

WANJIA GROUP
萬嘉集團

Wanjia Group Holdings Limited
萬嘉集團控股有限公司

(Incorporated in the Cayman Islands with limited liability)

STOCK CODE: 401

LISTING BY INTRODUCTION

Sponsor

大有融資有限公司
MESSIS CAPITAL LIMITED

IMPORTANT

If you are in any doubt about any of the contents of this listing document, you should obtain independent professional advice.



Wanjia Group Holdings Limited
萬嘉集團控股有限公司

(Incorporated in the Cayman Islands with limited liability)

Stock code: 401

LISTING BY WAY OF INTRODUCTION OF THE ENTIRE ISSUED SHARE CAPITAL OF WANJIA GROUP HOLDINGS LIMITED ON THE MAIN BOARD OF THE STOCK EXCHANGE OF HONG KONG LIMITED

Sole Sponsor



大有融資有限公司
MESSIS CAPITAL LIMITED

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This listing document is published in connection with the listing by way of introduction on the Main Board of the Stock Exchange of the entire issued share capital of Wanjia Group Holdings Limited (the "**Company**"). This listing document contains particulars given in compliance with the Rules Governing the Listing of Securities on the Stock Exchange and the Securities and Futures (Stock Market Listing) Rules (Chapter 571V of the Laws of Hong Kong) for the purpose of giving information with regard to the Company and its subsidiaries.

This listing document does not constitute an offer of, nor is it calculated to invite offers for, the shares or other securities of the Company, nor have any such shares or other securities been allotted with a view to any of them being offered for sale to or subscription by members of the public. No shares in the share capital of the Company (the "Shares") will be allotted and issued in connection with, or pursuant to, the publication of this listing document.

Prior to making an investment decision, prospective investors should carefully consider all the information set out in this listing document, including in particular the risk factors set out in the section headed "Risk factors" in this listing document.

Information regarding the proposed arrangement for the listing of, and dealings and settlement of dealings in, the Shares following completion of the spin-off is set out in the section headed ''Information about this listing document and the Spin-off'' in this listing document.

30 September 2013

EXPECTED TIMETABLE

Our Company will issue an announcement if there is any change in the following expected timetable of the Listing.

2013 [(1)]

Last day of dealings in Hua Xia Shares on a cum entitlement basis ..... Friday, 27 September

First day of dealings in Hua Xia Shares on an ex entitlement basis ..... Monday, 30 September

Latest time for lodging transfers of the Hua Xia Shares cum entitlement pursuant to the Hua Xia Distribution at ..... 4:30 p.m. on Wednesday, 2 October

Register of members of Hua Xia close on ..... Thursday, 3 October to Monday, 7 October

Record Date ..... 4:30 p.m. on Monday, 7 October

Register of members of Hua Xia open on ..... Tuesday, 8 October

Share certificates for the Shares to be despatched on [(2)] ..... Thursday, 10 October

Dealings in the Shares on the Stock Exchange expected to commence on [(2)] ..... 9:00 a.m. on Friday, 11 October

Payment to Overseas Hua Xia Shareholders of the net proceeds of the sale of the Shares which they would otherwise receive pursuant to the Hua Xia Distribution on or around [(3)] ..... on or before Friday, 15 November

Notes:

(1) All times and dates refer to Hong Kong local times and dates, except as otherwise stated.

(2) The Share certificates are expected to be despatched to Qualifying Hua Xia Shareholders (except for any Overseas Hua Xia Shareholders) on Thursday, 10 October 2013. The Share certificates will only become valid if the Hua Xia Distribution becomes unconditional. In the event the Hua Xia Distribution does not become unconditional, dealings in the Shares on the Stock Exchange will not commence on Friday, 11 October 2013. In such event, we will make an announcement of the above and, if necessary, of a revised timetable. Hua Xia Shareholders and other investors who trade in the Shares prior to the receipt of the Share certificates do so entirely at their own risk.

(3) Overseas Hua Xia Shareholders will be entitled to the Hua Xia Distribution but will not receive the Shares. Instead, the Shares which they would otherwise receive pursuant to the Hua Xia Distribution will be sold by Hua Xia on their behalf after commencement of dealings in the Shares on the Stock Exchange at the prevailing market price and they will receive a cash amount equal to the net proceeds of such sale if the proceeds of such sale, net of expenses, are more than HK$100. Hua Xia will retain individual amounts of HK$100 or less for its own benefit and such amount will not be paid to the Overseas Hua Xia Shareholders. Further information is set out in the section headed "The Hua Xia Distribution and the Spin-off" in this listing document.

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IMPORTANT NOTICE TO INVESTORS

You should rely only on the information contained in this listing document to make your investment decision.

This listing document is issued solely in connection with the Listing by way of introduction and does not constitute an offer to sell or a solicitation of an offer to buy any security. This listing document may not be used for the purpose of, and does not constitute, an offer or invitation in any other jurisdiction or in any other circumstances. No action has been taken to permit a public offering of our Shares or the distribution of this listing document in any jurisdiction.

Our Company has not authorised anyone to provide you with information or representation that is different from what is contained in this listing document.

Any information or representation not made nor contained in this listing document must not be relied on by you as having been authorised by our Company, the Sponsor, any of their respective directors, officers, employees, agents or representatives or any other person or party involved in the Listing.

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SUMMARY

This summary aims to give you an overview of the information contained in this listing document and should be read in conjunction with the full text of this listing document. As this is a summary, it does not contain all the information that may be important to you. You should read this listing document in its entirety before you decide to invest in our Shares.

There are risks associated with any investment. Some of the particular risks in investing in our Shares are set out in the section headed "Risk factors" in this listing document. You should read that section carefully before making any decision to invest in our Shares.

OVERVIEW

We are an established wholesaler and distributor and retail chain operator of pharmaceutical and healthcare products in Fujian Province in the PRC currently operating four logistic centres in Fujian Province in the PRC with an aggregate area of approximately 22,000 sq. m. and 100 retail pharmacies in six prefectural-level districts in Fujian Province in the PRC. The integration of our pharmaceutical wholesale, distribution and retail businesses enables us to benefit from different stages of our pharmaceutical operations which provide synergies to our business operations. We have been able to increase our profits in a highly fragmented and competitive industry by taking advantage of our distribution network.

We primarily operate in the following business segments, namely:

- *Pharmaceutical wholesale and distribution*. We engage in the wholesale and distribution, logistics and other services for a broad range of pharmaceutical products of domestic manufacturers and other suppliers.

- *Pharmaceutical retail*. We operate a chain of retail pharmacies located in six prefectural-level districts in Fujian Province in the PRC under the brand name "*Huihao Sihai*".

Pharmaceutical wholesale and distribution

We have a large and broad customer base through our distribution network in Fujian Province in the PRC. We distribute pharmaceutical products to our customers located principally in the Fujian Province and also sell pharmaceutical products in neighbouring provinces such as Guangdong, Hunan, Hubei, Jiangxi, Anhui and Zhejiang. Our customers can be categorised into three types – hospitals and healthcare institutions, distributor customers and end customers such as companies operating pharmaceutical retail chain stores, independent pharmacies, out-patient departments of community hospitals, healthcare service stations and clinics. For the year ended 31 March 2013, our active customers included 744 hospitals and healthcare institutions, 367 distributors and 2,821 end customers. We define active customers as customers who have transactions with us during a financial year. For each of the three years ended 31 March 2013,

our Group's sales to our five largest customers accounted for approximately 21.7%, 21.8% and 21.0% of our total revenue, respectively. Our Group's five largest customers during the Track Record Period comprised a hospital located at Sanming City in Fujian Province, the PRC and 8 different distributor customers located in Fujian Province in the PRC. The length of our business relationships with our major customers during the Track Record Period ranged from approximately four to five years since our Group commenced pharmaceutical wholesale and distribution business from July 2008. As at the Latest Practicable Date, we distributed different types of pharmaceutical products including approximately 1,100 Chinese pharmaceutical medicines, approximately 7,900 Western medicines, approximately 3,600 traditional Chinese medicines, approximately 700 healthcare products, approximately 1,200 medical supplies and medical devices and approximately 1,100 other products.

We sell our products to distributor customers because we currently do not directly cover every province or autonomous region in the PRC and some distributors have sales channels to reach hospitals, retail pharmacies and other healthcare institutions that are not in our customer base. It is a normal pharmaceutical industry practice in the PRC to sell to distributor customers. We distribute our products to distributor customers located within Fujian Province in the PRC and its neighbouring provinces including Guangdong, Hunan, Hubei, Jiangxi, Anhui and Zhejiang. During each of the three years ended 31 March 2013, we had 323 , 324 and 367 distributor customers respectively. Our relationship between our distributor customers is that of seller and buyer.

We source our products from over 1,900 domestic pharmaceutical and healthcare products manufacturers and distributors for the year ended 31 March 2013. For each of the three years ended 31 March 2013, our purchases from our five largest suppliers accounted for approximately 36.3%, 29.8% and 31.2% of our total purchases respectively. Our Group's five largest suppliers during the Track Record Period comprised 7 different pharmaceutical manufacturers/distributors located in Fujian Province and Jiangsu Province in the PRC. The length of our business relationships with our major suppliers during the Track Record Period ranged from approximately four to five years since our Group commenced pharmaceutical wholesale and distribution business from July 2008.

