



Rui Kang Pharmaceutical Group Investments Limited

銳康藥業集團投資有限公司

(Incorporated in the Cayman Islands and continued in Bermuda with limited liability)

Stock Code: 8037



*Third Quarterly Report 2014*

## CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET (“GEM”) OF THE STOCK EXCHANGE OF HONG KONG LIMITED (“STOCK EXCHANGE”)

GEM has been positioned as a market designed to accommodate companies to which a higher investment risk may be attached than other companies listed on the Stock Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.

*Hong Kong Exchanges and Clearing Limited and the Stock Exchange take no responsibility for the contents of this report, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this report.*

*This report, for which the directors (“**Directors**”) of Rui Kang Pharmaceutical Group Investments Limited (“**Company**”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM (“**GEM Listing Rules**”) for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, 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.*

## UNAUDITED THIRD QUARTERLY RESULTS

The Board (“**Board**”) of directors (“**Directors**”) of Rui Kang Pharmaceutical Group Investments Limited (“**Company**”) presents the unaudited condensed consolidated third quarterly results of the Company and its subsidiaries (collectively, the “**Group**”) for the three months and nine months ended 30 September 2014 together with the comparative unaudited figures for the corresponding period in 2013. The unaudited condensed consolidated third quarterly results have not been audited by the Company’s auditor but have been reviewed by the audit committee of the Board.

### UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE THREE MONTHS AND NINE MONTHS ENDED 30 SEPTEMBER 2014

		Three months ended		Nine months ended	
		30 September		30 September	
		2014	2013	2014	2013
	Notes	HK\$'000	HK\$'000	HK\$'000	HK\$'000
			(Restated)		(Restated)
<b>Continuing operations</b>					
Gross proceeds		<b>55,458</b>	63,871	<b>146,517</b>	133,191
<b>Turnover</b>	3	<b>40,790</b>	22,143	<b>88,672</b>	63,345
Cost of sales		<b>(25,116)</b>	(7,933)	<b>(52,381)</b>	(32,064)
<b>Gross profit</b>		<b>15,674</b>	14,210	<b>36,291</b>	31,281
Other net loss	4	<b>(6,523)</b>	(7,326)	<b>(33,232)</b>	(24,765)
Administrative expenses		<b>(11,538)</b>	(7,981)	<b>(34,547)</b>	(19,055)
Selling and distribution costs		<b>(6,949)</b>	(7,179)	<b>(23,565)</b>	(22,114)
<b>Loss from operation</b>		<b>(9,336)</b>	(8,276)	<b>(55,053)</b>	(34,653)
Finance costs	5	<b>(1,314)</b>	(913)	<b>(3,544)</b>	(2,494)
Loss on deemed disposal of partial interest in a joint venture		–	–	<b>(5,892)</b>	–
Share of profit of a joint venture		<b>765</b>	–	<b>2,385</b>	–
<b>Loss before tax</b>		<b>(9,885)</b>	(9,189)	<b>(62,104)</b>	(37,147)
Income tax expenses	6	<b>(17)</b>	(205)	<b>(103)</b>	(693)
Loss from continuing operations		<b>(9,902)</b>	(9,394)	<b>(62,207)</b>	(37,840)
<b>Discontinued operation</b>					
Profit from discontinued operation, net of tax	9	–	–	–	27,787
<b>Loss for the period attributable to equity holders of the Company</b>		<b>(9,902)</b>	(9,394)	<b>(62,207)</b>	(10,053)

# UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE THREE MONTHS AND NINE MONTHS ENDED 30 SEPTEMBER 2014

		Three months ended 30 September 2014		Nine months ended 30 September 2014	
	Note	HK\$'000	2013 HK\$'000 (Restated)	HK\$'000	2013 HK\$'000 (Restated)
<b>Other comprehensive loss</b>					
<b>attributable to equity holders</b>					
<b>of the Company</b>					
Items that may be reclassified subsequently to profit or loss:					
Exchange difference arising on translation of foreign operations		(10)	(119)	(193)	(722)
Share of exchange difference of an investment in a joint venture		42	–	(121)	–
<hr/>					
Total comprehensive loss for the period		(9,870)	(9,513)	(62,521)	(10,775)
<hr/>					
<b>Loss per share (HK\$)</b>	8				
– basic and diluted		(0.014)	(0.030)	(0.107)	(0.036)
<hr/>					
<b>Loss per share - continuing operations (HK\$)</b>	8				
– basic and diluted		(0.014)	(0.030)	(0.107)	(0.136)

# UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2014

	Attributable to equity holders of the Company									
	Share capital HK\$'000	Share premium HK\$'000	Share options reserve HK\$'000	Special reserve HK\$'000 (Note a)	Convertible notes equity reserve HK\$'000	Statutory surplus reserve fund HK\$'000 (Note b)	Statutory enterprise expansion fund HK\$'000 (Note c)	Exchange reserve HK\$'000	Accumulated losses HK\$'000	Total equity HK\$'000
<b>At 1 January 2014 (Audited)</b>	<b>3,144</b>	<b>-</b>	<b>13,374</b>	<b>235,391</b>	<b>-</b>	<b>15,479</b>	<b>3,098</b>	<b>23,692</b>	<b>(165,987)</b>	<b>128,191</b>
Loss for the period	-	-	-	-	-	-	-	-	(62,207)	(62,207)
Other comprehensive loss:										
Exchange difference arising on translation of foreign operations	-	-	-	-	-	-	-	(193)	-	(193)
Share of exchange difference of an investment in a joint venture	-	-	-	-	-	-	-	(121)	-	(121)
Other comprehensive loss for the period	-	-	-	-	-	-	-	(314)	-	(314)
<b>Total comprehensive loss for the period</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(314)</b>	<b>(62,207)</b>	<b>(62,521)</b>
Cancellation of share options	-	-	(1,801)	-	-	-	-	-	1,801	-
Lapse of share options	-	-	(9,816)	-	-	-	-	-	9,816	-
Recognition of equity settled share-based payment expenses	-	-	913	-	-	-	-	-	-	913
Issue of ordinary shares by placing	3,560	66,400	-	-	-	-	-	-	-	69,960
Less: Shares issue expenses on placing	-	(1,523)	-	-	-	-	-	-	-	(1,523)
<b>At 30 September 2014 (Unaudited)</b>	<b>6,704</b>	<b>64,877</b>	<b>2,670</b>	<b>235,391</b>	<b>-</b>	<b>15,479</b>	<b>3,098</b>	<b>23,378</b>	<b>(216,577)</b>	<b>135,020</b>
<b>At 1 January 2013 (Unaudited)</b>	<b>115,208</b>	<b>88,984</b>	<b>11,412</b>	<b>22,443</b>	<b>-</b>	<b>15,479</b>	<b>3,098</b>	<b>25,241</b>	<b>(180,898)</b>	<b>100,967</b>
Loss for the period	-	-	-	-	-	-	-	-	(10,053)	(10,053)
Other comprehensive loss:										
Exchange difference arising on translation of foreign operations	-	-	-	-	-	-	-	(722)	-	(722)
Other comprehensive loss for the period	-	-	-	-	-	-	-	(722)	-	(722)
<b>Total comprehensive loss for the period</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(722)</b>	<b>(10,053)</b>	<b>(10,775)</b>
Acquisition of subsidiaries	19,000	26,600	-	-	-	-	-	-	-	45,600
Issuing convertible notes for acquisition of subsidiaries	-	-	-	-	1,190	-	-	-	-	1,190
Shares issued on conversion of convertible notes	23,000	-	-	-	(1,190)	-	-	-	-	21,810
Capital reorganisation	(154,064)	(115,584)	-	212,948	-	-	-	-	56,700	-
<b>At 30 September 2013 (Unaudited)</b>	<b>3,144</b>	<b>-</b>	<b>11,412</b>	<b>235,391</b>	<b>-</b>	<b>15,479</b>	<b>3,098</b>	<b>24,519</b>	<b>(134,251)</b>	<b>158,792</b>

*Notes:*

- a. Special reserve of approximately HK\$22,443,000 represents the difference between the paid-up capital and share premium of the subsidiary acquired and the nominal value of the Company's share issued for the acquisition at the time of the Group reorganisation on 26 May 2004.

The Company recorded the special reserve of approximately HK\$212,948,000 after setting off of the capital reduction and the cancellation of the share premium with the accumulated losses as at the date of the capital reorganisation of the Company effective as at 19 September 2013.

- b. Pursuant to the articles of association of certain subsidiaries of the Company in the People's Republic of China ("**PRC**"), those subsidiaries should transfer not less than 10% of net profit to the statutory surplus reserve fund, while the rest of the subsidiaries of the Company in the PRC can make appropriation of net profit to the statutory surplus reserve fund on a discretionary basis.

The statutory surplus reserve fund can be used to offset previous year's losses, expand the existing operations or convert into additional capital of those PRC subsidiaries.

- c. Pursuant to the articles of association of certain subsidiaries of the Company in the PRC, those subsidiaries can make appropriation of net profit to the statutory enterprise expansion fund on a discretionary basis.

The statutory enterprise expansion fund can be used to expand the capital of those subsidiaries by means of capitalisation.

# NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED THIRD QUARTERLY RESULTS

## 1. GENERAL INFORMATION

Rui Kang Pharmaceutical Group Investments Limited ("**Company**", together with its subsidiaries, the "**Group**") was incorporated and registered as an exempted company in Cayman Islands under the Company Law, Cap.22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands on 5 June 2003. On 29 August 2013, the Company deregistered from the Cayman Islands and duly continued in Bermuda as an exempted company under the laws of Bermuda. The registered office of the Company is located at Clarendon House, 2 Church Street, Hamilton HM11, Bermuda. The head office and the principal place of business of the Company in Hong Kong is located at Unit 310, 3/F, Vanta Industrial Centre, 21-33 Tai Lin Pai Road, Kwai Chung, New Territories, Hong Kong.

The shares of the Company have been listed on the Growth Enterprise Market ("**GEM**") of The Stock Exchange of Hong Kong Limited ("**Stock Exchange**") since 17 June 2004.

The principal activities of the Company is investment holding. The principal activities of its subsidiaries are (i) manufacture, research and development, sale and distribution of consumer cosmetics, health related and pharmaceutical products, health supplement wine, dental materials and equipment in the PRC and Hong Kong and (ii) trading of securities in Hong Kong. Trading of synthetic rubber business was regarded as discontinued operation.

## 2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

The unaudited condensed consolidated third quarterly results for the nine months ended 30 September 2014 have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("**HKFRSs**"), which collective term include all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards and Interpretations issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance and also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on GEM ("**GEM Listing Rules**").

The unaudited condensed consolidated third quarterly results for the nine months ended 30 September 2014 have been prepared under the historical cost basis, except for certain financial instruments which are measured at fair value.

The principal accounting policies used in the preparation of the unaudited condensed consolidated third quarterly results for the nine months ended 30 September 2014 are consistent with those applied in the Company's annual report for the fifteen months ended 31 December 2013, except for the adoption of new and revised HKFRSs that became effective on 1 January 2014 in the unaudited condensed consolidated third quarterly results of the Company for the nine months ended 30 September 2014.



