.

Report of the Directors

Retirement Benefit Scheme

Details of the retirement benefit scheme are set out in notes 30 to the consolidated financial statements.

Sufficiency of Public Float

Based on information that is publicly available to the Company and within the knowledge of the Directors, as at the latest practicable date prior to the issue of this report, there is sufficient public float of the Company's issued shares as required under the GEM Listing Rules since the Listing Date and up to the date of this report.

Auditor

The Company has appointed Deloitte Touche Tohmatsu as the auditor of the Company for the year ended 31 December 2013. Deloitte Touche Tohmatsu will retire and, being eligible, offer itself for re-appointment at the forthcoming Annual General Meeting. A resolution to re-appoint Deloitte Touche Tohmatsu and to authorise the Directors to fix its remuneration will be proposed at the forthcoming Annual General Meeting.

Review By Audit Committee

The audited consolidated financial statements of the Company for the year ended 31 December 2013 have been reviewed by the Audit Committee of the Company.

On behalf of the Board

Mr. Lee Chik Yuet
Executive Director

18 March 2014

Corporate Governance Report

The Board is committed to maintaining a good corporate governance standard. The Board believes that a good corporate governance standard will provide a framework for the Company and its subsidiaries (collectively the "Group") to formulate the business strategies and policies, and manage the associated risks through effective internal control procedures. It will also enhance the transparency of the Group and strengthen the accountability to the shareholders and creditors. In this regard, a corporate governance committee of the Board has been established with primary responsibility for developing and reviewing the Company's policies and practices on corporate governance and making recommendations to the Board.

Before the Listing Date, the Company was not required to comply with the requirements under the code provisions set out in the Corporate Governance Code (the "CG Code") as set out in Appendix 15 to the GEM Listing Rules.

The Company has adopted the CG Code as its own code of corporate governance. During the Review Period, the Company had complied with the code provisions set out in the CG Code, to the extent applicable and permissible.

Accordingly, the Board is pleased to present this Corporate Governance Report for the Review Period.

Directors' Securities Transactions

The Company had adopted a code of conduct regarding securities transactions by directors on terms no less exacting than the required standard of dealings as set out in Rules 5.48 to 5.67 of the GEM Listing Rules. Having made specific enquiries of all Directors, all the Directors confirmed that they had complied with the required standard of dealings and the Company's code of conduct regarding securities transactions by Directors from the Listing Date up to 31 December 2013.

Board of Directors

Throughout the Review Period and as at the date of this annual report, the Board comprises seven members, four of which are executive Directors, namely Mr. Zhou Ling who is the chairperson of the Company, Mr. Dai Haidong who is chief executive officer of the Company, Ms. Yang Fang and Mr. Lee Chik Yuet. Three other members are independent non-executive Directors, namely Mr. Ho Hau Cheung, *BBS, MH*, Mr. Sung Hak Keung, Andy and Mr. Leung Chi Kin. The biographical details of the Directors and relationship between them (if any) are set out in the section headed "Biographical Details of Directors and Senior Management" on page 19 and 20 of this annual report.

All Directors are subject to retirement by rotation and re-election at the annual general meeting of the Company at least once every three years in accordance with the Bye-Laws as amended from time to time and the requirements of the Listing Rules.

The Board is responsible for the formulation of the Group's business strategies and overall policies, and monitoring the performance of the management and corporate governance functions. The executive Directors are delegated with the power to execute the business strategies, develop and implement the policies in the daily operation of the Group. The independent non-executive Directors provide their professional advices to the Group whenever necessary.

Board of Directors *(Continued)*

Composition of the Board, including names of the independent non-executive Directors, is disclosed in all corporate communications to shareholders of the Company.

All Directors have full and timely access to all the information and accounts of the Group. The Directors may seek independent professional advice in appropriate circumstances, at the expense of the Company. The Company will, upon request, provide separate independent professional advice to the Directors to assist them to discharge their duties to the Company. The Company has arranged appropriate insurance cover for the Directors.

Attendance of Directors at Meetings

The Board held one Board meetings during the Review Period. No general meeting was held during the Review Period.

The attendances of the Directors at various meetings held during the Review Period are set out below:

	Number of meetings attended/held					
	General meeting	Board meeting	Audit Committee meetings	Remuneration Committee meetings	Nomination Committee meetings	Corporate Governance Committee meetings
Zhou Ling	0/0	1/1	N/A	N/A	N/A	1/1
Dai Haidong	0/0	1/1	N/A	N/A	N/A	1/1
Yang Fang	0/0	1/1	N/A	N/A	N/A	1/1
Lee Chik Yuet	0/0	1/1	N/A	N/A	N/A	1/1
Ho Hau Cheung, *BBS, MH*	0/0	1/1	2/2	0/0	0/0	N/A
Sung Hak Keung, Andy	0/0	1/1	2/2	0/0	0/0	N/A
Leung Chi Kin	0/0	1/1	2/2	0/0	0/0	N/A

Directors' continuous professional development

All Directors had confirmed that they had complied with the code provision A.6.5 of the CG Code during the Review Period by participating in continuous professional development. The Company had arranged an in-house seminar on GEM Listing Rules for the Directors. All of them had been provided with the training materials for such seminar and each of them confirmed that he/she had read the training materials. In addition, all of them have attended such in-house seminar.

Chairman and Chief Executive Officer

Mr. Zhou Ling is the chairman of the Company and Mr. Dai Haidong is the chief executive officer of the Company, and they have segregated and clearly defined roles. The chairman of the Company provides leadership for the Board. The chief executive officer of the Company is responsible for the Group's overall business and development strategies, and general daily management.

Independent Non-Executive Directors

The Company has three independent non-executive Directors, one of them has appropriate professional qualification or accounting or related financial management expertise. The Company has received a written confirmation of independence from each of the independent non-executive Directors. The Company considers that each of the independent non-executive Directors is independent.

Term of Appointment of Non-Executive Directors

All the independent non-executive Directors have been appointed for a term of two years commencing from the Listing Date.

Remuneration Committee

The Board has established a remuneration committee (the "Remuneration Committee") with its role and function set out in its specific written terms of reference in accordance with the provisions set out in the Code, which are posted on the websites of the Stock Exchange and the Company. The principal duties of the Remuneration Committee are to formulate the Company's remuneration policy and recommend remuneration packages of the Directors and senior management of the Company to the Board for approval. The Company 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 system varies according to the positions of the employees. The performance appraisal is supervised by the performance management committee.

During the Review Period and as at the date of this annual report, the Remuneration Committee comprised three independent non-executive Directors, namely Mr. Ho Hau Cheung, *BBS, MH* as the chairman of the Remuneration Committee, Mr. Sung Hak Keung, Andy and Mr. Leung Chi Kin.

During the Review Period, no meeting of the Remuneration Committee was held. Subsequent to 31 December 2013 and up to the date of this report, one meeting of the Remuneration Committee was held to make recommendation 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 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. All members of the Remuneration Committee attended the meeting.

Nomination Committee

The nomination committee with specific written terms of reference in accordance with the provisions set out in the CG Code, which are posted on the websites of the Stock Exchange and the Company.

During the Review Period and as at the date of this annual report, the Nomination Committee comprised three independent non-executive Directors, namely Mr. Leung Chi Kin as the Chairman of the Nomination Committee, Mr. Sung Hak Keung, Andy and Mr. Ho Hau Cheung, *BBS, MH*.

Major responsibilities of the Nomination Committee are to formulate and implement the policy for nominating candidates for election by shareholders at the general meeting (either to fill a casual vacancy or as an addition to the Board), assess the independence of non-executive Directors and propose re-election of retiring Directors.