Pharmaceutical retail chain

We operate our pharmaceutical retail business through Huihao Sihai which was accounted for as one of our subsidiaries when our Group obtained an effective control under the Control Agreements dated 20 December 2009 pursuant to which Huihao Hong Kong acquired 99.29% equity interest in Huihao Sihai from Mr. Yung notwithstanding the 99.29% equity interest in Huihao Sihai was held by Mr. Yung on behalf of Huihao Hong Kong as Huihao Hong Kong did not have any suitable corporate vehicle that meet the requirement in order to benefit from CEPA to hold the 99.29% equity interest in Huihao Sihai at that time. Details of the aforesaid Acquisitions have been disclosed in the Acquisitions Circular and completion of which took place on 8 March 2010. After Huihao Hong Kong obtained the approval from the Trade and Industry Department of the Government of Hong Kong as a recognised service provider under CEPA on 21 July 2011, Huihao Hong Kong exercised its right under the Exclusive Purchase Agreement on 6 January 2012,

pursuant to which the 99.29% equity interests in Huihao Sihai held by Mr. Yung were transferred back to Huihao Hong Kong. As at the Latest Practicable Date, we directly operated 100 retail pharmacies with an aggregate store area of approximately 14,284 sq.m. in six prefectural-level districts of the Fujian Province in the PRC, including Fuzhou, Xiamen, Quanzhou, Sanming, Putian and Nanping. We offer a wide variety of products in our retail pharmacies including approximately 1,600 prescription medicines, approximately 2,100 over-the-counter medicines, approximately 1,100 healthcare food products, approximately 2,400 traditional Chinese medicines, approximately 1,300 medical supplies and medical devices and approximately 400 other products. We seek to introduce new products and services to meet changing customer preferences and to differentiate us from our competitors. We source our products from domestic pharmaceutical manufacturers and other suppliers.

According to CAPC, among the 100 largest pharmaceutical retail chain enterprises in the PRC in 2010, only Xiamen Luyan Pharmacy Ltd.# (厦門鷺燕大藥房有限公司) and Huihao Sihai were located in Fujian Province, which ranked 88 and 92, respectively, in terms of their respective sales. In 2011 and 2012, Huihao Sihai ranked 78 and 77 among the 100 largest pharmaceutical retail chain enterprises in the PRC respectively and was the only pharmaceutical retail chain enterprise located in Fujian Province. The revenue of our Group of approximately HK$1,712 million (equivalent to approximately RMB1,410 million) and HK$1,885 million (equivalent to approximately RMB1,534 million) for each of the two years ended 31 March 2012 and 2013, representing approximately 7.8% and 7.2% respectively of the aggregate revenue of Fujian pharmaceutical wholesale and retail market of approximately RMB18,137 million and RMB21,257 million in 2011 and 2012 respectively.

PRICE CONTROLS

According to the *Opinion on Reforming Drug Prices Management*#《關於改革藥品價格管理的意見》published on 20 July 2000 by the then State Planning Commission of China# (國家計劃委員會) (now known as the National Development and Reform Commission of the PRC# (中華人民共和國國家發展和改革委員會) (the "**NDRC**")), pharmaceutical retail units (including hospitals) cannot set their own retail prices of drugs above the maximum retail prices of drugs that are determined and stipulated by the PRC government. The price control imposed by the PRC government on pharmaceutical products only relates to the selling prices of pharmaceutical products sold to patients, hospitals, community clinics and other healthcare institutions and retail customers. In essence, the retail selling prices of all pharmaceutical products cannot be higher than the PRC government stipulated maximum prices. The selling prices of pharmaceutical products sold by pharmaceutical distributors to non-ultimate final consumers (such as our distributor customers and end customers) are not directly affected by the price controls imposed by the PRC government. For sales to our hospital and healthcare institution customers, the selling prices of our products (also known as bid prices) are determined under the collective tendering process and the bid prices cannot be higher than the PRC government stipulated maximum retail prices when such bid prices are determined. Therefore, price control only has a direct impact on our products sold to retail customers in our retail business. When the selling price of pharmaceutical products are adjusted

downwards as a result of price controls imposed by the PRC government, only products whose selling price is higher than the adjusted maximum retail prices will be adjusted and our profit margins of those products will be affected. As advised by our Directors, the NDRC announced six retail price adjustments in 2012 in relation to 3,102 items of pharmaceutical products, of which 297 items are sold by Huihao Sihai at that time. Out of those 297 items of pharmaceutical products, the retail selling prices of 53 items were adjusted downwards, 8 items were recalled by the pharmaceutical manufacturers due to reasonable profits could not be earned by the pharmaceutical manufacturers and their distribution intermediaries while the selling price of the remaining items were unaffected. Nevertheless, it would be normal industry practice for the pharmaceutical manufacturers to adopt remedial actions in order to mitigate the adverse effect of downward price adjustments in PRC government stipulated maximum prices. As confirmed by our Directors and our PRC Legal Advisers, our Group has not sold any pharmaceutical products which violated the relevant rules and regulations in relation to price controls imposed by the PRC government during the Track Record Period. Please refer to the section headed "Business – Price controls" in this listing document for further details.

FINANCIAL INFORMATION

Turnover of our Group during the Track Record Period

Our Group's total revenue for each of the financial years ended 31 March 2011, 2012 and 2013 was approximately HK$1,357.7 million, HK$1,712.1 million and HK$1,885.4 million respectively. The following table sets forth the revenue of our Group by business segment (further breakdown by types of customers):

	For the year ended 31 March					
	2011 *(note 1)*		**2012** *(note 1)*		**2013** *(note 1)*	
	HK$	*%*	*HK$*	*%*	*HK$*	*%*
	(in millions, except for percentages)					
Revenue:						
Pharmaceutical wholesale and distribution:						
Hospitals and healthcare institutions	187.1	13.8	296.1	17.3	456.0	24.2
Distributor customers	838.8	61.8	1,036.3	60.5	1,055.4	56.0
End customers *(note 2)*	141.7	10.4	160.6	9.4	135.5	7.2
Others *(note 3)*	32.7	2.4	32.1	1.9	26.0	1.3
Sub-total	1,200.3	88.4	1,525.1	89.1	1,672.9	88.7
Pharmaceutical retail	157.4	11.6	187.0	10.9	212.5	11.3
Total revenue	1,357.7	100.0	1,712.1	100.0	1,885.4	100.0

Notes:

1. These figures are the revenue of our Group for each of the three financial years ended 31 March 2013 based on information provided by our Group.

2. End customers include companies operating pharmaceutical retail chain stores, independent pharmacies, out-patient departments of community hospitals, healthcare service stations and clinics. End customers may or may not be retail customers who are invariably individuals.

3. Others relate to rebates received (net of sales tax) from suppliers as rewards for meeting certain sales target set by the suppliers.

The segment revenue of our pharmaceutical wholesale and distribution business was approximately HK$1,200.3 million for the year ended 31 March 2011. Since May 2010, our Group has commenced the distribution of pharmaceutical products made by pharmaceutical manufacturers that had won the bid of the Seventh Provincial Centralised Purchasing# (福建省第七批藥品集中採購) in Fujian Province, the PRC, which was organised by the Fujian Province Drugs Centralised Purchasing Leading Group Office# (福建省藥品集中採購領導小組辦公室). The segment revenue of our pharmaceutical wholesale and distribution business increased by approximately 27.1% from approximately HK$1,200.3 million for the year ended 31 March 2011 to approximately HK$1,525.1 million for the year ended 31 March 2012 and to approximately HK$1,672.9 million for the year ended 31 March 2013, representing a CAGR of approximately 18.1%. This growth was primarily driven by the increase in the sales to our hospital and healthcare institution customers and our distributor customers as a result of the increase in market demand, the expansion of our distribution network and product portfolio and the completion of the acquisition of Quanzhou Huihao on 1 April 2011.

The segment revenue of our pharmaceutical retail business increased from approximately HK$157.4 million for the year ended 31 March 2011 to approximately HK$187.0 million for the year ended 31 March 2012 and to approximately HK$212.5 million for the year ended 31 March 2013, representing a CAGR of approximately 16.2%. This increase was primarily due to an increase in the number of retail pharmacies from 90 as at 1 April 2010 to 97 as at 31 March 2013 and an increase in the average revenue per retail pharmacy by increasing product offerings with higher margins in our retail pharmacies.

Gross profit and gross profit margin of our Group during the Track Record Period

The following discussion and analysis on segment gross profit and gross profit margin is based on information provided by our Group. Set out below is the gross profit margin of our Group by business segment during the Track Record Period:

	For the year ended 31 March		
	2011	**2012**	**2013**
Pharmaceutical wholesale and distribution business	6.5%	5.7%	4.7%
Pharmaceutical retail chain business	35.3%	38.9%	39.9%
Total	9.8%	9.4%	8.7%

For the pharmaceutical wholesale and distribution business segment, our Group recorded gross profit of approximately HK$77.7 million, HK$87.6 million and HK$79.4 million for each of the three years ended 31 March 2011, 2012 and 2013 respectively, and our gross margin, which is equal to segment gross profit divided by segment revenue, was approximately 6.5%, 5.7% and 4.7% respectively. The gross profit margin of our Group's pharmaceutical wholesale and distribution business decreased from approximately 6.5% for the year ended 31 March 2011 to approximately 5.7% for the year ended 31 March 2012 and to approximately 4.7% for the year ended 31 March 2013, which was mainly attributable to a decrease in the gross profit margin of sales to our distributor customers and end customers arising mainly from our Group's attempt to lower gross margins by reducing the selling prices of some products, in order to increase our distribution network, number of customers and market share with a view to attracting more pharmaceutical manufacturers to engage us for distribution of their products to our hospital and healthcare institution customers under the collective tendering process so as to increase our sales to the hospital and healthcare institution customers.