## NEW AND AMENDED STANDARDS ADOPTED BY THE GROUP

The following new amendments to standards and interpretations are mandatory for accounting periods beginning on or after 1 January 2014:

Amendments to HKAS 32	Offsetting Financial Assets and Financial Liabilities
Amendments to HKAS 36	Recoverable Amount Disclosures for Non-Financial Assets
Amendments to HKAS 39	Novation of Derivatives and Continuation of Hedge Accounting
Amendments to HKFRS 10, HKFRS 12 and HKAS 27 (as revised in 2011)	Investment entities
HK (IFRIC) – Interpretation 21	Levies

The adoption of these new and revised HKFRSs and new interpretation of HK (IFRIC) has no material effect on the unaudited condensed consolidated third quarterly results of the Company for the nine months ended 30 September 2014.

The Group has not early adopted the new and revised HKFRSs that have been issued but are not yet effective.

### 3. TURNOVER

The principal activities of the Group are (i) manufacture, research and development, sales and distribution of consumer cosmetics, health related and pharmaceutical products, health supplement wine, dental materials and equipment in the PRC and Hong Kong, and (ii) trading of securities in Hong Kong.

Gross proceeds represents the amounts received and receivables from sales of goods less sales tax and discounts, if any, and sales proceeds arising from financial assets at fair value through profit and loss ("FVTPL"), during the three months and nine months ended 30 September 2014.

	Three months ended 30 September		Nine months ended 30 September	
	2014 HK\$'000	2013 HK\$'000	2014 HK\$'000	2013 HK\$'000 (Restated)
<b>Continuing operations</b>				
Manufacturing and sales of consumer cosmetics	7,921	17,239	29,821	30,091
Manufacturing and sales of health related and pharmaceutical products	25,317	3,162	46,351	27,943
Manufacturing and sales of health supplement wine	47	38	700	1,313
Manufacturing and sales of dental materials and equipment	7,505	1,704	11,800	3,998
	40,790	22,143	88,672	63,345
Gross proceeds from trading of securities ( <i>Note</i> )	14,668	41,728	57,845	69,846
Gross proceeds	55,458	63,871	146,517	133,191
<b>Discontinued operation</b>				
Trading of synthetic rubber	–	–	–	70,572

*Note:* The Gross proceeds from trading of securities were recorded in the other net loss after setting off the relevant cost.



#### 4. OTHER NET LOSS

	Three months ended 30 September		Nine months ended 30 September	
	2014	2013	2014	2013
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
				(Restated)
<b>Continuing operations</b>				
Net loss on financial assets at FVTPL	(7,034)	(8,058)	(34,060)	(25,786)
Interest income	14	272	181	308
Sundry income	464	253	618	520
Dividend income	33	–	33	–
Fixed asset written off	–	–	(4)	–
Net gain or loss on disposal of fixed assets	–	207	–	193
	(6,523)	(7,326)	(33,232)	(24,765)
<b>Discontinued operation</b>				
Sundry income	–	–	–	16

#### 5. FINANCE COSTS

	Three months ended 30 September		Nine months ended 30 September	
	2014	2013	2014	2013
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
				(Restated)
<b>Continuing operations</b>				
Interest expenses:				
– bank borrowings wholly repayable within five years	407	329	1,153	787
– other borrowings wholly repayable within five years	907	573	2,391	1,696
– effective interest on debt component of convertible notes	–	11	–	11
	1,314	913	3,544	2,494
<b>Discontinued operation</b>				
Interest expenses:				
– bank borrowings wholly repayable within five years	–	–	–	53

## 6. INCOME TAX EXPENSES

	Three months ended 30 September		Nine months ended 30 September	
	2014	2013	2014	2013
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
				(Restated)
<b>Continuing operations</b>				
The amount comprises:				
– Hong Kong Profits Tax				
Current period	–	26	–	332
– Taxation arising in the PRC				
Current period	17	179	103	361
	17	205	103	693
<b>Discontinued operation</b>				
The amount comprises:				
– Hong Kong Profits Tax				
Current period	–	–	–	119

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit arising in Hong Kong during the nine months ended 30 September 2013. No provision for Hong Kong Profits Tax is made as the Group did not have assessable profits in Hong Kong for the nine months ended 30 September 2014.

Taxation arising in the PRC is calculated at the rate prevailing in the relevant jurisdiction.

## 7. DIVIDEND

The Board does not recommend the payment of any dividend for the nine months ended 30 September 2014 (nine months ended 30 September 2013: HK\$Nil).

## 8. LOSS PER SHARE

Basic loss per share is calculated by dividing the loss attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the three months and nine months ended 30 September 2014 and 30 September 2013.

For continuing and discontinued operations	Three months ended 30 September		Nine months ended 30 September	
	2014	2013 (Restated)	2014	2013 (Restated)
Loss attributable to the equity holders of the Company (HK\$'000)	<b>(9,902)</b>	(9,394)	<b>(62,207)</b>	(10,053)
Weighted average number of ordinary shares in issue ('000)	<b>704,365</b>	317,133	<b>581,377</b>	278,061
Basic loss per share (HK\$)	<b>(0.014)</b>	(0.030)	<b>(0.107)</b>	(0.036)
<b>For continuing operations</b>				
Loss attributable to the equity holders of the Company (HK\$'000)	<b>(9,902)</b>	(9,394)	<b>(62,207)</b>	(10,053)
Less: profit attributable to the equity holders of the Company from discontinued operation (HK\$'000)	–	–	–	27,787
Loss attributable to the equity holders of the Company from continuing operations (HK\$'000)	<b>(9,902)</b>	(9,394)	<b>(62,207)</b>	(37,840)
Weighted average number of ordinary shares in issue ('000)	<b>704,365</b>	317,133	<b>581,377</b>	278,061
Basic loss per share (HK\$)	<b>(0.014)</b>	(0.030)	<b>(0.107)</b>	(0.136)

The weighted average number of shares for the purpose of calculating the basic loss per share has been retrospectively adjusted for the three months and nine months ended 30 September 2014 and 30 September 2013 for the rights issue of the Company which was completed on 20 October 2014 (see Note 10).