According to the Bye-Laws, any Director appointed by the Board either to fill a casual vacancy or as an addition to the Board shall hold office only until the next following annual general meeting of the Company and who shall then be eligible for re-election at such meeting, and Directors are all subject to retirement by rotation and re-election at the annual general meeting of the Company at least once every three years.

During the Review Period, no meeting of the Nomination Committee was held. Subsequent to 31 December 2013 and up to the date of this report, one meeting of the Nomination Committee was held to review the structure and composition of the Board, adoption of the board diversity policy and revised written terms of reference to the Nomination Committee. All members of the Nomination Committee attended the meeting.

Corporate Governance Report

Board Diversity Policy

During the Relevant Period, the Board adopted a board diversity policy setting out the approach to achieve diversity on the Board. The Company considered diversity of board members can be achieved through consideration of a number of aspects, including but not limited to gender, age, cultural and educational background, professional experience, skills and knowledge. All Directors appointments will be based on meritocracy, and candidates will be considered against objective criteria, having due regard for the benefits of diversity on the Board.

Audit Committee

The Board has established an audit committee (the "Audit Committee") with written terms of reference in accordance with the provisions set out in the CG Code, which are posted on the websites of the Stock Exchange and the Company. The principal duties of the Audit Committee are to review the Company's financial statement, accounts and interim results and to provide advice and comments thereon to the Board. The Audit Committee will also be responsible for reviewing and supervising the Group's financial reporting and internal control procedures.

During the Review Period and as at the date of this annual report, the Audit Committee comprised three independent non-executive Directors, namely Mr. Sung Hak Keung, Andy as the Chairman of the Audit Committee, Mr. Ho Hau Cheung, *BBS, MH* and Mr. Leung Chi Kin. The Audit Committee held two meetings during the Review Period to review the quarterly results and internal control system of the Group. One of the meetings were attended with the Company's external auditors so that the members of the Audit Committee could exchange their views and concerns on the financial reporting process of the Group with the auditors. All members of the Audit Committee attended the two meetings during the Review Period.

Corporate Governance Committee

The Board has established a corporate governance committee ("Corporate Governance Committee") with written terms of reference in accordance with the provisions set out in the CG Code and Corporate Governance Report as set out in the GEM Listing Rules, which are posted on the websites of the Company.

Its primary functions include: (i) to develop and review the 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 the 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 the Group; (v) to review the Company's compliance with the Code as set out in Appendix 15 to the GEM Listing Rules and disclosure in the Corporate Governance Report as required under Appendix 15 to the GEM Listing Rules; and (vi) to consider other matters, as authorised by the Board.

During the Review Period and as at the date of this annual report, the Corporate Governance Committee comprised four executive Directors, namely Mr. Lee Chik Yuet as the Chairman of the Corporate Governance Committee, Mr. Zhou Ling, Mr. Dai Haidong and Ms. Yang Fang. The Corporate Governance Committee held one meeting during the Review Period.

Corporate Governance Report

Corporate Governance Functions

The Board and the Corporate Governance Committee have reviewed the Company's policies and practices on corporate governance and compliance with the CG Code, reviewed and monitored the training and continuous professional development of Directors and senior management and reviewed and monitored the Company's policies and practices on compliance with legal and regulatory requirements during the Review Period.

Accountability and Audit

The Directors acknowledge their responsibility for preparing the financial statements of the Group which give a true and fair view of the state of affairs of the Group and of the profit and cash flows for the year ended 31 December 2013. The Directors have prepared the financial statements of the Group on a going concern basis, and have selected appropriate accounting policies and applied them consistently, with applicable disclosures required under the GEM Listing Rules and pursuant to the relevant statutory requirements.

The statement issued by the auditors of the Company, Deloitte Touche Tohmatsu, regarding their reporting responsibilities is set out in the section headed "Independent Auditor's Report" on page 34 and 35 of this annual report.

Internal Controls

The Board has the overall responsibility for the internal control of the Group, including risk management, and setting appropriate policies having regard to the objectives of the Group. The Board, through the Audit Committee, had conducted a review on the effectiveness of the Group's internal control system of financial and non-financial controls during the Review Period. The system of internal control is designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable but not absolute assurance against material misstatement or loss. Controls are monitored by management review.

Auditors' Remuneration

The auditors, Deloitte Touche Tohmatsu, provide both statutory audit and non-audit services to the Group. The Audit Committee is responsible for making recommendations to the Board on the appointment, re-appointment, removal and remuneration of the external auditor.

For the year ended 31 December 2013, fee paid/payable by the Group for statutory audit services provided to the Group amounted to approximately HK$898,000. Non-audit services include acting as the Company's reporting accountants in relation to the Company's initial public offering. Total fee paid by the Group for non-audit services during the year ended 31 December 2013 was approximately HK$3,452,000.

Constitutional Documents

During the Review Period, there is no significant change in the Company's constitutional documents.

Communication with Shareholders

The Company provides information in relation to the Group to the shareholders in a timely manner through a number of formal channels, including interim and annual reports, announcements and circulars. Such published documents together with the corporate information of the Group are also available on the Company's website (www.newraymedicine.com).

Communication with Shareholders *(Continued)*

Subject to applicable laws and regulations, including the GEM Listing Rules and the Company's Bye-law as amended from time to time, shareholders may convene a general meeting/put forward proposals in accordance with the following provisions:

1. One or more shareholders holding, at the date of deposit of the requisition, not less than one-tenth of the paid-up capital of the Company having the right of voting at general meetings can deposit a written request to convene a special general meeting ("SGM") at the principal place of business of the Company in Hong Kong (the "Hong Kong Office"), for the attention of the Board or the Company Secretary.

2. The written request must state the name of the shareholders concerned, their respective shareholdings, the objects of the meeting, including details of the business(es) and resolutions proposed to be considered and approved at the meeting, signed by the shareholders concerned.

3. The request will be verified with the Company's Branch Share Registrars and upon their confirmation that the request is proper and in order, the Company Secretary will ask the Board to convene a SGM by serving sufficient notice in accordance with the statutory requirements to all the shareholders. On the contrary, if the request has been verified as not in order, the shareholders concerned will be advised of this outcome and accordingly, a SGM will not be convened as requested.

4. If within 21 days of such deposit of the requisition, the Board fails to proceed to convene such meeting, the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

5. The notice period to be given to the shareholders in respect of the SGM varies according to the nature of the proposal. Notice of the SGM at which the passing of a special resolution is to be considered, notice of the SGM shall be arranged to be sent to the shareholders at least 21 clear days or 10 clear business days (whichever is longer) before such SGM.

Procedures for shareholders sending enquiries to the Board

1. ***Enquiries about shareholdings***

   Shareholders should direct their enquiries about their shareholdings to the Company's branch share registrar, Tricor Investor Services Limited, via its online holding enquiry service at www.tricoris.com, or send email to is-enquiries@hk.tricorglobal.com or go in person to its public counter at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong.

2. ***Enquiries about corporate governance or other matters to be put to the Board and the Company***

   The Company will not normally deal with verbal or anonymous enquiries. Shareholders may send written enquiries to the Company, for the attention of the Board or Company Secretary, by mail to Room 1001, 10th Floor, Sino Centre, Nos. 582-592 Nathan Road, Kowloon, Hong Kong. Shareholders may call the Company at (852) 2210 2120 for any assistance.