For the pharmaceutical retail chain business segment, our Group recorded gross profit of approximately HK$55.6 million, HK$72.8 million and HK$84.7 million for each of the three years ended 31 March 2011, 2012 and 2013 respectively, and our gross profit margin, which is equal to segment gross profit divided by segment revenue, was approximately 35.3%, 38.9%, and 39.9% respectively during the same period. During the Track Record Period, we were able to increase the gross profit margin of our pharmaceutical retail chain business due to more product offerings of higher margin products that led to increase in the proportion of high margin products sold to retail customers.

Our Group's overall gross profit margin decreased from approximately 9.8% for the year ended 31 March 2011 to approximately 9.4% for the year ended 31 March 2012 and to approximately 8.7% for the year ended 31 March 2013, which was mainly contributed by the decrease in gross profit margin from the pharmaceutical wholesale and distribution business.

Deteriorating financial performance and sustainability of our business

Our Group's financial performance deteriorated during the Track Record Period as shown in (i) a decrease in turnover growth which was mainly attributable to reduction in the rate of sales growth generated from our distributor customers; (ii) a decrease in the overall gross profit margin of our Group contributed by decrease in gross profit from the pharmaceutical and wholesale business as a result of lowering gross profit margin to distributor customers and end customers; and (iii) a negative operating cashflow for the year ended 31 March 2013 as well as an increase in trade receivable turnover days during the Track Record Period mainly due to increase in the proportion of sales to our hospital and healthcare institution customers to total turnover of our Group and the credit terms given to our hospital customers are comparatively longer than those given to our distributor customers and end customers. Going forward, our Group will adopt measures to improve our financial performance so as to ensure sustainability of our business, further details of which are disclosed in the paragraphs headed "Business - Continue to improve our Group's future business performance", "Financial Information – Liquidity and capital resources – Overview – Net cash generated from or used in operating activities" and "Financial Information – Liquidity and capital resources – Certain key financial position items – Trade and other receivables and deposits".

SELECTED COMBINED STATEMENTS OF COMPREHENSIVE INCOME AND STATEMENTS OF FINANCIAL POSITION ITEMS

	For the year ended 31 March		
	2011	**2012**	**2013**
	HK$'000	*HK$'000*	*HK$'000*
Turnover	1,357,679	1,712,147	1,885,369
Gross profit	133,314	160,352	164,159
Other revenue	3,265	6,258	7,729
Other income	231	1,922	1,078
Selling and distribution expenses	(38,929)	(54,899)	(61,397)
Administrative expenses	(41,233)	(40,163)	(46,802)
Finance costs	(4,388)	(4,928)	(4,090)
Taxation	(19,420)	(23,210)	(18,772)
Profit for the year	32,840	45,332	41,905

	As at 31 March		
	2011	**2012**	**2013**
	HK$'000	*HK$'000*	*HK$'000*
Non-current assets	807,795	810,689	809,216
Current assets	398,800	483,009	581,707
Current liabilities	1,168,247	1,203,905	1,257,722
Net current liabilities	(769,447)	(720,896)	(676,015)
Net assets	38,348	89,793	133,201
Total assets	1,206,595	1,293,698	1,390,923

NET CURRENT LIABILITIES

Our Group recorded net current liabilities of approximately HK$769.4 million, HK$720.9 million and HK$676.0 million as at 31 March 2011, 2012 and 2013 respectively, which were mainly attributed to an amount due to Hua Xia of approximately HK$895.1 million, HK$881.0 million and HK$889.4 million respectively which comprised mainly the consideration paid by Hua Xia on behalf of Timely Hero in relation to the Acquisitions amounting to approximately HK$840.2 million. As part of the Reorganisation, Timely Hero entered into a loan capitalisation agreement on 3 September 2013 with Hua Xia whereby the amount due to Hua Xia by our Group of a non-trading nature was capitalised. Further details of the loan capitalisation can be found under the section headed "History, development and reorganisation – Reorganisation" in this listing document.

ANALYSIS ON SELECTED KEY FINANCIAL RATIOS

Set out below the summary of the key financial ratios of our Group as at 31 March 2011, 2012 and 2013:

	As at 31 March		
	2011	**2012**	**2013**
Current ratio	0.3	0.4	0.5
Gearing ratio	0.2	-0.1	0.2
Return on equity (%)	85.9	50.5	31.5
Return on assets (%)	2.7	3.5	3.0

Current ratio

The current ratio in general showed an increasing trend as at 31 March 2011, 2012 and 2013 respectively, which were mainly attributable to the combined effects of (i) an increase in trade and other receivables and deposits mainly due to the increase in turnover; and (ii) an increase in profits generated during the Track Record Period.

Gearing ratio

Our Group's gearing ratio (calculated based on the net debt divided by the total equity) reduced from approximately 0.2 as at 31 March 2011 to minus 0.1 as at 31 March 2012 mainly due to the fact that our Group's bank and cash balances increased from approximately HK$41.3 million as at 31 March 2011 to approximately HK$48.5 million as at 31 March 2012 mainly attributable to net cash generated from operating activities resulting from an increase in revenue during the year ended 31 March 2012 whereas bank borrowings of our Group decreased from approximately HK$49.2 million as at 31 March 2011 to approximately HK$36.6 million as at 31 March 2012 mainly as a result of repayment of bank loans upon their expiration. Our Group's gearing ratio increased from minus 0.1 as at 31 March 2012 to approximately 0.2 as at 31 March 2013 mainly due to a decrease in cash and bank balances of our Group from approximately HK$48.5 million as at 31 March 2012 to approximately HK$30.7 million as at 31 March 2013 mainly attributable to net cash used in operating activities resulting from an increase in trade and other receivables and deposits (for details, please refer to the section headed "Financial Information – Liquidity and Capital Resources – Overview – Net Cash Generated from or used in Operating Activities" in this listing document) and an increase in bank borrowings from approximately HK$36.6 million as at 31 March 2012 to approximately HK$50.7 million as at 31 March 2013 mainly due to addition of new bank loans to finance business operation.

Return on equity

Return on equity measures the efficiency of a company in generating profits from every dollar of net assets invested. Our Group's return on equity for each of the three financial years ended 31 March 2013 amounted to approximately 85.9%, 50.5% and 31.5% respectively. The decrease of return on equity was mainly attributable to the increase in equity due to profits generated during the Track Record Period.

Return on assets

Our Group's return on assets increased from approximately 2.7% for the year ended 31 March 2011 to approximately 3.5% for the year ended 31 March 2012 due to the fact that the increase in profit for the year of approximately 38.1% for the year ended 31 March 2012 while the Group's total assets increased by approximately 7.2% during the same period reflecting better efficiency in the use of our assets. Our Group's return on assets decreased from approximately 3.5% for the year ended 31 March 2012 to approximately 3.0% for the year ended 31 March 2013 primarily due to increase in total assets from approximately HK$1,293.7 million for the year ended 31 March 2012 to approximately HK$1,390.9 million for the year ended 31 March 2013.

RECENT DEVELOPMENT

Our business continues to grow healthily according to our existing operation strategy. We continue to increase our product portfolio to our customers and promote our corporate brand image by marketing activities. In relation to our pharmaceutical wholesale and distribution business, our Group has commenced the distribution of pharmaceutical products made by pharmaceutical manufacturers that have recently won the bid of the Eighth Provincial Centralised Purchasing# (福建省第八批藥品集中採購) in Fujian Province, the PRC which was organised by the Fujian Province Drugs Centralised Purchasing Leading Group Office# (福建省藥品集中採購領導小組辦公室) since April 2012. In relation to our pharmaceutical retail business, we continue to expand our product portfolio and offer high margin pharmaceutical products in our retail pharmacies. Subsequent to the Track Record Period, we have opened 3 new retail pharmacies located at Yongan City in Sanming and in Fuzhou City with an aggregate GFA of approximately 252 sq. m.. As at the Latest Practicable Date, we directly operated 100 retail pharmacies in six prefectural-level districts of the Fujian Province in the PRC. Based on our Group's unaudited financial information for the four months ended 31 July 2013, which has been reviewed by the reporting accountants of the Company, HLB Hodgson Impey Cheng, Certified Public Accountants, our revenue was approximately HK$727.2 million, representing an increase of approximately 17.3% compared to the same period last year, which was mainly contributed by an increase in revenue generated from our pharmaceutical wholesale and distribution business, in particular, our sales to distributor customers increased by approximately 20.5% from approximately HK$370.1 million for the four months ended 31 July 2012 to approximately HK$446.1 million for the four months ended 31 July 2013 and the percentage of our total revenue generated from our distributor customers increased from approximately 59.7% for the four months ended 31 July 2012 to approximately 61.3% for the four months ended 31 July 2013. The cost of sales of our Group has increased in line with the increase in our revenue for the four months ended 31 July 2013. The PRC government has announced downward adjustments in the maximum retail prices of some pharmaceutical products and therefore the selling prices of some of our products are adjusted accordingly. We are able to control our costs by remedial actions taken from our pharmaceutical manufacturers such as giving sales rebates for meeting sales targets, giving purchase discounts for pharmaceutical products to us or reducing their selling prices of the pharmaceutical products. As such, the gross profit margin of our retail business for the four months ended 31 July 2013 was not adversely affected by the downward adjustment in retail prices as compared to that for the same period in 2012.