The diluted loss per share for the three months and nine months ended 30 September 2014 and 30 September 2013 was the same as there was no dilutive potential ordinary share outstanding during the periods.

## 9. DISCONTINUED OPERATION

- (a) On 26 March 2013, the Company and Joystar (BVI) Auto Inter-Parts Limited entered into a sale and purchase agreement in relation to the disposal of the entire issue capital of Sinogate Energy Limited ("Sinogate"), a directly wholly-owned subsidiary of the Company. The consideration of such disposal of HK\$28 million was satisfied in cash upon completion, which took place on 21 May 2013. Sinogate and its subsidiaries carried out all the trading of synthetic rubber business of the Group. Immediately after completion, Sinogate and its subsidiaries ceased to be subsidiaries of the Company. The Company recognised and recorded the gain on disposal of approximately HK\$27 million as profit from discontinued operation in connection with such disposal.

During the nine months ended 30 September 2013, profit for the period from discontinued operation was mainly attributable to the gain arising from the business of trading synthetic rubber.

	Three months ended 30 September		Nine months ended 30 September	
	2014 HK\$'000	2013 HK\$'000	2014 HK\$'000	2013 HK\$'000
Turnover	–	–	–	70,572
Expenses	–	–	–	(70,057)
Profit before tax	–	–	–	515
Income tax expenses	–	–	–	(119)
Profit for the period from discontinued operation	–	–	–	396
Gain on disposal of discontinued operation	–	–	–	27,391
Profit attributable to: equity holders of the Company	–	–	–	27,787

(b) Gain on disposal of subsidiaries

At 30 September 2013  
HK\$'000

Deposits, prepayments and other receivables	23,261
Cash and cash equivalents	532
Unsecured other borrowings	(15,000)
Trade and other payables	(460)
Tax payables	(119)
Receipt in advance	(7,605)
<hr/>	
Net assets disposed of	609
Gain on disposal of subsidiaries	27,391
<hr/>	
Cash and total consideration received	28,000

**10. EVENT AFTER THE END OF THE REPORTING PERIOD**

**Rights issue**

On 20 August 2014, the Company announced to raise approximately HK\$53.6 million before expenses by way of rights issue on the basis of one rights share ("**Rights Share**") for every two existing shares in issue held on the record date at the subscription price of HK\$0.16 per Rights Share ("**Rights Issue**"). The Company and Kingston Securities Limited entered into an underwriting agreement on 20 August 2014, pursuant to which Kingston Securities Limited conditionally agreed to fully underwrite all the Rights Shares that might fail to be issued. The completion of the Rights Issue took place on 20 October 2014. 335,208,000 Rights Shares were allotted and issued pursuant to the Rights Issue and the net proceeds after deduction of expenses from the Rights Issue are approximately HK\$50.9 million.

In addition, on 20 August 2014, the Board announced to propose to change the board lot size for trading of the shares from 10,000 shares to 20,000 shares, which became effective on 22 October 2014.

For details, please refer to the announcements of the Company dated 20 August 2014 and 17 October 2014 and the prospectus of the Company dated 19 September 2014.

**11. COMPARATIVE FIGURES**

Certain comparative figures have been restated to conform to the current period's presentation.

## BUSINESS REVIEW

### Placing of new shares under general mandate

On 20 June 2014, the Company and Trinity Finance Investment Limited ("**Trinity**") entered into a placing agreement pursuant to which the Company has conditionally agreed to place through Trinity, on a best endeavours basis, up to 111,000,000 shares ("**Placing Shares**"), to not less than six placees who and whose beneficial owners are independent third parties at a price of HK\$0.18 per Placing Share ("**Placing**"). The completion of the Placing took place on 11 July 2014. The net proceeds after deduction of expenses from the Placing was approximately HK\$19.35 million, which was intended to be applied for general working capital of the Group.

### Rights issue and change of board lot size

On 20 August 2014, the Company announced to raise approximately HK\$53.6 million before expenses by way of Rights Issue on the basis of one Rights Share for every two existing shares in issue held on the record date at the subscription price of HK\$0.16 per Rights Share. The completion of the Rights Issue took place on 20 October 2014. 335,208,000 Rights Shares were allotted and issued pursuant to the Rights Issue and the net proceeds after deduction of expenses from the Rights Issue are approximately HK\$50.9 million. The Company intends to use (i) approximately HK\$18.4 million for funding the acquisition of 51% of the equity interest of 貴陽舒美達制藥廠有限公司 (in English, for identification purpose only, Guiyang Shu Mei Da Pharmaceutical Co., Ltd) ("**Shu Mei Da**") and (ii) approximately HK\$32.5 million for the general working capital of the Group, HK\$10 million and HK\$22.5 million of which are intended to be used for carrying out the daily operation of the Group in Hong Kong and strengthening the operation of the Group in the PRC (including but not limited to enhancing the factories and machinery of the Group) respectively.

### Proposed acquisition of a subsidiary

On 18 August 2014, Goldcore Holdings Limited ("**Goldcore**"), a wholly-owned subsidiary of the Company, entered into an equity transfer agreement with two independent parties, Mr. Zhu Rui Sheng and Mr. Huang Yu Dong (collectively, the "**Vendors**"), pursuant to which Goldcore conditionally agreed to acquire and the Vendors conditionally agreed to sell 51% of the equity interest of Shu Mei Da at an aggregate consideration of RMB25,500,000 (equivalent to approximately HK\$31,875,000) ("**Acquisition**"). Shu Mei Da is principally engaged in the manufacture and sale of proprietary Chinese medicine products and research and development of proprietary Chinese medicine products in the PRC. Upon completion of the Acquisition, Shu Mei Da will become an indirectly non-wholly owned subsidiary of the Company. As at the date of this report, the completion of the Acquisition has not yet taken place and the Acquisition is expected to be completed on or before 31 January 2015.