Independent Auditor's Report

Deloitte.
德勤

TO THE SHAREHOLDERS OF
NEW RAY MEDICINE INTERNATIONAL HOLDING LIMITED
(incorporated in Bermuda with limited liability)

We have audited the consolidated financial statements of New Ray Medicine International Holding Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 36 to 80, which comprise the consolidated statement of financial position as at 31 December 2013, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' Responsibility for the consolidated Financial Statements

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with Section 90 of the Bermuda Companies Act, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independent Auditor's Report

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 31 December 2013, and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
18 March 2014

Consolidated Statements of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2013

	NOTES	**2013 HK$'000**	2012 HK$'000
Revenue	7	**192,854**	175,042
Cost of sales		**(142,219)**	(136,049)
		50,635	38,993
Other income, gains and losses	8	**1,725**	1,544
Selling and distribution expenses		**(3,958)**	(3,112)
Administrative expenses		**(7,027)**	(6,635)
Listing and other expenses		**(10,212)**	(8,567)
Finance costs	9	**(2,439)**	(38)
Profit before tax		**28,724**	22,185
Income tax expense	10	**(11,321)**	(6,858)
Profit for the year	11	**17,403**	15,327
Other comprehensive income for the year			
Item that will not be reclassified to profit or loss:			
Exchange difference arising on translation of functional currency to presentation currency		**3,921**	1,143
Total comprehensive income for the year		**21,324**	16,470
Profit for the year attributable to owners of the Company		**17,403**	15,327
Total comprehensive income for the year attributable to owners of the Company		**21,324**	16,470
Earnings per share	14		
Basic (HK cents)		**2.77**	2.95

Consolidated Statements of Financial Position

At 31 December 2013

	NOTES	2013 HK$'000	2012 HK$'000
Non-current assets			
Property, plant and equipment	15	**7,051**	5,668
Prepaid lease payments	16	**8,540**	8,521
Club debenture	17	**637**	621
Interest in a joint venture	19	**–**	–
Amount due from a joint venture	19	**–**	–
		16,228	14,810
Current assets			
Inventories	20	**9,792**	16,151
Trade and other receivables	21	**114,262**	108,462
Bills receivables	21	**–**	292
Prepaid lease payments	16	**196**	191
Amounts due from related parties	22	**–**	80
Bank balances and cash	23	**93,409**	26,289
		217,659	151,465
Current liabilities			
Trade and other payables	24	**11,996**	14,929
Amounts due to a related party	22	**–**	554
Other borrowing – due within one year	25	**–**	12,000
Tax payable		**5,396**	1,868
		17,392	29,351
Net current assets		**200,267**	122,114
Total assets less current liabilities		**216,495**	136,924
Non-current liability			
Deferred tax liabilities	26	**3,297**	2,531
		213,198	134,393
Capital and reserves			
Share capital	27	**8,000**	164
Share premium and reserves		**205,198**	134,229
Equity attributable to owners of the Company		**213,198**	134,393

The consolidated financial statements on pages 36 to 80 were approved and authorised for issue by the Board of Directors on 18 March 2014 and are signed by:

Zhou Ling	Lee Chik Yuet
DIRECTOR	*DIRECTOR*

Consolidated Statements of Changes in Equity

For the year ended 31 December 2013

	Attributable to owners of the Company						
	Share capital HK$'000	Share premium HK$'000	Contributed surplus HK$'000	PRC statutory reserve HK$'000 (Note)	Translation reserve HK$'000	Retained profits HK$'000	Total HK$'000
At 1 January 2012	164	75,203	–	4,574	8,259	29,723	117,923
Exchange difference arising on translation of functional currency to presentation currency	–	–	–	–	1,143	–	1,143
Profit for the year	–	–	–	–	–	15,327	15,327
Total comprehensive income for the year	–	–	–	–	1,143	15,327	16,470
Release upon dissolution of Hangzhou Xin Hong Bio-medical Technology Co. Ltd. ("Hangzhou Xin Hong")	–	–	–	(983)	–	983	–
Transfer	–	–	–	3,191	–	(3,191)	–
At 31 December 2012	164	75,203	–	6,782	9,402	42,842	134,393
Exchange difference arising on translation of functional currency to presentation currency	**–**	**–**	**–**	**–**	**3,921**	**–**	**3,921**
Profit for the year	**–**	**–**	**–**	**–**	**–**	**17,403**	**17,403**
Total comprehensive income for the year	**–**	**–**	**–**	**–**	**3,921**	**17,403**	**21,324**
Capitalisation issue (Note 27d)	**5,200**	**(5,200)**	**–**	**–**	**–**	**–**	**–**
Effect of share swap pursuant to the Group Reorganisation (Note 27c)	**(164)**	**(70,003)**	**70,167**	**–**	**–**	**–**	**–**
Issue of shares upon the placing (Note 27e)	**2,800**	**67,200**	**–**	**–**	**–**	**–**	**70,000**
Transaction costs attributable to issue of shares	**–**	**(12,519)**	**–**	**–**	**–**	**–**	**(12,519)**
Transfer	**–**	**–**	**–**	**3,537**	**–**	**(3,537)**	**–**
At 31 December 2013	**8,000**	**54,681**	**70,167**	**10,319**	**13,323**	**56,708**	**213,198**

Note: For the Company's subsidiaries, Hangzhou Xin Hong, Zhejiang Xin Rui Pharmaceutical Co. Ltd. ("Zhejiang Xin Rui Pharmaceutical") and Zhejiang Hong Rui Trading Co. Ltd. ("Hong Rui Trading"), as stipulated by the relevant laws and regulations in the People's Republic of China (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 (Hangzhou) Bio-medical Technology Co. Ltd. ("Hong Rui Bio-medical", the Company's subsidiary), as it is a wholly foreign owned enterprise, appropriation to statutory surplus reserve fund is based on the management's discretion.

Consolidated Statements of Cash Flows

For the year ended 31 December 2013

	2013 HK$'000	2012 HK$'000
OPERATING ACTIVITIES		
Profit before tax	**28,724**	22,185
Adjustments for:		
Interest income	**(1,218)**	(1,378)
Interest expenses	**2,439**	38
Depreciation of property, plant and equipment	**1,217**	1,430
Release of prepaid lease payment	**193**	190
Write-down of inventories	**–**	9
(Gain) loss on disposal of property, plant and equipment	**(430)**	16
Operating cash flows before movements in working capital	**30,925**	22,490
Decrease (increase) in inventories	**6,679**	(1,141)
Increase in trade and other receivables	**(5,470)**	(14,573)
Decrease (increase) in bills receivables	**292**	(292)
Decrease in trade and other payables	**(2,933)**	(2,847)
Decrease in bills payables	**–**	(3,723)
Cash from (used in) operations	**29,493**	(86)
Income tax paid	**(7,194)**	(6,886)
NET CASH FROM (USED IN) OPERATING ACTIVITIES	**22,299**	(6,972)
INVESTING ACTIVITIES		
Purchase of property, plant and equipment	**(2,536)**	(174)
Withdrawal of pledged bank deposit	**–**	1,849
Proceeds from disposal of property, plant and equipment	**525**	–
Interest received	**305**	135
NET CASH (USED IN) FROM INVESTING ACTIVITIES	**(1,706)**	1,810
FINANCING ACTIVITIES		
Proceeds from issue of new shares by way of placing of shares	**70,000**	–
New borrowing raised	**16,697**	12,000
Advance from related parties	**420**	3,872
Repayment to related parties	**(894)**	(4,876)
Interest paid	**(1,526)**	(38)
Payment of transaction cost attributable to issue of new shares	**(10,136)**	(2,383)
Repayments of borrowings	**(28,697)**	–
NET CASH FROM FINANCING ACTIVITIES	**45,864**	8,575
NET INCREASE IN CASH AND CASH EQUIVALENTS	**66,457**	3,413
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	**26,289**	22,686
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	**663**	190
CASH AND CASH EQUIVALENTS AT END OF THE YEAR, represented by bank balances and cash	**93,409**	26,289

Notes to the Consolidated Financial Statements

For the year ended 31 December 2013

1. General and Basis of Preparation

The Company was incorporated on 9 August 2012 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, HM11, 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.