Our Group's financial performance for the year ended 31 March 2013 was affected by the expenses incurred in relation to the Listing, the nature of which is non-recurring. Our Group expects that the total listing expenses amount to approximately HK$26.5 million. It is noted that the listing expenses above are a current estimate for reference only and the actual amount to be recognised is subject to adjustment based on audit and the then changes in variables and assumptions. Listing expenses recognised in the profit or loss during the year ended 31 March 2011, 2012 and 2013 were nil, nil and HK$6.4 million respectively. There were no prepaid or deferred listing expenses as at 31 March 2011, 2012 and 2013. Based on the above assumed total listing expenses, it is expected that approximately HK$9.5 million will be further recognised in our Group's profit or loss during the financial year ending 31 March 2014 and approximately HK$10.6 million will be deducted from our Group's share premium upon the Listing.

In general, based on the current information available to our Directors and in the absence of any material adverse change to the macro-economic conditions in the PRC or other unforeseen circumstances, our Directors anticipated that there will be no material adverse change in our financial or trading performance for the year ending 31 March 2014 compared to the year ended 31 March 2013. Our Directors also confirm that there has been no material adverse change in the financial or trading position of the Group since 31 March 2013 and up to the date of this listing document.

OUR BUSINESS STRATEGIES AND FUTURE PLANS

Our objectives are to consolidate our position as one of the established wholesaler and distributor and retail chain operator of pharmaceutical and healthcare products in Fujian Province in the PRC and expand our businesses in other provinces in the PRC. We aim to achieve these objectives through (i) continuing to optimise our wholesale and distribution operations, customer composition and product portfolio; (ii) continuing to invest in our efficient logistics and information systems to improve cost and operating efficiencies; (iii) continuing to build upon our integrated business platform in order to enhance the synergies between our wholesale and distribution and retail businesses; (iv) continuing to improve our Group's future business performance; (v) growing further through acquisitions; and (vi) increasing the number of our retail pharmacies through internal growth.

Please refer to the paragraph headed "Our business strategies and future plans" under the section headed "Business" in this listing document for further information about our Group's business strategies and future plans.

RISK FACTORS

Our Group believes that there are certain risks involved in our operation. Many of these risks are beyond our control and can be categorised into (i) risks relating to our business operations; (ii) risks relating to the industry in which we operate; (iii) risks relating to conducting business in the PRC; and (iv) risks relating to the Spin-off. We believe that the following are the more important risk factors that may have a material adverse effect on us: (i) we rely on certain key suppliers and may not be able to maintain our supplier relationships in our pharmaceutical distribution operations; (ii) substantial defaults, significant reduction in purchases or deterioration of the financial condition of distributor customers, may have an adverse effect on our business, financial condition and results of operations; (iii) our Group's gross profit margin from our wholesale and distribution business was relatively thin and has deteriorated during the Track Record Period; (iv) product recalls or defects in the pharmaceutical industry, and any other incident that negatively affects the reputation and public perception of the pharmaceutical industry may adversely affect our business; and (v) the healthcare industry is highly regulated by the PRC government, and the regulatory framework, requirements and enforcement trends may change from time to time. The risks mentioned above are not the only significant risks that may affect our operations. As different investors may have different interpretations and standards for determining materiality of a risk, you are cautioned that you should carefully read the section headed "Risk Factors" in this listing document.

REASONS FOR AND BENEFITS OF THE SPIN-OFF

The separate listing of our Company will be beneficial to our Group and Hua Xia Group for reasons including but not limited to (i) there is a clear delineation between the Spun-off Business and the Remaining Business in terms of their respective operation, management, client base, as well as geographical market; (ii) the Spin-off can unlock our Group from the GEM listing umbrella of Hua Xia so that investors would be able to appraise and assess the performance and potential of our Group separately and distinct from that of Hua Xia Group; (iii) the Spin-off will streamline the operation of both Hua Xia Group and our Group and increase the transparency of business performance and the financial status of both Hua Xia Group and our Group, which in turn will strengthen support from business partners, banks and financial institutions and enable investors to better assess the respective performance and potential of Hua Xia Group and our Group; and (iv) the separation of the two distinct businesses will allow each of Hua Xia Group and our Group to attract focused strategic investors who can produce synergy for each of such businesses to invest in or form strategic partnerships with each of such businesses.

Please refer to the paragraph headed "Reasons for and benefits of the Spin-off" under the section headed "The Hua Xia Distribution and the Spin-off" in this listing document for further details.

PROFIT FORECAST FOR THE YEAR ENDING 31 MARCH 2014

Estimated combined profit attributable to owners of the Company for the year ending 31 March 2014 *(Note 1)* . . . . . not less than HK$40 million

Unaudited pro forma estimated earnings per Share for the year ending 31 March 2014 *(Note 2)* . . . . . not less than HK6.17 cents

Notes:

(1) The bases on which the above profit forecast has been prepared are set out in Appendix IV to this listing document. Our Directors have prepared the estimated combined profit attributable to owners of the Company for the year ending 31 March 2014 based on the unaudited combined results of our Group shown in the management accounts for the four months ended 31 July 2013 and a forecast of the combined results for the remaining eight months of the financial year ending 31 March 2014. The profit forecast has been prepared on a basis consistent in all material respects with the accounting policies presently adopted by our Group as set out in note 3 of Section II in Appendix I to this listing document.

(2) The calculation of the unaudited pro forma estimated earnings per Share is based on the estimated combined profit attributable to owners of the Company for the year ending 31 March 2014 and assuming a total of 648,405,300 Shares had been in issue throughout the year ending 31 March 2014. The calculation takes no account of any Shares which may be allotted and issued upon the exercise of any options that may be granted under the Share Option Scheme.

UNAUDITED PRO FORMA ADJUSTED NET TANGIBLE ASSETS

The following unaudited pro forma statement of our adjusted net tangible assets prepared in accordance with Rule 4.29 of the Listing Rules and with reference to AG 7, "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" is for illustration purposes only, and is set forth here to illustrate the effect of the Listing and loan capitalisation for the amount due to Hua Xia Group on our net tangible assets as of 31 March 2013 as if the Listing and loan capitalisation for the amount due to Hua Xia Group had taken place on 31 March 2013.

The unaudited pro forma statement of adjusted net tangible assets has been prepared for illustrative purpose only and because of its hypothetical nature it may not give a true picture of our net tangible liabilities as of 31 March 2013 as derived from our financial statements set forth in the Accountants' Report in Appendix I, and adjusted as described below. The unaudited pro forma statement of net tangible assets does not form part of the Accountants' Report as set forth in Appendix I to this listing document.

	Audited net tangible liabilities attributable to owners of our Company as at 31 March 2013	**Pro forma adjustments**	**Unaudited pro forma adjusted net tangible assets**	**Unaudited pro forma adjusted net tangible assets per Share**
	HK$'000	*HK$'000*	*HK$'000*	*HK$*
	(Note 1)	*(Note 2)*		*(Note 3)*
Based on 648,405,300 Shares in issue	(652,759)	869,380	216,621	0.33

Notes:

(1) The audited net tangible liabilities attributable to owners of our Company as at 31 March 2013 is based on the net assets attributable to owners of our Company of approximately HK$132,762,000 less the goodwill of approximately HK$785,521,000 as at 31 March 2013 extracted from the Accountants' Report set out in Appendix I to this listing document.

(2) The pro forma adjustments combined the net effect of (i) the loan capitalisation of the amount due to Hua Xia Group as at 31 March 2013 of approximately HK$889,480,000 and (ii) the estimated outstanding Listing expenses recognised by our Company of approximately HK$20,100,000. The capitalisation of the loan amount due to Hua Xia Group of approximately HK$889,480,000 represented the amount due to the ultimate holding company of approximately HK$889,426,000, the amount due to a fellow subsidiary of approximately HK$59,000 and deducted from the amount due from the immediate holding company of approximately HK$5,000. The loan captalisation of the amount due to Hua Xia Group is non-trading in nature.

(3) The unaudited pro forma adjusted net tangible assets per Share is calculated based on 648,405,300 Shares in issue immediately following the Listing.

In this listing document, unless the context otherwise requires, the following terms and expressions shall have the meanings set out below.