## FINANCIAL REVIEW

During the nine months ended 30 September 2014 (“**2014 Q3 Period**”), the Group is in the initial integration phase of developing a complete business chain for (i) research and development, (ii) manufacturing and (iii) selling and distribution of health related and pharmaceutical products. The Group will continue to seek opportunities to acquire potential companies with well-equipped production facilities and potential profitable pharmaceutical and health related products in order to diversify the Group’s products list and to enhance the profits of the Group in long term.

### Loss for the 2014 Q3 Period

Loss for the 2014 Q3 Period was approximately HK\$62,207,000 for its continuing operations, representing an increase of 64.39%, when compared with the loss of approximately HK\$37,840,000 for its continuing operations in the nine months ended 30 September 2013 (“**2013 Q3 Period**”). The downturn in business performance of the Group for the 2014 Q3 Period was mainly due to (i) the loss on financial asset at fair value through profit or loss of approximately HK\$34.1 million, (ii) the increasing pressure on the cost of sales, including labour costs and raw materials costs, (iii) the decrease in the selling price for certain products due to fierce competition in the PRC, which has resulted in the decrease in the gross profit margin, and (iv) the loss of approximately HK\$5,892,000 on deemed disposal of partial interest in a joint venture company as a result of issue of consideration shares by such joint venture company to a joint venture partner leading to a dilution of the Group’s investment in a joint venture company.

### Turnover

During the 2014 Q3 Period, the continuing operations of the Group achieved a turnover of approximately HK\$88,672,000 (2013 Q3 period: HK\$63,345,000), representing an increase of 39.98% as compared with the turnover for the 2013 Q3 Period. The increase in the turnover was mainly due to the clearance sales of those obsolete stocks at cutting-edge prices and the sales of the newly launched imported medicated oil products at a lower selling price in order to adapt to the PRC market. The Group has acquired several companies, namely Icy Snow Limited, Jet Rich Investment Limited and Kingston Group Holdings Limited in the year of 2013, the business of such companies (“**2013 Acquired Business**”) contributed revenue of approximately HK\$36,686,000 during the 2014 Q3 Period.



### **Gross profit and gross profit margin**

The Group's gross profit from the continuing operations was approximately HK\$36,291,000, representing an increase of approximately 16.02% for the 2014 Q3 Period as compared with the gross profit of approximately HK\$31,281,000 for the 2013 Q3 Period.

The gross profit margin for the 2014 Q3 Period was approximately 40.93%, representing a decrease by approximately 8.45 percentage point when compared with the gross profit margin of approximately 49.38% for the 2013 Q3 Period. The 2013 Acquired Business generated gross profit margin of 38.93% during the 2014 Q3 Period. Selling price of the health related and pharmaceutical products and the consumer cosmetics products were lower when compared with that in the 2013 Q3 Period due to the fact that competition in the PRC market had become more intense. The increasing pressure on the cost of sales, including labour costs and raw materials costs was also attributable to the downturn in financial performance of the Group during the 2014 Q3 Period.

### **Administrative expenses**

Administrative expenses of the continuing operations for the 2014 Q3 Period amounted to approximately HK\$34,547,000, representing an increase of approximately HK\$15,492,000, or approximately 81.30%, as compared with that of approximately HK\$19,055,000 for the 2013 Q3 Period. The 2013 Acquired Business recorded expenses of approximately HK\$8,181,000, which included the research and development expenses, staff costs and rent and rates, of HK\$924,000, HK\$3,340,000 and HK\$899,000 respectively, as administrative expenses during the 2014 Q3 Period when compared with those of approximately HK\$0.9 million during the 2013 Q3 Period.

Apart from the expenses incurred by the 2013 Acquired Business as discussed above, the increase in administrative expenses for the 2014 Q3 Period was mainly due to the increase in legal and professional fees and consultancy service fees of approximately HK\$2,355,000 and increase in key management salary of approximately HK\$1,500,000 during the 2014 Q3 Period when compared with those expenses for the 2013 Q3 Period.

### **Selling and distribution expenses**

Selling and distribution expenses of the continuing operations for the 2014 Q3 Period were approximately HK\$23,565,000, representing an increase of approximately HK\$1,451,000 or 6.56% compared with those expenses for the 2013 Q3 Period. Such increase was mainly attributable to the additional selling and distribution expenses of approximately HK\$5,848,000 incurred by the 2013 Acquired Business during the 2014 Q3 Period.



## FUTURE PROSPECT

### To revamp our investment strategy

During the 2014 Q3 Period, the Group suffered loss on securities trading. The Group will revamp our investment strategy and explore securities investment opportunities with due care and diligence in order to generate profits for shareholders of the Company ("**Shareholders**").

Looking forward, due to higher labour and raw material costs as well as slowing economic growth, the health related and pharmaceutical products and the consumer cosmetic industry in the PRC is facing plenty of challenges. The Group will implement cost-saving strategies in order to minimize the impact of the increasing production costs, including raw materials and labour costs in the consumer cosmetics and health related and pharmaceutical products segments.

The future development plan of the Group in the PRC will continue to focus on the manufacturing of the healthcare and pharmaceutical products in the PRC. The Group will continue to look for and identify potential acquisition projects in relation to the pharmaceutical manufacturing business.