For the purpose of listing of the Company's shares on the Growth Enterprise Market (the "GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the entities in the Group underwent a group reorganization on 26 September 2013 (the "Group Reorganisation") which involves interspersing the Company between Max Goodrich International Limited ("Max Goodrich") and its shareholders (the "Max Goodrich Shareholders"). Details of the Group Reorganization are set out in the paragraph headed "Corporate reorganisation" in Appendix V to the prospectus dated 18 October 2013 issued by the Company (the "Prospectus").

The Group resulting from the above mentioned Group Reorganisation is regarded as a continuing entity and the consolidated financial statements of the Group have been prepared as if the Company had been the holding company of Max Goodrich and its subsidiaries from the beginning of the year ended 31 December 2012. Accordingly, the consolidated statements of profit or loss and other comprehensive income and consolidated statements of cash flows for the years ended 31 December 2013 and 2012 include the results and cash flows of the companies now comprising the Group have been prepared, as if the current group structure upon the completion of the Group Reorganisation had been in existence throughout the years 2013 and 2012, or since their respective dates of incorporation where this is a shorter period. The consolidated statements of financial position of the Group as at 31 December 2013 and 31 December 2012 have been prepared to present the assets and liabilities of the companies now comprising the Group as if the current group structure had been in existence at those dates.

The shares of the Company have been listed on the GEM of the Stock Exchange with effect from 25 October 2013.

The Company's functional currency is Renminbi ("RMB"). However, the consolidation financial statements are presented in Hong Kong dollars ("HK$") for the convenience of shareholders as it is listed in Hong Kong.

2. Application of New and Revised Hong Kong Financial Reporting Standards ("HKFRSs")

The HKICPA issued a number of amended and revised standards and interpretations ("amended and revised HKFRSs") which are effective for the Group's accounting periods beginning on 1 January 2013. For the purpose of preparing and presenting the consolidated financial statements for each of the two years ended 31 December 2013, the Group has adopted all these amended and revised HKFRSs consistently throughout each of the two years ended 31 December 2013.

New and revised HKFRSs issued but not yet effective

The Group has not early applied the following new and revised HKFRSs that have been issued but are not yet effective:

Amendments to HKFRSs	Annual Improvements to HKFRSs 2010 – 2012 Cycle[4]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2011 – 2013 Cycle[2]
HKFRS 9	Financial Instruments[3]
HKFRS 14	Regulatory Deferral Accounts[5]
Amendments to HKFRS 9 and HKFRS 7	Mandatory Effective Date of HKFRS 9 and Transition Disclosures[3]
Amendments to HKFRS 10, HKFRS 12 and HKAS 27	Investment Entities[1]
Amendments to HKAS 19	Defined Benefit Plans: Employee Contributions[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 July 2014.
3 Available for application – the mandatory effective date will be determined when the outstanding phases of HKFRS 9 are finalised.
4 Effective for annual periods beginning on or after 1 July 2014, with limited exceptions.
5 Effective for first annual HKFRS financial statements beginning on or after 1 January 2016.

2. Application of New and Revised Hong Kong Financial Reporting Standards ("HKFRSs") *(Continued)*

HKFRS 9 Financial Instruments

HKFRS 9 issued in 2009 introduces new requirements for the classification and measurement of financial assets. HKFRS 9 was subsequently amended in 2010 to include the requirements for the classification and measurement of financial liabilities and for derecognition, and further amended in 2013 to include the new requirements for hedge accounting.

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.

The new general hedge accounting requirements retain the three types of hedge accounting. However, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been overhauled and replaced with the principle of an 'economic relationship'. Retrospective assessment of hedge effectiveness is also no longer required. Enhanced disclosure requirements about an entity's risk management activities have also been introduced.

The directors anticipate that based on the Group's consolidated financial statements as at 31 December 2013, the adoption of HKFRS 9 in the future will not affect the classification and measurement of the Group's consolidated financial statements.

2. Application of New and Revised Hong Kong Financial Reporting Standards ("HKFRSs") *(Continued)*

Amendments to HKAS 36 *Recoverable Amount Disclosures for Non-Financial Assets*

The amendments to HKAS 36 remove the requirement to disclose the recoverable amount of a cash generating unit (CGU) to which goodwill or other intangible assets with indefinite useful lives had been allocated when there has been no impairment or reversal of impairment of the related CGU. Furthermore, the amendments introduce additional disclosure requirements regarding the fair value hierarchy, key assumptions and valuation techniques used when the recoverable amount of an asset or CGU was determined based on its fair value less costs of disposal.

The directors of the Company do not anticipate that the application of these amendments to HKAS 36 will have a significant impact on the Group's consolidated financial statements.

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 consolidated financial statements of the Group.

3. Significant Accounting Policies

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the GEM of the Stock Exchange and by the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared on the historical cost basis at the end of each reporting period, as explained in accounting policies set out below.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of HKFRS 2, leasing transactions that are within the scope of HKAS 17, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in HKAS 2 or value in use in HKAS 36.

3. Significant Accounting Policies *(Continued)*

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

The principal accounting policies are set out below.

Basis of consolidation

The consolidated financial statements incorporate the financial information of the Company and entities controlled by the Company and its subsidiaries. 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 Group 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 Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Group gains control until the date when the Group 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 subsidiaries is attributed to the owners of the Company and to the non-controlling interests.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their 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.

3. Significant Accounting Policies *(Continued)*

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 consolidated financial statements using the equity method of accounting. Under the equity method, an investment in a joint venture is initially recognised in the consolidated 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 in a joint venture 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 in the period in which the investment is acquired.

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 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 consolidated financial statements only to the extent of interests in the joint venture that are not related to the Group.

3. Significant Accounting Policies *(Continued)*

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold 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 consolidated statement 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.

3. Significant Accounting Policies *(Continued)*

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 consolidated 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 consolidated financial statements, 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.

3. Significant Accounting Policies *(Continued)*

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 consolidated statement 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 consolidated financial statements 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.

3. Significant Accounting Policies *(Continued)*

Taxation *(Continued)*

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-generating 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.

3. Significant Accounting Policies *(Continued)*

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 consolidated financial statements 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 suppliers, trade and other receivables, bills receivables, amounts due from related parties 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.

3. Significant Accounting Policies *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Impairment of financial assets *(Continued)*

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.

3. Significant Accounting Policies *(Continued)*

Financial instruments *(Continued)*

Financial liabilities and equity instruments *(Continued)*

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, amounts due to related parties and other borrowing) 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.

4. Key Sources of Estimation Uncertainty

In the application of the Group's accounting policies, which are described in note 3, 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.

4. Key Sources of Estimation Uncertainty *(Continued)*

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 and other receivables and allowance for doubtful debts in the year in which such estimate has changed. As at 31 December 2013, the carrying amount of trade receivables is HK$64,099,000 (2012: HK$41,409,000).

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 2013, the carrying amount of inventories is HK$9,792,000 (2012: HK$16,151,000) (net of allowance of Nil (2012: HK$32,000)).

5. 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 from prior year.

The capital structure of the Group consists of debt, which includes the other borrowing disclosed in note 25, 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.