"Acquisitions"	the acquisition by Timely Hero of (i) the entire issued share capital of Nurture Fit; and (ii) a loan of approximately HK$35 million indebted to Mr. Yung by Nurture Fit Group pursuant to the Acquisitions Agreement
"Acquisitions Agreement"	the sale and purchase agreement dated 13 November 2009 and entered into between Timely Hero as purchaser and Mr. Yung as vendor in relation to the Acquisitions
"Acquisitions Circular"	the circular of Hua Xia dated 11 February 2010 in relation to the Acquisitions
"Articles of Association" or "Articles"	the articles of association of the Company conditionally adopted on 24 September 2013, and as amended or supplemented from time to time, a summary of which is contained in Appendix V to this listing document
"associate(s)"	has the meaning ascribed thereto under the Listing Rules
"Assured Entitlement(s)"	the entitlement of a Qualifying Hua Xia Shareholder to receive the Shares under the Hua Xia Distribution on the basis of one Share for every five Hua Xia Shares held by such Qualifying Hua Xia Shareholder as at 4:30 p.m. on the Record Date
"Board"	the board of Directors
"Business Day"	a day (other than a Saturday or a Sunday) on which banks in Hong Kong are open for general banking business
"BVI"	the British Virgin Islands
"CAPC"	China Association of Pharmaceutical Commerce# (中國醫藥商業協會)
"CCASS"	the Central Clearing and Settlement System established and operated by HKSCC
"CCASS Clearing Participant(s)"	person(s) admitted to participate in CCASS as direct clearing participant(s) or general clearing participant(s)

"CCASS Custodian Participant(s)"	person(s) admitted to participate in CCASS as custodian participant(s)
"CCASS Investor Participant(s)"	person(s) admitted to participate in CCASS as investor participant(s) who may be individual(s) or joint individual or a corporation
"CCASS Participant(s)"	CCASS Clearing Participant(s), CCASS Custodian Participant(s), or CCASS Investor Participant(s)
"CEPA"	the Mainland and Hong Kong Closer Economic Partnership Arrangement
"CFDA"	China Food and Drug Administration (國家食品藥品監督管理總局), the PRC government authority responsible for formulating regulations and policies related to food and drug safety and taking charge of supervising the business players engaging in food and drug business
"Code"	the Hong Kong Code on Takeovers and Mergers
"Companies Law"	the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands
"Companies Ordinance"	the Companies Ordinance, Chapter 32 of the Laws of Hong Kong, as amended, supplemented or otherwise modified from time to time
"Companies Registry"	the Companies Registry of Hong Kong
"Company"	Wanjia Group Holdings Limited (萬嘉集團控股有限公司), an exempted company incorporated with limited liability in the Cayman Islands on 9 July 2012, and references to "we", "us" or "our" refer to our Group or, where the context requires, our Company
"connected person(s)"	has the meaning ascribed thereto under the Listing Rules

"Control Agreements"	collectively the agreements all dated 20 December 2009 and entered into among Mr. Yung, Huihao Sihai and Huihao Hong Kong including the Loan Agreement, the Share Charge, the Exclusive Share Purchase Agreement, the Management Appointment Agreement, the Directors' Undertaking and the Shareholder's Undertaking
"Controlling Shareholder(s)"	has the meaning ascribed to it under the Listing Rules and, in the context of our Company, means Hua Xia and Greatly Wealth
"Director(s)"	the director(s) of our Company
"Directors' Undertaking"	an undertaking dated 20 December 2009 by each of Mr. Yung and Mrs. Yung in favour of Huihao Hong Kong that each of them shall vote in accordance with the instructions of Huihao Hong Kong in all future directors' meetings of Huihao Sihai prior to the completion of the Exclusive Share Purchase Agreement
"Easeglory"	Easeglory Holdings Limited, a company incorporated in the BVI, the entire issued share capital of which is wholly and beneficially owned by Marshal
"ERP System"	Enterprise Resource Planning System
"Exclusive Share Purchase Agreement"	an agreement dated 20 December 2009 and entered into between Huihao Hong Kong, Mr. Yung and Huihao Sihai in relation to the acquisition of 99.29% equity interest in Huihao Sihai by Huihao Hong Kong
"FHP Chain"	Fujian Huihao Pharmaceutical Chain Company Limited# (福建惠好醫藥連鎖有限公司), a company established in the PRC and is held as to 50% by Mr. Weng Jiale, who is a nephew of Mr. Yung and a brother of Mr. Weng, and as to 50% by two Independent Third Parties

"FHP Company"	Fujian Huihao Pharmaceutical Company Limited# (福建惠好藥業有限公司), a company established in the PRC and is held as to 55% by Mr. Weng Jiale, who is a nephew of Mr. Yung and a brother of Mr. Weng, and as to 45% by an Independent Third Party
"Fujian Huiming"	Fujian Huiming Medicine Co. Ltd# (福建省惠明醫藥有限公司), a company established in the PRC on 10 July 2008 and a wholly-owned subsidiary of Fuzhou Huihao
"Fuzhou Huihao"	Fujian Province Fuzhou City Huihao Pharmaceutical Co. Ltd# (福建省福州市惠好藥業有限公司), a company established in the PRC on 9 July 2008 and a wholly-owned subsidiary of Huihao Hong Kong
"GEM"	the Growth Enterprise Market of the Stock Exchange
"GEM Listing Rules"	the Rules Governing the Listing of Securities on GEM
"GMP" or "Good Manufacturing Practices"	guidelines and regulations issued from time to time pursuant to the Law of the People's Republic of China on the Administration of Pharmaceuticals# (中華人民共和國藥品管理法) and to provide quality assurance and ensure that pharmaceutical products subject to the guidelines and regulations are consistently produced and controlled to the quality and standards appropriate for their intended uses
"Greatly Wealth"	Greatly Wealth Global Group Limited, a company incorporated in the BVI on 1 May 2012, the immediately holding company of our Company and our Controlling Shareholder and the entire issued share capital of Greatly Wealth was wholly and beneficially owned by Hua Xia as at the Latest Practicable Date
"Group"	our Company and our subsidiaries, including Huihao Hong Kong Group, (or our Company and any one or more of its subsidiaries, as the context may require), or where the context so requires, in respect of the period before our Company became the holding company of our present subsidiaries, such subsidiaries as if they were subsidiaries of our Company at the material time

"GSP" or "Good Supply Practices"	guidelines and regulations issued from time to time pursuant to the Law of the PRC on the Administration of Pharmaceuticals[#]（中華人民共和國藥品管理法）to provide quality assurance and ensure that pharmaceutical distribution enterprises distribute pharmaceutical products in compliance with the guidelines and regulations
"HKFRS"	Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants
"HKSCC"	Hong Kong Securities Clearing Company Limited
"HKSCC Nominees"	HKSCC Nominees Limited, a wholly-owned subsidiary of HKSCC
"Hong Kong" or "HK"	Hong Kong Special Administrative Region of the PRC
"Hua Xia"	Hua Xia Healthcare Holdings Limited (formerly known as Grandy Corporation, Grandy Applied Environmental Technology Corporation, Grandy Environmental Holdings Limited and Lotus Sea Holdings Limited), a company incorporated in the Cayman Islands on 28 May 2001 with limited liability, whose issued shares are listed on GEM, being our Controlling Shareholder
"Hua Xia CP Shares"	non-redeemable convertible preference shares which have a nominal value of HK$0.01 each in the capital of Hua Xia
"Hua Xia Distribution"	a conditional special dividend declared by Hua Xia to be satisfied by way of a distribution in specie of an aggregate of 236,487,652 Shares to the Qualifying Hua Xia Shareholders, subject to the satisfaction of the condition described in the section headed "The Hua Xia Distribution and the Spin-off" in this listing document
"Hua Xia Group"	Hua Xia and its subsidiaries which, for the purpose of this listing document, exclude the Group
"Hua Xia Shareholder(s)"	holder(s) of Hua Xia Shares

"Hua Xia Shares"	ordinary shares which have a nominal value of HK$0.01 each in the capital of Hua Xia
"Huihao Hong Kong"	Hui Hao (HK) Group Limited (惠好(香港)醫藥集團有限公司), a company incorporated in Hong Kong on 1 March 2004 with limited liability and a wholly-owned subsidiary of the Company
"Huihao Hong Kong Group"	together, Huihao Hong Kong, Fuzhou Huihao, Putian Huihao, Fujian Huiming, Quanzhou Huihao and Huihao Sihai
"Huihao Medicine Wholesale Group"	together, Huihao Hong Kong, Fuzhou Huihao, Putian Huihao, Fujian Huiming and Quanzhou Huihao
"Huihao Sihai"	Fujian Huihao Sihai Pharmaceutical Chain Company Limited# (福建惠好四海醫藥連鎖有限責任公司), a company established in the PRC on 30 November 2001 with limited liability and a non-wholly owned subsidiary of Huihao Hong Kong
"Independent Third Party(ies)"	a person(s) or company(ies) which is/are independent of and not connected with any member of the Group, the directors, chief executive and substantial shareholder of the Company and its subsidiaries and their respective associates
"Latest Practicable Date"	20 September 2013, being the latest practicable date prior to the publication of this listing document for ascertaining certain information contained in this listing document
"Listing"	the listing of Shares on the Main Board by way of introduction
"Listing Committee"	the listing sub-committee of the Stock Exchange
"Listing Date"	the date on which dealings in the Shares first commence on the Main Board, which is expected to be on or around 11 October 2013