## OTHER INFORMATION

### DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES

As at 30 September 2014, the interests or short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) which require notification to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which any such Director or chief executive is taken or deemed to have under such provisions of the SFO), or which are recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or which are required, pursuant to the required standard of dealings by the Directors as referred to in Rule 5.46 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange were as follows:

### LONG POSITIONS IN THE UNDERLYING SHARES

#### Share options granted

Name of Director	Nature of interest	Date of grant	Exercise period	Subscription price per share	Aggregate long positions in the underlying shares	Approximate % in the Company's issued share capital (Note)
Cheung Hung	Beneficial owner	31 December 2013	31 December 2013 to 31 December 2014	0.219	2,000,000	0.298%
	Beneficial owner	28 August 2014	1 January 2015 to 31 December 2016	0.1722	2,500,000	0.373%
Leung Pak Hou Anson	Beneficial owner	31 December 2013	31 December 2013 to 31 December 2014	0.219	3,000,000	0.447%
	Beneficial owner	28 August 2014	1 January 2015 to 31 December 2016	0.1722	2,500,000	0.373%
Chen Miaoping	Beneficial owner	31 December 2013	31 December 2013 to 31 December 2014	0.219	3,000,000	0.447%
	Beneficial owner	28 August 2014	1 January 2015 to 31 December 2016	0.1722	2,500,000	0.373%

*Note:*

As at 30 September 2014, the total number of the issued share of the Company was 670,416,000 ordinary shares of HK\$0.01 each of the Company.

Save as disclosed above, none of the Directors nor the chief executive of the Company has, as at 30 September 2014, any interest or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meanings of Part XV of the SFO) including interests or short positions which any such Director or chief executive of the Company is taken or deemed to have under such provision of SFO, or which are recorded in the register required to be kept by the Company pursuant to the required standard of dealings by the Directors as referred to in Rule 5.46 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange.

## DISCLOSEABLE INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES

As at 30 September 2014, the following persons or entities (other than a Director or chief executive of the Company) had an interest or short positions in the shares or underlying shares as recorded in the register required to be kept under section 336 of the SFO:

### Long position in shares and underlying shares

Name of Shareholder	Nature of interest	No. of shares	Approximate % in the Company's issued share capital (Note)
Kingston Securities Limited	Beneficial owner	357,508,000	33.33%
Galaxy Sky Investments Limited	Interest in controlled corporation	357,508,000	33.33%
Kingston Capital Asia Limited	Interest in controlled corporation	357,508,000	33.33%
Kingston Financial Group Limited	Interest in controlled corporation	357,508,000	33.33%
Active Dynamic Limited	Interest in controlled corporation	357,508,000	33.33%
Chu Yuet Wah	Interest in controlled corporation	357,508,000	33.33%

*Note:*

Based on the notices of disclosure of interests of Kingston Securities Limited, Galaxy Sky Investments Limited, Kingston Capital Asia Limited, Kingston Financial Group Limited, Active Dynamic Limited and Chu Yuet Wah filed with the Stock Exchange on 22 August 2014, Kingston Securities Limited is wholly-owned by Galaxy Sky Investments Limited, which is in turn wholly-owned by Kingston Capital Asia Limited. Kingston Capital Asia Limited is wholly-owned by Kingston Financial Group Limited, which is 42.9% owned by Active Dynamic Limited. Active Dynamic Limited is wholly owned by Chu Yuet Wah. Such interests were arisen as a result of the entering into of the underwriting agreement relating to the Rights Issue (which was completed on 20 October 2014) between Kingston Securities Limited, as underwriter, and the Company.

Save as disclosed above, no person or entity had any interest or short positions in the shares and underlying shares as recorded in the register required to be kept by the Company under Section 336 of the SFO as at 30 September 2014.

## RIGHT TO ACQUIRE COMPANY'S SECURITIES

Save as disclosed in the sections headed "DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES" above and "SHARE OPTION SCHEME" below, at no time during the nine months ended 30 September 2014 was the Company or any of its subsidiaries, or any of its fellow subsidiaries, a party to any arrangement to enable the Directors or chief executives of the Company or their respective associates (as defined in the GEM Listing Rules) to have any right to subscribe for securities of the Company or any of its associated corporations as defined in the SFO or to acquire benefits by means of acquisition of share in, or debentures of, the Company or any other body corporate.

## SHARE OPTION SCHEME


On 26 May 2004, the Company approved and adopted a share option scheme ("**Expired Scheme**") which expired on 25 May 2014. No further share options shall be offered pursuant to the Expired Scheme but the Expired Scheme shall in all other respects remain in force to the extent necessary to give effect to the exercise of any outstanding share options granted prior to its expiry. Share options granted under the Expired Scheme shall continue to be valid and exercisable in accordance with the terms of the Expired Scheme.

The Company adopted a new share option scheme ("**Existing Scheme**") on 29 May 2014 for the purpose of enabling the Group to grant share options to selected participants as incentives or rewards for their contribution to the Group.

			Exercise price per share (HK\$)	Outstanding as at 1 January 2014	Granted during the period (Note e)	Number of share options Lapsed during the period (Note b)	Cancelled during the period (Note b)	Exercised during the period	Outstanding as at 30 September 2014
Directors	9 April 2010	9.4.2010 to 8.4.2020	1.775	1,000,000	-	-	(1,000,000)	-	-
Employees and service provider	9 April 2010	9.4.2010 to 8.4.2020	1.775	9,000,000	-	(7,900,000)	(1,100,000)	-	-
Employees and service provider	22 March 2012	22.3.2012 to 21.3.2015	1.000	14,000,000	-	(14,000,000)	-	-	-
Directors	31 December 2013	31.12.2013 to 31.12.2014	0.219	8,300,000	-	(300,000)	-	-	8,000,000
Employees and service provider	31 December 2013	31.12.2013 to 31.12.2014	0.219	14,700,000	-	(2,100,000)	-	-	12,600,000
Directors	28 August 2014	1.1.2015 to 31.12.2016	0.1722	-	7,500,000	-	-	-	7,500,000
Employees and service provider	28 August 2014	1.1.2015 to 31.12.2016	0.1722	-	38,800,000	-	-	-	38,800,000
Exercisable at the end of the period									66,900,000
Weighted average exercise price (HK\$)									0.1866