6. Financial Instruments

6a. Categories of financial instruments

	2013 **HK$'000**	2012 HK$'000
Financial assets		
Loans and receivables (including cash and cash equivalents)	**178,407**	103,848
Financial liabilities		
Amortised cost	**(2,492)**	(20,887)

6. Financial Instruments *(Continued)*

6b. 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, bank balances and cash, trade and other payables, bills payables, amounts due to related parties and other borrowing. 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 bank balances and other borrowing which expose the Group to foreign currency risk. The carrying amount of the Group's foreign currency denominated monetary assets and monetary liability at the end of reporting period.

	Liabilities		**Assets**	
	31.12.2013	31.12.2012	**31.12.2013**	31.12.2012
	HK$'000	HK$'000	**HK$'000**	HK$'000
HK$	**–**	12,000	**37,150**	1,200

Sensitivity analysis

The Group is mainly exposed to HK$. The following table details the Group's sensitivity to a 3% (2012: 3%) increase and decrease in the functional currency of each group entity against the above foreign currency. 3% (2012: 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% (2012: 3%) against the functional currency of the respective group entity. For a 3% (2012: 3%) weakening of the above foreign currencies against the functional currency of the respective group entity, there would be an equal and opposite impact on the profit and the balance below would be opposite.

	2013	2012
	HK$'000	HK$'000
Profit after tax	**836**	(243)

6. Financial Instruments *(Continued)*

6b. Financial risk management objectives and policies *(Continued)*

Market risk *(Continued)*

(ii) Interest risk

The Group is exposed to fair value interest rate risk in relation to other borrowings 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

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 consolidated statement of financial position.

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% (2012: 92%) of balances are placed with two (2012: two) banks of which one is located in the PRC and one is located in Hong Kong as at 31 December 2013.

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 56% (2012: 71%) of its trade and other receivables were due from four (2012: five) customers in aggregate as at 31 December 2013. These four (2012: five) customers are distributors which engaged in trading and wholesaling of drugs in Zhejiang and Shanghai, as at 31 December 2013. In addition, the Group also has concentration of credit risks on its deposits paid to suppliers as 79% (2012: 80%) of its deposits paid to suppliers were paid to three (2012: three) suppliers in aggregate as at 31 December 2013. 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.

6. Financial Instruments *(Continued)*

6b. Financial risk management objectives and policies *(Continued)*

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 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 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 2013
	%	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
At 31 December 2013						
Trade and other payables	**–**	**199**	**–**	**2,293**	**2,492**	**2,492**

	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
Other borrowing	6.0	61	116	12,505	12,682	12,000
		7,829	116	13,624	21,569	20,887

6. Financial Instruments *(Continued)*

6c. 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 consolidated financial statements approximate their fair values.

7. 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 3.

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.

7. Revenue and Segment Information *(Continued)*

Year ended 31 December 2013

	Injection drugs HK$'000	Tablet drugs HK$'000	Capsule drugs HK$'000	Others HK$'000	Total HK$'000
REVENUE					
External sales and segment revenue	**168,697**	**11,377**	**11,071**	**1,709**	**192,854**
RESULT					
Segment profit	**41,392**	**2,247**	**6,426**	**570**	**50,635**
Other income, gains and losses					**1,725**
Selling and distribution expenses					**(3,958)**
Administrative expenses					**(7,027)**
Listing and other expenses					**(10,212)**
Finance costs					**(2,439)**
Profit before tax					**28,724**

Year ended 31 December 2012

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

7. Revenue and Segment Information *(Continued)*

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

Geographical information

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

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

Other segment information

	Injection drugs HK$'000	Tablet drugs HK$'000	Capsule drugs HK$'000	Others HK$'000	Total HK$'000
Amount included in the measure of segment profit					
Year ended 31 December 2012					
Write-down of inventories	9	–	–	–	9

Revenue from major product and services

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 contributing over 10% of the total revenue of the Group are as follows:

	2013 HK$'000	2012 HK$'000
Customer A[1]	**52,579**	40,289
Customer B[1]	**21,026**	19,001
Customer C[1]	**28,107**	37,478

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

8. Other Income, Gains and Losses

	2013 HK$'000	2012 HK$'000
Bank interest income	**305**	135
Sundry income	**77**	166
Imputed interest on deposits paid to suppliers (Note 18)	**913**	1,243
Gain on disposal of property, plant and equipment	**430**	–
	1,725	1,544

9. Finance Costs

	2013 HK$'000	2012 HK$'000
Interest on borrowing wholly repayable within five years:		
Other borrowings wholly repayable within one year	**1,526**	38
Imputed interest adjustment on deposits paid to suppliers upon initial recognition (Note 18)	**3,014**	–
Reversal of imputed interest recognised (Note 18)	**(2,101)**	–
	2,439	38

10. Income Tax Expense

	2013 HK$'000	2012 HK$'000
Current tax:		
PRC Enterprise Income Tax ("EIT")	**10,285**	7,632
Deferred tax (Note 26)	**1,036**	(774)
	11,321	6,858

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 consolidated financial statements as the Group had no assessable profits in Hong Kong.

10. Income Tax Expense *(Continued)*

The tax charge for the year can be reconciled to the profit per the consolidated statement of profit or loss and other comprehensive income as follows:

	2013 HK$'000	2012 HK$'000
Profit before tax	**28,724**	22,185
Tax at the domestic income tax rate of 25%	**7,181**	5,546
Tax effect of income not taxable for tax purpose	**(72)**	(311)
Tax effect of expense not deductible for tax purpose	**3,072**	2,296
Tax effect of tax losses not recognised	**104**	101
Deferred tax (reversal of deferred tax) on undistributed earnings of PRC subsidiaries	**1,036**	(774)
Tax charge for the year	**11,321**	6,858

Details of deferred taxation are set out in note 26.

11. Profit for the Year

	2013 HK$'000	2012 HK$'000
Profit for the year has been arrived at after charging (crediting):		
Directors' emoluments	**964**	729
Other staff costs	**3,330**	2,639
Contributions to retirement benefits scheme, excluding directors	**344**	398
Total staff costs	**4,638**	3,766
Depreciation of property, plant and equipment	**1,217**	1,430
Amortisation of prepaid lease payment	**193**	190
Minimum lease payment under operating leases in respect of rented premises	**1,203**	1,031
Auditor's remuneration	**929**	143
(Gain) loss on disposal of property, plant and equipment	**(430)**	16
Cost of inventories recognised as an expense	**142,219**	136,049
Write-down of inventories (included in cost of sales)	**–**	9
Bank interest income	**(305)**	(135)

12. Directors', Chief Executive's and Employees' Emoluments

(a) The emoluments paid or payable to each of the seven Directors and the Chief Executive Officer were as follows:

	Year ended 31 December 2013							
	Zhou Ling ("Mr. Zhou") HK$'000	Dai Haidong ("Mr. Dai") HK$'000	Yang Fang ("Ms. Yang") HK$'000	Lee Chik Yuet ("Mr. Lee") HK$'000	Ho Hau Cheung *BBS, MH* HK$'000 (Note a)	Leung Chi Kin HK$'000 (Note b)	Sung Hak Keung, Andy HK$'000 (Note c)	Total HK$'000
Fees	-	-	-	20	12	12	12	56
Other emoluments:								
Salaries and other benefits	344	272	201	-	-	-	-	817
Contributions to retirement benefits scheme	34	31	26	-	-	-	-	91
Total emoluments	378	303	227	20	12	12	12	964

	Year ended 31 December 2012				
	Mr. Zhou HK$'000	Mr. Dai HK$'000	Ms. Yang HK$'000	Mr. Lee HK$'000	Total HK$'000
Fees	–	–	–	–	–
Other emoluments:					
Salaries and other benefits	277	202	162	–	641
Contributions to retirement benefits scheme	32	30	26	–	88
Total emoluments	309	232	188	–	729

Notes:

(a) Ho Hau Cheung, Bronze Bauhinia Star ("BBS"), Medal of Honour ("MH") was appointed as an independent non-executive director on 26 September 2013.