"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange (as amended from time to time)
"Loan Agreement"	a loan agreement dated 20 December 2009 and entered into between Huihao Hong Kong and Mr. Yung in relation to the advancement of loan of HK$12,463,124.44 by Huihao Hong Kong to Mr. Yung for an initial term of ten years for the purpose of acquisition of 99.29% equity interest in Huihao Sihai
"Long Stop Date"	31 December 2013 or such later date as the board of directors of Hua Xia may decide as the long stop date for the satisfaction of the condition of the Hua Xia Distribution
"Luxuriant Expand"	Luxuriant Expand Global Investments Limited, a company incorporated in the BVI on 10 April 2012, the entire issued share capital of which is wholly and beneficially owned by Hua Xia prior to the completion of the Reorganisation and was wholly and beneficially owned by our Company immediately after completion of the Reorganisation and as at the Latest Practicable Date
"Main Board"	the stock exchange (excluding the option market) operated by the Stock Exchange which is independent from and operated in parallel to the GEM
"Management Appointment Agreement"	an exclusive appointment agreement dated 20 December 2009 and entered into between Huihao Sihai, Mr. Yung and Huihao Hong Kong in relation to, among other things, the appointment of two directors to the board of directors of Huihao Sihai by Huihao Hong Kong
"Marshal"	Marshal International Investments Limited, a company incorporated in the BVI with limited liability, the entire issued share capital of which is wholly and beneficially owned by Mr. Yung

"Medical Insurance Catalogue"	the National Essential Medical Insurance and Work Injury Insurance Catalogue# (《國家基本醫療保險和工傷保險藥品目錄》) issued by the PRC Ministry of Human Resources and Social Security# (中華人民共和國人力資源和社會保障部), further information is set out in the paragraph headed "Regulatory Framework – Medical Insurance Catalogue" in this listing document
"Memorandum"	the memorandum of association of the Company conditionally adopted on 24 September 2013, and as amended and supplemented from time to time
"Messis Capital" or "Sponsor"	Messis Capital Limited, a corporation licensed under the SFO to engage in Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities, being the sole sponsor of the Listing
"Mr. Weng"	Mr. Weng Jiaxing (翁加興), an executive Director
"Mr. Yung"	Mr. Yung Kwok Leong (翁國亮), an executive director and a substantial shareholder of Hua Xia
"Mrs. Yung"	Mrs. Yung Muk Ying (翁木英), the spouse of Mr. Yung
"National List of Essential Drugs"	a complete essential drug list which is issued and updated by NHFPC from time to time
"NHFPC"	the National Health and Family Planning Commission of the PRC# (中華人民共和國國家衛生和計劃生育委員會) (formerly known as the Ministry of Health of the PRC# (中華人民共和國衛生部))
"Non-competition Deed"	the deed of non-competition undertaking dated 30 September 2013 and executed by Hua Xia, Greatly Wealth, Easeglory, Marshal and Mr. Yung in favour of our Company, particulars of which are set out in the section headed "Relationship with Hua Xia Group and Connected Persons – Non-competition Deed" in this listing document

"Nurture Fit"	Nurture Fit Limited, a company incorporated in the BVI on 16 July 2009 with limited liability and an indirect wholly-owned subsidiary of Hua Xia immediately prior to the completion of the Reorganisation and was indirectly wholly-owned by our Company as at the Latest Practicable Date
"Nurture Fit Group"	Nurture Fit and its subsidiaries
"Overseas Hua Xia Shareholder(s)"	registered holder(s) of issued Hua Xia Shares whose address(es) on the register of members of Hua Xia is/are in a jurisdiction outside Hong Kong on the Record Date whose exclusion from the entitlement to receive Shares under the Hua Xia Distribution the directors of Hua Xia, having made relevant enquiries, consider to be necessary or expedient on account either of the legal restrictions under the laws of the relevant jurisdiction or the requirements of the relevant regulatory body or stock exchange in that jurisdiction
"PRC" or "China"	the People's Republic of China which, for the purpose of this listing document, excludes Hong Kong, Macau Special Administrative Region and Taiwan
"PRC government", "Central Government "or "China government"	central government of the PRC, including all governmental subdivisions (including provincial, municipal and other regional or local government entities)
"PRC Legal Advisers"	Fujian Minjiang Lawyer Office (福建閩江律師事務所), the legal advisers to our Group as to PRC laws
"Putian Huihao"	Putian Huihao Medicine Co. Ltd# (福建莆田惠好醫藥有限公司), a company established in the PRC on 11 July 2008 and a wholly-owned subsidiary of Fuzhou Huihao
"Qualifying Hua Xia Shareholder(s)"	registered holder(s) of issued Hua Xia Shares, whose name(s) appear(s) on the register of members of Hua Xia on the Record Date
"Quanzhou Huihao"	Huihao Medicine (Quanzhou) Co. Ltd.# (惠好醫藥(泉州)有限公司), a company established in the PRC on 17 May 2007 and a wholly owned subsidiary of Fuzhou Huihao

"Record Date"	7 October 2013, being the record date for ascertaining entitlements to the Hua Xia Distribution
"Remaining Business"	the provision of general hospital services and hospital management services in the PRC by Hua Xia Group
"Reorganisation"	the corporate reorganisation of the Group in preparation for the Listing, particulars of which are set forth under the paragraph headed "Reorganisation" in the section headed "History, Development and Reorganisation" in this listing document
"SFC"	the Securities and Futures Commission of Hong Kong
"SFO"	the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong, as amended and supplemented from time to time
"Share Charge"	a share charge dated 20 December 2009 and executed by Mr. Yung in favour of Huihao Hong Kong over his equity interests in Huihao Sihai as a security for the Loan Agreement and the Exclusive Share Purchase Agreement
"Share(s)"	ordinary share(s) with a nominal value of HK$0.01 each in the capital of our Company
"Share Option Scheme"	the share option scheme conditionally adopted by the Company on 24 September 2013, the principal terms of which are set forth under the paragraph headed "Share Option Scheme" under section headed "(D) Share Option Scheme" in Appendix VI to this listing document
"Shareholder(s)"	holder(s) of the Share(s)
"Shareholder's Undertaking"	an undertaking dated 20 December 2009 and executed by Mr. Yung in favour of Huihao Hong Kong that he will vote in accordance with the instructions of Huihao Hong Kong in all future shareholder's meetings of Huihao Sihai prior to the completion of the Exclusive Share Purchase Agreement

"Spin-off"	spin-off of the pharmaceutical wholesale and distribution and pharmaceutical retail chain businesses from Hua Xia
"Spun-off Business"	the provision of pharmaceutical wholesale and distribution and pharmaceutical retail chain businesses in the PRC by the Group
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"substantial shareholder(s)"	has the meaning ascribed to it under the Listing Rules
"Timely Hero"	Timely Hero Enterprises Limited, a company incorporated in the BVI on 1 December 2006 with limited liability and a direct wholly-owned subsidiary of Hua Xia immediately prior to the completion of the Reorganisation and is an indirectly wholly-owned subsidiary of our Group immediately after completion of the Reorganisation
"Trademarks Transfer Agreement I"	the trademarks transfer agreement dated 30 November 2009 (as supplemented by a supplemental agreement dated 22 December 2009) and entered into between FHP Company (as transferor) and Huihao Sihai (as transferee) in relation to the transfer of five trademarks
"Trademarks Transfer Agreement II"	the trademarks transfer agreement dated 30 November 2009 (as supplemented by a supplemental agreement dated 22 December 2009) and entered into between FHP Chain (as transferor) and Huihao Sihai (as transferee) in relation to the transfer of seven trademarks and the usage of one trademark
"Trademarks Usage Termination Agreement I"	the trademarks usage termination agreement dated 10 September 2012 entered into between FHP Company and Huihao Sihai in relation to the termination of FHP Company's usage of five trademarks granted under the Trademarks Transfer Agreement I
"Trademarks Usage Termination Agreement II"	the trademarks usage termination agreement dated 10 September 2012 entered into between FHP Chain and Huihao Sihai in relation to the termination of FHP Chain's usage of seven trademarks granted under the Trademarks Transfer Agreement II

"Track Record Period"	the three financial years ended 31 March 2013
"Hong Kong dollars", "HK dollars" or "HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"RMB" or "Renminbi"	Renminbi, the lawful currency of the PRC
"US$", "USD" or "US dollar(s)"	United States dollar(s), the lawful currency of the U.S.
"sq.ft."	square feet
"sq.m."	square meter
"%"	per cent.

In this listing document, if there is any inconsistency between the official Chinese name of the PRC laws or regulations or the PRC government authorities or the PRC entities and their English translation, the Chinese version shall prevail. English translations of official Chinese names are for identification purposes only.

In this listing document, unless otherwise specified, conversion of Renminbi has been translated into HK$ at exchange rates prevailing at the relevant times for illustrative purposes only. Such conversions shall not be construed as representations that amounts in Renminbi were or could have been or could be converted into HK$ at such rates or any other exchange rates.

All figures are converted (where relevant) for the purposes of this listing document from sq.m. to sq.ft. at 1 sq.m. = 10.7639 sq.ft.

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

This glossary contains certain definitions and other terms used in this listing document in connection with the Group and its business. The terminology and their meanings may not correspond to standard industry meanings or usage of those terms.

"CAGR"	compound annual growth rate
"GFA"	gross floor area
"GDP"	gross domestic product

This listing document contains forward-looking statements, including, without limitation, words and expressions such as "anticipate", "believe", "continue", "could", "expect", "going forward", "intend", "may", "ought to", "plan", "potential", "project", "seek", "should", "will", "would" or similar words or statements, in particular, in the sections headed "Risk Factors", "Business" and "Financial information" in this listing document in relation to future events, our future financial, business or other performance and development, the future development of our industry and the future development of the general economy of our key markets.