**Notes:**

- Upon the expiration of the Expired Scheme on 25 May 2014, share options granted under the Expired Scheme remain outstanding until they lapse in accordance with the terms of the Expired Scheme. The Existing Scheme was adopted by the Company on 29 May 2014.
- 1,100,000 share options and 1,000,000 share options both granted on 9 April 2010 were surrendered on 29 August 2014 and 30 August 2014 respectively.
- 7,900,000 share options granted on 9 April 2010 and 14,000,000 share options granted on 22 March 2012 lapsed on 27 August 2014 according to the terms of the Expired Scheme.

- 
- (d) 300,000 share options and 2,100,000 share options both granted on 31 December 2013 lapsed on 2 July 2014 and 21 July 2014 respectively.
- (e) On 28 August 2014, 46,300,000 share options were granted to 13 eligible persons as to (i) 7,500,000 share options to three Directors, (ii) 30,800,000 share options to eight employees of the Group and (iii) 8,000,000 share options to two consultants of the Group. As at 30 September 2014, there were outstanding share options granted under the Expired Scheme and the Existing Scheme to subscribe for up to an aggregate of 66,900,000 Shares.

## **MATERIAL ACQUISITIONS, DISPOSAL OF SUBSIDIARIES AND AFFILIATED COMPANIES**

### **Proposed acquisition of a subsidiary**

On 18 August 2014, Goldcore, a wholly-owned subsidiary of the Company, entered into an equity transfer agreement to agree to acquire 51% of the equity interest of a PRC entity, namely Shu Mei Da. For details, please refer to the disclosure made in the section headed “Business review – Proposed acquisition of a subsidiary” above.

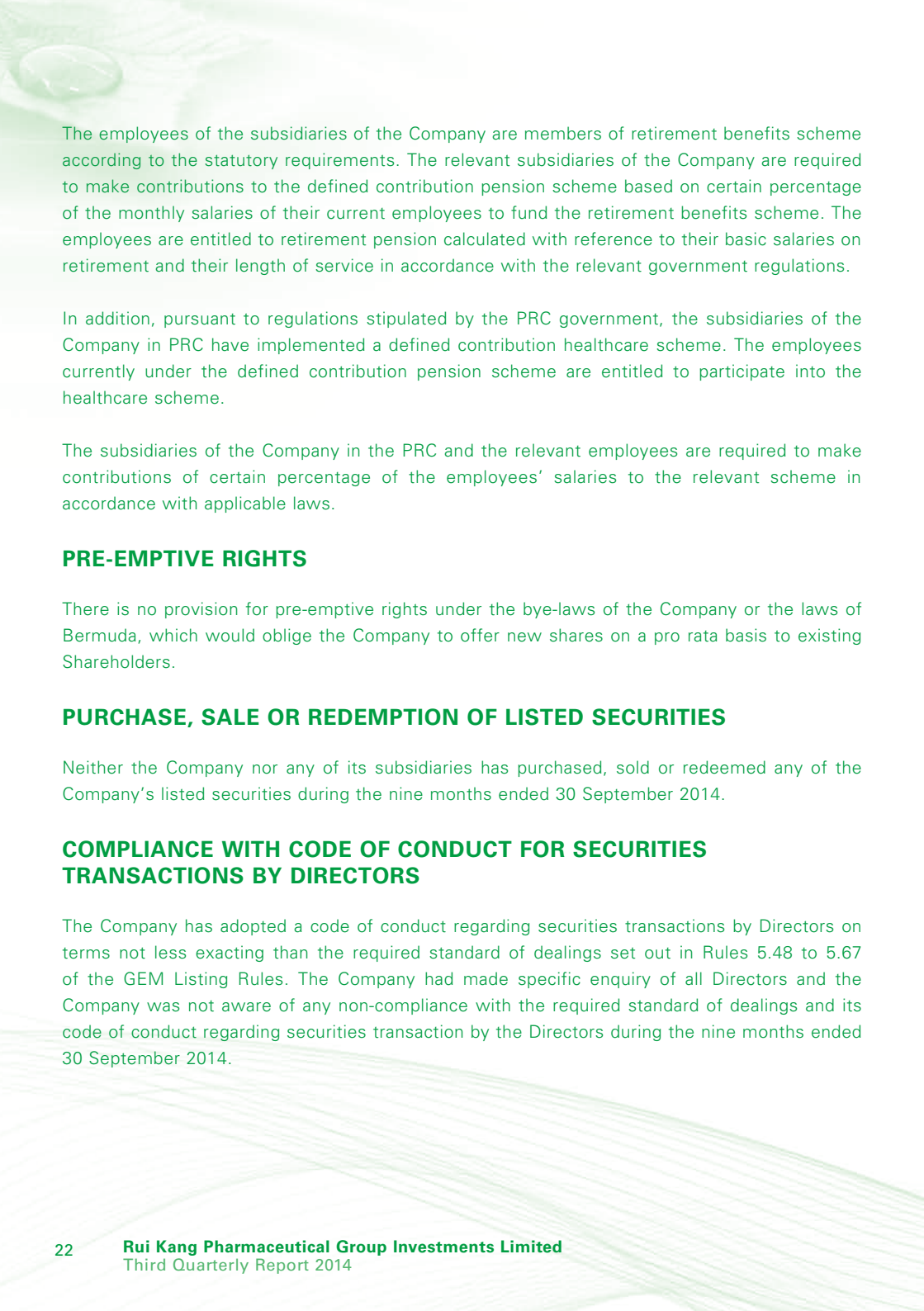
Save as disclosed above, Group did not have any material acquisition or disposal of subsidiaries and affiliated companies for the nine months ended 30 September 2014.