(b) Leung Chi Kin was appointed as an independent non-executive director on 26 September 2013.

(c) Sung Hak Keung, Andy was appointed as an independent non-executive director on 26 September 2013.

Mr. Zhou is also the Chairman and Mr. Dai is the Chief Executive Officer of the Company respectively and their emoluments disclosed above include those for services rendered by them in such roles.

For both 2013 and 2012, no emoluments were paid by the Group to any of the directors as an inducement to join or upon joining the Group or as compensation for loss of office. No directors waived any emoluments for both 2013 and 2012.

12. Directors', Chief Executive's and Employees' Emoluments *(Continued)*

(b) Employees' emoluments

Of the five individuals with the highest emoluments in the Group, three (2012: three) were directors and the Chief Executive Officer of the Company whose emoluments are included in the disclosures above. The emoluments of the remaining two (2012: two) individuals were as follows:

	2013 **HK$'000**	2012 HK$'000
Salaries and other allowances	**702**	390
Retirement benefit scheme contributions	**33**	28
	735	418

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

13. Dividends

Subsequent to the end of the reporting period, a final dividend in respect of the year ended 31 December 2013 of HK2.5 cents per share has been proposed by the directors and is subject to approval by the shareholders in the forthcoming general meeting.

For the year ended 31 December 2012, no dividend has been paid or declared by the Company since its incorporation. No dividend was distributed to the then shareholders of Max Goodrich during the year ended 31 December 2012 and prior to the Group Reorganisation.

14. Earnings Per Share

The calculation of the basic and diluted earnings per share attributable to the owners of the Company is based on the following data:

	2013	2012
	HK$'000	HK$'000
Earnings		
Profit for the year attributable to owners of the Company for the purposes of basic and diluted earnings per share	**17,403**	15,327

	Number of ordinary share	
	2013	2012
		(restated)
Number of shares		
Weighted average number of ordinary shares for the purposes of basic and diluted earnings per share	**628,406,307**	520,000,000

For the years ended 31 December 2013 and 2012, the weighted average number of ordinary shares for the purpose of basic earnings per share has been taken into account the share issued pursuant to the Group Reorganisation as more fully disclosed in note 1 and the capitalisation issue of 519,979,000 ordinary shares of HK$0.01 each of the Company at par value on 3 October 2013 as stated in note 27 as if it had been effective on 1 January 2012.

No diluted earnings per share were presented as there were no potential dilutive shares during both years.

15. 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
COST					
At 1 January 2012	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**	**–**	**2,504**	**2,536**
Disposals	**–**	**–**	**–**	**(1,899)**	**(1,899)**
Exchange realignment	**107**	**27**	**12**	**139**	**285**
At 31 December 2013	**4,342**	**1,115**	**476**	**5,948**	**11,881**
ACCUMULATED DEPRECIATION					
At 1 January 2012	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 year	**110**	**135**	**11**	**961**	**1,217**
Disposals	**–**	**–**	**–**	**(1,804)**	**(1,804)**
Exchange realignment	**8**	**17**	**10**	**91**	**126**
At 31 December 2013	**368**	**749**	**428**	**3,285**	**4,830**
CARRYING VALUES					
At 31 December 2013	**3,974**	**366**	**48**	**2,663**	**7,051**
At 31 December 2012	3,985	459	57	1,167	5,668

15. Property, Plant and Equipment *(Continued)*

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$12,710,000 (2012: HK$12,697,000) as at 31 December 2013 to secure general banking facilities granted to the Group.

16. Prepaid Lease Payments

	2013 HK$'000	2012 HK$'000
Analysed for reporting purpose as:		
Current asset	**196**	191
Non-current asset	**8,540**	8,521
	8,736	8,712
The Group's prepaid lease payments comprise:		
Leasehold land outside Hong Kong:		
Medium-term lease	**8,736**	8,712

17. Club Debenture

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.

18. Deposits Paid To Suppliers

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. The deposit will be collected from suppliers at the end of the distribution agreement. Except for purchase agreements with several major suppliers detailed below, the deposits payments are expected to be collected or 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.

18. Deposits Paid To Suppliers *(Continued)*

The management has performed detail assessment on these contracts and no impairment losses nor provision were considered necessary for both years.

On 1 January 2013, certain suppliers contracts were renewed, in which the amount of RMB15,000,000 (equivalent to HK$18,645,000) represented the renewal of other suppliers contracts for the deposits paid as securities for acquiring the distribution rights of specific products in the next 3 years, and the deposits would be fully refundable upon its expiry date and not be realised within twelve months from the end of the reporting period. The carrying amounts of these deposits paid are determined based on the present value of future cash flows discounted using an effective interest rate of 6% per annum, and the relevant imputed interest recognised in profit or loss was HK$3,014,000 upon its initial recognition.

On 3 July 2013, the Group further signed certain deposits refund arrangements with these suppliers, pursuant to which, the Group issued a corporate guarantee to these suppliers and the amounts of deposits paid to the these suppliers were refunded to the Group after the Group listed on the Stock Exchange. Accordingly, the relevant imputed interest recognised for the period from the date of refund of the deposits paid to the expiry date of the contracts was reversed.

	2013	2012
	HK$'000	HK$'000
At 1 January	**35,778**	14,573
Deposits paid	**14,095**	22,167
Deposits refunded	**(29,680)**	(2,426)
Imputed interest adjustment upon initial recognition	**(3,014)**	–
Imputed interest for the year	**913**	1,243
Reversal of imputed interest recognised	**2,101**	–
Exchange realignment	**706**	221
At 31 December	**20,899**	35,778
Classified as:		
Current asset (included in trade and other receivables)	**20,899**	35,778
Non-current asset	**–**	–
	20,899	35,778

19. Interest in a Joint Venture/Amount Due from a Joint Venture

	2013 **HK$'000**	2012 HK$'000
Cost of unlisted investment in a joint venture	**604**	604
Share of post-acquisition loss	**(604)**	(604)
	–	–
Amount due from a joint venture (Note)	**616**	616
Less: Impairment	**(600)**	(600)
Less: Share of post-acquisition loss that is in excess of the cost of the investment	**(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 decisions about the relevant activities require unanimous consent of the Group and the other joint venture partner. The Group also has rights to the net assets of Haikou Xin Lang. 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 2012 and 2013 are as follows:

Name	**Place of incorporation/ operation**	**Proportion of nominal value of issued capital/registered capital held by the Group**		**Principal activity**
		2013	2012	
Haikou Xin Lang	PRC	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.

19. Interest in a Joint Venture/Amount Due from a Joint Venture *(Continued)*

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 consolidated financial statements.

	2013 HK$'000	2012 HK$'000
Current assets	**1,280**	1,246
Non-current assets	**–**	–
Current liabilities	**(1,293)**	(1,256)
Non-current liabilities	**–**	–

	2013 HK$'000	2012 HK$'000
Revenue	**–**	–
Loss for the year	**(3)**	(4)
Other comprehensive income	**–**	–
Total comprehensive expenses for the year	**(3)**	(4)
Dividends received from the joint venture during the year	**–**	–

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

	2013 HK$'000	2012 HK$'000
Net liabilities of the joint venture	**(13)**	(10)
Proportion of the Group's ownership interest in the joint venture	**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.