These statements are based on various assumptions regarding our present and future business strategies and the environment in which we will operate in the future. These forward-looking statements reflecting our current views with respect to future events are not a guarantee of our future performance and are subject to certain risks, uncertainties and assumptions, including the risk factors described in this listing document and the following:

- our business and operating strategies and our ability to implement such strategies;
- our ability to further develop and manage our projects as planned;
- financial condition and performance;
- our dividend policy;
- general political and economic conditions;
- changes in policies, legislation, regulations, or practices in the PRC;
- future developments and competitive environment for pharmaceutical and health products distribution and retail industry in the PRC or any other countries or territories in which we operate or should we intend to enter into;
- changes in economic conditions and competition in the areas in which we operate, including a downturn in the general economy of the PRC;
- exchange rate fluctuations and restrictions;
- catastrophic losses from fires, floods, windstorms, earthquakes, diseases or other adverse weather conditions or natural disasters; and
- other factors beyond our control.

We believe that the sources of information that contained such forward-looking statements are appropriate sources for such statements and has taken reasonable care in extracting and reproducing such information and assumptions. We have no reason to believe that information and assumptions contained in such forward-looking statements is false or misleading or that any fact has been omitted that would render such forward-looking statements false or misleading in any material respect. The information and assumptions contained in the forward-looking statements have not been independently verified by us, our Controlling Shareholders, the Sponsor, any other party involved in the Spin-off or their respective directors, officers, employees, advisers or agents and no representation is given as to the accuracy or completeness of such information or assumptions on which forward-looking statement are made.

Additional factors that could cause actual performance or achievements of our Group to differ materially include, but are not limited to those discussed under the section headed "Risk Factors" and elsewhere in this listing document. We caution you not to place undue reliance on these forward-looking statements which reflect the view of our Group's management only as of the date of this listing document. We undertake no obligation to update or revise any forward-looking statements at the Latest Practicable Date, whether as a result of new information, future events or otherwise. In light of these risks, uncertainties and assumptions, the forward-looking events discussed in this listing document might not occurred.

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

You should consider carefully all the information set forth in this listing document and, in particular, you should consider the following risks and special considerations associated with an investment in our Company before making any investment decision in relation to the Listing. The occurrence of any of the following risks may have a material adverse effect on the business, results of operations, financial conditions and future prospects of our Group. Additional risks and uncertainties not currently known to us or those we now deem immaterial may also harm us and affect your investment. The trading price of the Shares could decline due to any of these risks and you may lose part or all of your investment.

We believe that there are certain risks involved in our operations and many of these risks are beyond our control. These risks can be categorised into: (i) risks relating to our business operations; (ii) risks relating to the industry in which we operate; (iii) risks relating to conducting business in the PRC; and (iv) risks relating to the Spin-off.

RISKS RELATING TO OUR BUSINESS OPERATIONS

Our Group may not be able to respond to rapid changes in government regulations, treatment of diseases and customer preferences in the PRC pharmaceutical industry in a sufficient and timely manner.

The PRC government stringently administers the China pharmaceutical industry via extensive regulations and supervisions and the PRC government has introduced and implemented certain regulatory measures, and announced plans to implement additional rules and regulations with respect to the pharmaceutical industry, including those relating to: (i) changes in legislation or regulations governing the distribution, manufacturing or pricing of pharmaceutical products; (ii) additional quality control, licensing and certification requirements; (iii) changes in legislation or regulations governing the pricing, procurement, prescription and dispensing of essential and other medicines by public hospitals and other healthcare institutions; and (iv) changes in governmental funding for individual healthcare and pharmaceutical services. These measures may change the entire landscape of the PRC pharmaceutical industry significantly, and may result in increased costs and decreased profit margins for pharmaceutical distributors. These measures may also lead to decreases in the demand of our products and services by our customers and clients. Moreover, there is no guarantee that the PRC government will continue to adopt policies in favour of the pharmaceutical industry. The PRC government may adopt laws and regulations that either impose more stringent or less favourable measures to the PRC pharmaceutical industry in general or lower the level and/or benefits of healthcare services provided in the PRC. We cannot assure you that we will be able to keep up with the changes and that our business, financial condition and results of operations will not be negatively affected consequential to any such changes.

Rapid advances in science and technology and the emergence or mutation of viruses and bacteria are the major characteristics of the PRC pharmaceutical industry in the recent years led to the discovery and development of new and innovative medicines and other pharmaceutical products and treatments. Our Group's future success depends on our ability to identify such trends to improve and diversify our product portfolio, as well as securing sales and distribution agreements from domestic pharmaceutical manufacturers for new and competitively priced pharmaceutical products that meet the demand of a constantly changing market and are effective in treating new diseases and illnesses. We cannot assure you that we will be able to respond to the rapidly changing trends and to improve our product portfolio and services or distributing new products in a timely manner.

In addition to regulatory and industry changes, the preferences and purchasing trends of our customers with regards to pharmaceutical products can change rapidly. Our success depends on our ability to accurately project product demand, identify customer preferences and adapt our product selection to these preferences. We must adjust our product availability, selection and inventory levels based on factors such as business requirements, sales trends and other market data. In addition, our product selection may not accurately reflect product life cycles, seasonality or customer preferences at any given time. We cannot assure you that we will be able to promptly respond to changes in customer preferences and purchasing trends, and such failure may have an adverse effect on our business, financial condition, results of operations and profitability.

We may not be able to optimise the management of our distribution network or be successful in expanding our distribution network.

We distribute our products to our customers and our retail pharmacies through our distribution network which comprises 4 logistics centers located in Fujian Province, the PRC. If we do not manage the operation of our logistics centers and related facilities as well as conduct our distribution activities effectively, or if one or more of our logistic centers are destroyed or shut down due to any reasons such as a natural disaster, our ability to meet customers demand may be significantly affected. Any disruption in the operation of our distribution network could lead to an increase in costs or longer lead-times associated with distributing our products. In addition, since it is hard to predict accurate sales volumes in our industry, we may be unable to optimise our distribution activities, which may result in excessive or insufficient inventory, warehousing, fulfilment of logistics or value-added services, or distribution capacity.

Our Group intends to expand our geographic reach to our customers by expanding our retail network to include additional prefectural-level cities in Fujian Province. However, we may not be successful in expanding our retail network. Our products, distribution, logistics and other services may face competition from similar services and products offered by our competitors and the success of our proposed expansion will depend on a number of factors, such as capacity of existing logistic centers, availability of suitable location for establishment of logistic centers and level of competition, which are beyond our control. We must also be able to project and respond promptly and effectively to competition posed by other pharmaceutical product distributors. If we fail to expand our retail and distribution network in Fujian Province or if we are unable to compete effectively with other distributors, our business growth or acceleration may be negatively affected.

We rely on certain key suppliers and may not be able to maintain our supplier relationships in our pharmaceutical distribution operations. The termination of any distribution or sales agreements with our key suppliers may materially and adversely affect our business, financial condition and results of operations.

Our Group is engaged in pharmaceutical distribution operations and retail business. We rely on approximately 1,900 suppliers for a steady supply of pharmaceutical and healthcare products. For each of the three years ended 31 March 2013, our Group's top five suppliers accounted for approximately 36.3%, 29.8% and 31.2% respectively of our Group's total purchase. The termination of any sales and distribution agreements with these key suppliers may materially and adversely affect our business, financial condition and results of operations.

In addition, we typically distribute products pursuant to the sales and distribution agreements entered into directly with our suppliers. The duration of these agreements with our suppliers are generally one year. We cannot assure you that the suppliers will continue to sell products to us on commercially reasonable terms, or at all. We also cannot assure you that we will be able to establish relationships with new suppliers, or extend existing relationships with suppliers when our agreements with them expire. Our sales and distribution agreements with suppliers may be terminated from time to time due to various reasons beyond our control. Moreover, the sales and distribution agreements for some of the products supplied to us are not exclusive, and we cannot assure you that our competitors will not obtain the distribution rights of the products supplied to us.

Any of our key suppliers may not be successful in winning bids in the provincial collective hospital tendering process for the purchase of medicines by state-owned hospitals or fail to obtain necessary permits and licenses or fail to comply with the requirements of the Pharmacopeia of the PRC, with respect to products supplied to us.

State-owned hospitals solicit public bids from pharmaceutical products manufacturers or suppliers as part of their pharmaceutical procurement process through the provincial collective hospital tendering. As a pharmaceutical products distributor, our Group is subject to the risk that our key pharmaceutical products suppliers may not be successful in winning bids in the provincial collective hospital tendering process. Our pharmaceutical sales to hospitals could decrease significantly if our suppliers fail in these tendering processes, which could result in a material adverse effect on our business, financial condition and results of operations. However, the success of our key suppliers in winning bids in these tendering processes should not be considered a guarantee of success of our pharmaceutical distribution business. We cannot guarantee our suppliers will be successful in maintaining their standard and qualities to allow them to keep or renew any required permits or licenses for the manufacture or sale of the products they supply to us, such failure could materially and adversely affect our business, financial condition and results of operations.

Moreover, most of the pharmaceutical products supplied to us must comply with the standards set out in the Pharmacopeia of the PRC (the "**Pharmacopeia**"), the official compendium of specifications of medicines compiled by the Chinese Pharmacopeia Commission. The production, circulation and prescription of medicines and biological products in the PRC must comply with the standards set out in the Pharmacopeia, which is updated every five years since 1985. The 2010 edition of the Pharmacopeia has been effective since 1 October 2010. All national mandatory medicine standards are required to be in compliant with the 2010 edition of the Pharmacopeia. If our suppliers fail to meet the requirement of the next edition, i.e. the 2015 edition of the Pharmacopeia, our pharmaceutical products sales could decrease which would result in a material adverse effect on our business, financial condition and results of operations.