## **EMPLOYEES AND REMUNERATION POLICY**

As at 30 September 2014, the Group had approximately 447 employees (30 September 2013: 423 employees) which are mainly located in the PRC. Total staff costs for the nine months ended 30 September 2014 was approximately HK\$18,095,000 (nine months ended 30 September 2013: approximately HK\$12,683,000).

The Group remunerates its employees based on their performance, work experience and the prevailing market price. Performance related bonuses are granted on discretionary basis. Other employee benefits include mandatory provident fund, insurance and medical coverage, training and a share option scheme.





The employees of the subsidiaries of the Company are members of retirement benefits scheme according to the statutory requirements. The relevant subsidiaries of the Company are required to make contributions to the defined contribution pension scheme based on certain percentage of the monthly salaries of their current employees to fund the retirement benefits scheme. The employees are entitled to retirement pension calculated with reference to their basic salaries on retirement and their length of service in accordance with the relevant government regulations.

In addition, pursuant to regulations stipulated by the PRC government, the subsidiaries of the Company in PRC have implemented a defined contribution healthcare scheme. The employees currently under the defined contribution pension scheme are entitled to participate into the healthcare scheme.

The subsidiaries of the Company in the PRC and the relevant employees are required to make contributions of certain percentage of the employees' salaries to the relevant scheme in accordance with applicable laws.

## **PRE-EMPTIVE RIGHTS**

There is no provision for pre-emptive rights under the bye-laws of the Company or the laws of Bermuda, which would oblige the Company to offer new shares on a pro rata basis to existing Shareholders.

## **PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES**

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the nine months ended 30 September 2014.

## **COMPLIANCE WITH CODE OF CONDUCT FOR SECURITIES TRANSACTIONS BY DIRECTORS**

The Company has adopted a code of conduct regarding securities transactions by Directors on terms not less exacting than the required standard of dealings set out in Rules 5.48 to 5.67 of the GEM Listing Rules. The Company had made specific enquiry of all Directors and the Company was not aware of any non-compliance with the required standard of dealings and its code of conduct regarding securities transaction by the Directors during the nine months ended 30 September 2014.

## CODE ON CORPORATE GOVERNANCE PRACTICES

The Company is committed to maintaining a high standard of corporate governance to safeguard the interest of the Shareholders and enhance its corporate value. The Company's corporate governance practices are based on the principles, code provisions and certain recommended best practices as set out in the Code on Corporate Governance Practices in Appendix 15 to the GEM Listing Rules.

## COMPETITION AND CONFLICT OF INTEREST

None of the Directors or the controlling Shareholders or their respective associates (as defined in the GEM Listing Rules) had an interest in any business which competes or may compete, either directly or indirectly, with the business of the Group nor any conflict of interest which has or may have with the Group during the nine months ended 30 September 2014.

## AUDIT COMMITTEE

The Board established an audit committee ("**Audit Committee**") with written terms of reference in compliance with the requirements as set out in the GEM Listing Rules for the purpose of reviewing and supervising the financial reporting process and internal controls of the Group. The Audit Committee currently comprises of all three independent non-executive Directors, namely, Mr. Yuen Chun Fai ("**Mr. Yuen**"), Mr. Leung Ka Fai and Mr. Ho Fung Shan Bob ("**Mr. Ho**") at the date of this report.

The unaudited condensed consolidated third quarterly results of the Group for the nine months ended 30 September 2014 have not been audited by the Company's auditor, but have been reviewed by the Audit Committee in accordance with the accounting principles and practices adopted by the Company and the Audit Committee has discussed internal controls and financial reporting matters before any disclosure and release of information.

## SUFFICIENCY OF PUBLIC FLOAT

Based on the information available to the Company and within the knowledge of the Directors, the Company has maintained the prescribed public float under the GEM Listing Rules as at the date of this report.

## CHANGE OF INDEPENDENT NON-EXECUTIVE DIRECTOR

On 4 September 2014, Mr. Yeung Chi Tit ("**Mr. Yeung**") resigned as an independent non-executive Director, the chairman of the remuneration committee of the Board and a member of each the nomination committee and audit committee of the Board. Mr. Yuen was appointed as the chairman of the remuneration committee of the Board immediately after the resignation of Mr. Yeung.

Following the resignation of Mr. Yeung, the Company had only two independent non-executive directors and two members of the Audit Committee, which fell below the minimum number requirement under Rules 5.05(1) and 5.28 of the GEM Listing Rules.

On 14 October 2014, the Company has re-complied with the minimum number requirements under Rules 5.05(1) and 5.28 of the GEM Listing Rules after the appointment of Mr. Ho as an independent non-executive Director and a member of each the audit committee, nomination committee and remuneration committee of the Board.

## GENERAL

On behalf of the Board, I would like to take this opportunity express my sincere gratitude to all the Shareholders for their support to the Company.

ON BEHALF OF THE BOARD  
**Rui Kang Pharmaceutical Group Investments Limited**  
**Cheung Hung**  
*Chairman*

Hong Kong, 11 November 2014

*As at the date of this report, the Board comprises (i) three executive Directors namely, Mr. Cheung Hung (Chairman), Mr. Leung Pak Hou Anson and Ms. Chen Miaoping (Chief Executive Officer) and (ii) three independent non-executive Directors namely, Mr. Yuen Chun Fai, Mr. Leung Ka Fai and Mr. Ho Fung Shan Bob.*