20. Inventories

	2013 HK$'000	2012 HK$'000
Finished goods	**9,792**	16,151

21. Trade, Bills and Other Receivables

	2013 HK$'000	2012 HK$'000
Trade receivables	**64,099**	41,409
Bills receivables	**–**	292
Other prepayments	**1,976**	426
Deferred listing expenses	**–**	2,383
Prepayments to suppliers	**27,021**	28,206
Deposits paid to suppliers (Note 18)	**20,899**	35,778
Others	**267**	260
Total trade, bills and other receivables	**114,262**	108,754

The Group allows an average credit period ranging from 30 to 90 days to its trade customers. 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.

	2013 HK$'000	2012 HK$'000
Trade and bills receivables:		
0 – 30 days	**30,601**	20,790
31 – 60 days	**29,187**	19,642
61 – 90 days	**3,210**	396
91 – 180 days	**1,101**	873
	64,099	41,701

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.

21. Trade, Bills and Other Receivables *(Continued)*

Included in the Group's trade receivable balance are debtors with aggregate carrying amount of approximately HK$1,101,000 (2012: HK$873,000) which are past due as at 31 December 2013. The Group has not provided for impairment loss because management is of the opinion the 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 2013 is 100 days (2012: 103 days).

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

	2013 **HK$'000**	2012 HK$'000
91 – 180 days	**1,101**	873

Prepayments and deposits paid to suppliers represent the prepayments and deposits paid for purchase of pharmaceutical products. The Group is required to make prepayments and trade deposits to certain suppliers to secure regular supply of products. The amount of prepayment to suppliers varies with the terms of supplier contracts entered with different suppliers, which is determined based on the amount of goods purchased from the suppliers. The prepayment is made upon placement of order for the purchase of goods, recorded under "trade, bills and other receivables" and set off against the trade payable upon the delivery of goods to the Group. The amounts of trade deposits required vary on case by case basis. The deposits paid will be refunded upon expiry of contracts.

22. Amounts Due from (to) Related Parties/a Related Party

			Maximum amount outstanding during the year	
	2013 **HK$'000**	2012 HK$'000	**2013** **HK$'000**	2012 HK$'000
Amounts due from related parties				
Mr. Zhou (Note a)	**–**	33	**–**	33
Mr. Dai (Note a)	**–**	24	**–**	24
Ms. Yang (Note a)	**–**	23	**–**	23
	–	80	**–**	80
Amounts due to a related party				
Yang Qi (Note b)	**–**	(554)		

Notes:

(a) The amounts are unsecured, non-interest bearing and repayable on demand. The amounts were fully settled during the year before the Company is listed on the Stock Exchange.

(b) 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. The amount was fully settled during the year before the Company is listed on the Stock Exchange.

23. Bank Balances and Cash

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 2.86% (2012: 0.01% to 1.35%) per annum, for the year ended 31 December 2013.

The Group's bank balances and cash that are denominated in currencies other than the functional currencies of the relevant group entities are set out below:

	2013 **HK$'000**	2012 HK$'000
HK$	**37,150**	1,200

24. Trade and Other Payables

	2013 **HK$'000**	2012 HK$'000
Trade payable	**2,301**	7,214
Deposits received	**191**	1,119
Receipt in advance	**253**	1,003
VAT payables	**7,493**	3,773
Other tax payables	**379**	345
Accruals	**1,379**	1,475
	11,996	14,929

The following is an aged analysis of trade payables present based on invoice date at the end of the reporting periods:

	2013 **HK$'000**	2012 HK$'000
0 – 30 days	**2,102**	1,807
31 – 60 days	**–**	4,195
61 – 90 days	**–**	1,212
Over 90 days	**199**	–
	2,301	7,214

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 18 and 21.

25. Other Borrowing

	2013 HK$'000	2012 HK$'000
Unsecured other loan	–	12,000

The other borrowing is repayable as follows:

	2013 HK$'000	2012 HK$'000
Within one year	–	12,000

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

26. Deferred Tax Liabilities

The deferred tax liabilities recognised by the Group and movements thereon during the reporting periods are as follows:

	Withholding tax on undistributed earnings of the PRC subsidiaries HK$'000
At 1 January 2012	3,297
Charge to profit or loss	955
Reversal of withholding tax previously provided (Note)	(1,729)
Exchange realignment	8
At 31 December 2012	2,531
Charge to profit or loss	**1,036**
Earnings distributed	**(347)**
Exchange realignment	**77**
At 31 December 2013	**3,297**

Note: Under the EIT Law of PRC, a 10% withholding tax is imposed on dividends declared to foreign investors in respect of profits earned by PRC subsidiaries from 1 January 2008 onwards.

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$2,853,000 (2012: HK$2,435,000) as at 31 December 2013, 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 as at 31 December 2013 are losses of HK$2,032,000, HK$403,000 and HK$418,000 that will expire in 2016, 2017 and 2018 respectively. Included in unrecognised tax losses as at 31 December 2012 are losses of HK$2,032,000 and HK$403,000 that will expire in 2016 and 2017.

27. Share Capital

The share capital of the Group as at 1 January 2012 and 31 December 2012 represented the share capital of Max Goodrich since the Group Reorganisation was yet to be completed until 26 September 2013.

The movements of share capital of the Company are as follows:

	Number of shares	Amount HK$'000
Ordinary shares of HK$0.01 each		
Authorised:		
On 9 August 2012 (date of incorporation) (Note a)	10,000,000	100
At 31 December 2012	10,000,000	100
Increased pursuant to the Group Reorganisation (Note b)	990,000,000	9,900
At 31 December 2013	1,000,000,000	10,000
Issued and fully paid:		
On 9 August 2012 (date of incorporation) (Note a)	–	–
At 31 December 2012	–	–
Issue of shares on 23 August 2013 (Note a)	1	–
Issue of shares upon the share swap on 26 September 2013 (Note c)	20,999	210
Issue of shares by capitalisation of share premium (Note d)	519,979,000	5,199,790
Issue of shares upon the placing (Note e)	280,000,000	2,800,000
At 31 December 2013	800,000,000	8,000,000

Notes:

(a) The Company was incorporated in Bermuda on 9 August 2012 under the laws of Bermuda as an 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, 1 Share was issued and allotted to Town Health Pharmaceutical Limited ("Town Health Pharmaceutical") at nil consideration.

(b) On 26 September 2013, the authorised share capital of the Company was increased from HK$100,000 to HK$10,000,000 by the creation of an additional 990,000,000 Shares.

(c) On 26 September 2013, the 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 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 the Company.

27. Share Capital *(Continued)*

Notes: *(Continued)*

(d) On 3 October 2013, the Company capitalised the amount of HK$5,199,790 standing to the credit of the share premium account of the Company to pay up in full at par 519,979,000 ordinary shares of HK$0.01 each, in proportion to the holders of shares whose names appear on the register of members of the Company.

(e) On 25 October 2013, the Company issued 280,000,000 shares of HK$0.01 each at HK$0.25 per share by way of placing. On the same date, the Company's shares were listed on the GEM of the Stock Exchange.

All ordinary shares issued during the year rank pari passu with the then existing ordinary shares in all respects.

28. Information About the Statement of Financial Position of the Company

Information about the statement of financial position of the Company at the end of the reporting periods are as follows:

	Note	**2013 HK$'000**	2012 HK$'000
Total assets			
Investments in subsidiaries		**75,367**	–
Other receivables		**256**	2,383
Amount due from a subsidiary		**1,900**	–
Bank balances and cash		**37,150**	–
		114,673	2,383
Total liabilities			
Other payables		**964**	1,113
Amount due to a subsidiary		**–**	9,837
		964	10,950
Net assets (liabilities)		**113,709**	(8,567)
Capital and reserves			
Share capital (Note 27)		**8,000**	–
Reserves	(a)	**105,709**	(8,567)
Equity attributable to owners of the Company		**113,709**	(8,567)

28. Information About the Statement of Financial Position of the Company

(Continued)

Note:

(a) Reserves

	Share premium HK$'000	Contributed surplus HK$'000	Retained profits HK$'000	Total HK$'000
At 9 August 2012 (date of incorporation)	–	–	–	–
Loss and total comprehensive expense for the period	–	–	(8,567)	(8,567)
At 31 December 2012	–	–	(8,567)	(8,567)
Loss for the year	–	–	(10,572)	(10,572)
Total comprehensive expense for the year	**–**	**–**	**(10,572)**	**(10,572)**
Issue of shares upon the placing	**67,200**	**–**	**–**	**67,200**
Effect of share swap pursuant to the Group Reorganisation	**–**	**70,167**	**–**	**70,167**
Transaction costs attributable to issue of shares	**(12,519)**	**–**	**–**	**(12,519)**
At 31 December 2013	**54,681**	**70,167**	**(19,139)**	**105,709**

29. Share Option Scheme

Pursuant to the resolution passed at a special general meeting held on 26 September 2013 ("Adoption Date"), the Company adopted a share option scheme (the "Scheme"). The Company operates the Scheme for the purpose to provide the Company with a flexible means of giving incentive to, rewarding, remunerating, compensating and/or providing benefits to the eligible participants and for such other purposes as the board of director may approve from time to time. The eligible participants of the Scheme include the Company's or its subsidiaries' executive directors, non-executive directors and employees, and any business consultants, agents, financial or legal advisers and any other persons who the board of director consider, at its sole discretion, will contribute or have contributed to the Group.

The grant of share options should be accepted within the period from the date on which an offer of the grant of an option is made to a participant to such date as the board of director may determine, at a consideration of HK$1, being payable by the grantee upon the acceptance of grant. The options may be exercised at any time within the period commencing from the date of grant of the options and expiring on the date determined by the directors, but in any event such exercise period shall not exceed a period of ten years commencing on the date the relevant option is deemed to be granted.

29. Share Option Scheme *(Continued)*

The exercise price of the share options was determinable by the directors, but was not able to be less than the higher of (i) the closing price of the shares as stated in the Stock Exchange's daily quotations sheet on the date of grant, which must be a business day; (ii) the average closing price of the shares as stated in the Stock Exchange's daily quotation sheet for the five business days immediately preceding the date of grant; and (iii) the nominal value of the Company's share.

Pursuant to the Scheme, the maximum number of shares in the Company in respect of which options may be granted when aggregated with any other share option scheme of the Company is not permitted to exceed 10% of the total number of shares in issue as at the date of adoption of the Scheme i.e, 80,000,000 shares, which is represented 10% of the issued share as at 31 December 2013 and the date of the annual report. Subject to the issue of a circular and the approval of the shareholders of the Company in general meeting and/or such other requirements prescribed under the GEM Listing Rules from time to time, the board may refresh the limit at any time to 10% of the total number of shares in issue as at the date of approval by the shareholders of the Company in general meeting. Notwithstanding the foregoing, the shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Scheme and any other share option schemes of the Company at any time shall not exceed 30% of the shares in issue from time to time.

No option may be granted to any person if the total number of shares of the Company already issued and issuable to him under all the options granted to him in any 12 month period up to and including the date of grant exceeding 1% of total number of shares in issue as at the date of grant. Any further grant of options in excess of this 1% limit shall be subject to the issue of a circular by the Company and the approval of the shareholders in general meeting. Such participant and his associates (as defined in the GEM Listing Rules) abstaining from voting and/or other requirements prescribed under the GEM Listing Rules from time to time. Options granted to substantial shareholders or independent non-executive directors in excess of 0.1% of the Company's share capital or with a value in excess of HK$5,000,000 must be approved in advance by the Company's shareholders in general meeting.

The Scheme shall be valid and effective for a period of 10 years commencing on the Adoption Date.

Since the Scheme has become effective on Adoption Date, no share option was granted, exercised or cancelled by the Company under the Scheme during the year and there was no outstanding share option under the Scheme as at 31 December 2013.

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.

30. Retirement Benefit Plans *(Continued)*

The total cost of HK$435,000 (2012: HK$486,000) for the year ended 31 December 2013 charged to consolidated statement of profit or loss and other comprehensive income represents contribution paid or payable to the above retirement benefit plans by the Group. As at 31 December 2013, contributions of HK$14,000 (31 December 2012: HK$12,000) due in respect of the year ended 31 December 2013 (2012) had not been paid over to the plans. The amounts were paid subsequent to the end of the reporting period.

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$12,710,000 (2012: HK$12,697,000) as at 31 December 2013 to secure general banking facilities granted to the Group.

32. Operating Lease

The Group as lessee

Minimum lease payment paid under operating leases for premises during the year ended 31 December 2013 was HK$1,203,000 (2012: HK$1,031,000).

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

	2013 **HK$'000**	2012 HK$'000
Within one year	**1,185**	1,028
In the second to fifth year inclusive	**897**	1,815
	2,082	2,843

Operating lease payments represent rentals payable by the Group for certain of its office and warehouse. Leases are generally negotiated for terms from 1 to 5 years and rentals are fixed over the lease terms.

33. Capital Commitments

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

	2013 HK$'000	2012 HK$'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 consolidated financial statements	**1,660**	1,619

34. Related Party Disclosures

(I) Transactions

During the year, the Group entered into the following transaction with related party:

Name of related party	Relationship	Nature of transactions/balances	2013 HK$'000	2012 HK$'000
Yang Qi	Family member of Ms. Yang	Rental expense (Note)	**692**	681

Note:

The rental expense represents expense for leasing a unit of the Group's office premise in the PRC, which Yang Qi was one of the lessors during year ended 31 December 2012 and 2013.

The related party operating lease commitment with Yang Qi is included in note 32.

(II) Non-trade balances

Details of the Group's outstanding balances with related parties are set out on the consolidated statement of financial position and in note 22.

(III) Compensation of key management personnel

	2013 HK$'000	2012 HK$'000
Short term benefits	**873**	641
Post employment benefits	**91**	88
	964	729

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

35. Particulars of the Subsidiaries

Particulars of the subsidiaries directly and indirectly held by the Company at the end of each reporting period.

Name of subsidiary	Place and date of incorporation/ establishment	Equity interest attributable to the Group as at		Issued and fully paid share capital/registered capital	Principal activities
		2013	2012		
Max Goodrich International Limited	BVI 21 September 2007	**100%**	–	HK$163,800	Investment holding
China New Rich Medicine Holding Co. Limited	Hong Kong 7 February 2005	**100%**	100%	HK$1	Investment holding
Hong Rui Bio-medical 泓鋭(杭州)生物醫藥科技有限公司 (Notes i, iii & iv)	PRC 8 July 2008	**100%**	100%	HK$75,000,000	Investment holding
Zhejiang Xin Rui Pharmaceutical 浙江新鋭醫藥有限公司 (Notes ii & iv)	PRC 26 April 2006	**100%**	100%	RMB65,000,000	Trading of pharmaceutical products
Hong Rui Trading 浙江泓鋭貿易有限公司 (Notes ii & iv)	PRC 6 September 2005	**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.

All of the above subsidiaries adopt 31 December as the financial year end date and are limited liability companies incorporated/established in their respective places of incorporation/establishment.

None of the subsidiaries had issued any debt securities at the end of the year.

The principal places of operation are the same as the place of incorporation/establishment.