The retail selling prices of all pharmaceutical products distributed by us are subject to government price controls.

The retail selling prices of all pharmaceutical products distributed by us are subject to government price controls in the form of fixed retail prices or retail price ceilings. For details, please refer to the section headed "Regulatory Framework – Price Controls" in this listing document. As a result, our ability to set or raise the retail prices of these products is significantly limited. In addition, the government stipulated maximum prices are subject to periodic downward adjustments as the PRC government authorities aim to make pharmaceutical products more affordable to the general public. Consequently, our retail selling prices of these products are directly affected by government price controls. Any downward adjustment to the maximum retail selling prices of these products may have a negative impact on our revenue and results of operation.

Our Group may not be successful in expanding our supplier base and diversify our product portfolio.

Our ability to expand our supplier base and diversify our product portfolio is an important element for the continued expansion of our business. Our Group's product portfolio currently consists of approximately 15,600 different types of pharmaceutical and healthcare products, medical supplies, medical devices and other products. During the Track Record Period, we added approximately 600 new suppliers to our supplier base and new products to our product portfolio. Factors that could affect our ability to expand our product portfolio and supplier base include, among others, limited capital resources, changes in government regulations, the inability to attract and retain competent sales and marketing staff. If we are not able to continue to succeed in expanding our supplier base and diversifying our product portfolio at the pace we have during the Track Record Period, our growth prospects may be materially and adversely affected.

We may be unable to maintain relationships with our key wholesale and distribution customers.

We rely on our key wholesale and distribution customers. For each of the three years ended 31 March 2013, the revenue from our Group's top five customers, who are all wholesale and distribution customers, accounted for approximately 21.7%, 21.8% and 21.0% respectively of the total revenue of our Group. To maintain relationship with our wholesale and distribution customers, we enter into sales agreements with them and such agreements usually last for one year and under normal circumstances, they are renewable for one year or more upon expiration. There is no guarantee that our Group will continue to maintain stable relationships with any of our key customers due to increased competition or other factors beyond our control. While we are actively seeking business opportunities with new clients, it is anticipated that our Group will continue to derive a significant portion of our revenue from the top five customers of our Group. If we are not able to maintain business relationships with our key customers, our Group's business, results of operations and financial condition may be materially and adversely affected.

Any delays in collecting trade receivables from our customers may adversely affect our cash flow and working capital, financial condition and results of operations.

During the Track Record Period, our trade receivables mainly represent accounts receivable and bills receivable with credit period typically ranging from 30 to 90 days. As at 31 March 2011, 2012 and 2013, we had in aggregate trade receivables of approximately HK$198.6 million, HK$241.5 million and HK$345.8 million respectively. Our customers may in the future default on their obligations to our Group due to bankruptcy, lack of liquidity, operational failure or other reasons beyond our control and any delayed payment, non-payment or non-performance on the part of one or more of our major customers could have a material adverse effect on our cash flow, working capital, financial condition and results of operations.

Substantial defaults, significant reduction in purchases or deterioration of the financial condition of our wholesale and distribution customers, may have an adverse effect on our business, financial condition and results of operations.

For our wholesale and distribution business, our customers are mostly hospitals and healthcare institutions, distributor customers and end customers such as retail chain drug stores, independent pharmacies, out-patient departments of community hospitals, healthcare service stations and clinic. For each of the three years ended 31 March 2013, sales of our Group's wholesale and distribution business accounted for approximately 88.4%, 89.1% and 88.7% respectively of the total revenue of our Group. There is no guarantee that we will be able to maintain our relationships with these customers or that they will continue to purchase our products at similar volumes or at all. In addition, there is no guarantee that our customers will not experience any deterioration of their financial condition, such as insolvency, bankruptcy or other credit failure. If our customers' cash flow or operating and financial performance deteriorates, or if they are unable to make scheduled payments or obtain credit, they may not be able to pay, or may delay payment of, trade receivables due to us and our business, financial conditions and results of operation may be adversely affected.

Our Group may fail to maintain proper inventory levels for our pharmaceutical wholesale, distribution and retail operations.

Maintaining sufficient inventory levels is important to our operation of our pharmaceutical wholesale, distribution and retail business. Due to the rapid change in product lifecycle and consumer preference, there is no guarantee that the ERP System can accurately estimate the appropriate inventory level and avoid under-stocking or over-stocking. Also, the demand for products may change significantly between the time when the product inventory is ordered and the time it is available for sale. We may incur additional cost or need to write off obsolete stock if we over-stock. On the other hand, we may fail to supply products to our customers if we underestimate the demand which in turn may result in unfulfilled customers' orders and a negative impact on the customer relationships. If any of the aforesaid event happens, our business, financial condition and results of operations may be negatively affected.

Failure to obtain or renew the licenses and permits which enable our Group to conduct business may expose us to legal and business risks and may have an adverse effect on our business, financial condition and results of operations.

Our Group must obtain certain key permits and licenses in order to conduct our business and to provide our services. As at the Latest Practicable Date, we have obtained all licences and permits for our business operations. However, if we fail to obtain or renew these permits or licenses in a timely manner or at all, our Group may not be permitted to continue to conduct our business or to provide our services, which may result in an adverse effect on our business, financial condition and results of operations.

The historical levels of profitability may not be sustainable.

Our Group's profit after tax for each of the three years ended 31 March 2013 were approximately HK$32.8 million, HK$45.3 million and HK$41.9 million respectively. Our ability to maintain or increase our profitability depends upon, among other things, demand of pharmaceutical products, general living standard, government support, regulations, the pricing policy of the PRC and relationships with our suppliers and customers. Any adverse change in these factors could materially and adversely affect our results of operations, which would in turn negatively affect our profitability in the future. There is no guarantee that we will be able to maintain our profitability and the historical levels of profitability should not be regarded as if the same or similar level can be sustained in the future.

Our Group's net profit and net profit margin for the year ending 31 March 2014 may decrease significantly due to the recognition of listing expenses in the statements of comprehensive income.

Our Directors estimated that out of the total listing expenses of approximately HK$26.5 million, of which HK$6.4 million was recognized in the profit or loss during the year ended 31 March 2013, HK$9.5 million is expected to be recognized in our Group's profit or loss for the year ending 31 March 2014 and the remaining HK$10.6 million will be deducted from our Group's share premium upon the Listing. Therefore, our Group's net profit and net profit margin for the year ending 31 March 2014 may decrease significantly due to the recognition of listing expenses in the statements of comprehensive income.

We may experience difficulty in managing our growth.

Our Group's revenue increased from approximately HK$1,357.7 million for the year ended 31 March 2011 to approximately HK$1,712.1 million for the year ended 31 March 2012, representing an increase of approximately 26.1% from 2011 to 2012. Our Group's revenue grew by approximately 10.1% from approximately HK$1,712.1 million for the year ended 31 March 2012 to approximately HK$1,885.4 million for the year ended 31 March 2013. During the Track Record Period, we have opened 7 new stores, increased the number of logistics centers, brought in approximately 600 new pharmaceutical products suppliers and added new products to our portfolio in order to achieve growth. While our Group seek to maintain stable and sustainable growth, our managerial, operational, technical and financial resources might be strained due to the increase in our geographical coverage, workforce or other factors. We may not be able to manage our growth efficiently or cost effectively and in which case our business, financial condition and results of operations will be materially and adversely affected.

A majority of our Group's revenue was derived from sales to distributor customers with relatively thin gross margin.

Our Group's sales to distributor customers amounted to approximately HK$838.8 million, HK$1,036.3 million and HK$1,055.4 million for the years ended 31 March 2011, 2012 and 2013, representing approximately 61.8%, 60.5% and 56.0% of the total revenue of our Group respectively. Our Group's revenue depends on the demand from our distributor customers as well as our business relationship with our distributor customers. The number of distributor customers was 323, 324 and 367 for the years ended 31 March 2011, 2012 and 2013. Our revenue growth largely depends on our ability to add on new distributor customers as existing distributor customers may be terminated by reasons which are beyond our control. Furthermore, our Group's gross margin may be affected by the relatively large proportion of our sales to distributor customers as the gross margin derived from them was relatively thin during the Track Record Period.

Our Group's gross profit margin from our wholesale and distribution business was relatively thin and has deteriorated during the Track Record Period

During the Track Record Period, the gross profit margin of our Group's pharmaceutical wholesale and distribution business decreased from approximately 6.5% for the year ended 31 March 2011 to approximately 5.7% for the year ended 31 March 2012 and to approximately 4.7% for the year ended 31 March 2013. The decrease in the gross profit margin of our pharmaceutical wholesale and distribution business was primarily due to a decrease in the gross profit margin of sales to our distributor customers and end customers arising mainly from our Group's attempt to lower gross margins by reducing the selling prices of some products in order to increase our distribution network, number of customers and market share with a view to attract more pharmaceutical manufacturers to engage us for distribution of their products to our hospital customers under the collective tendering process so as to increase our sales to the hospital and healthcare institution customers.

We may not be able to implement our business plans successfully.

The sub-section headed "Our business strategies and future plans" under the section headed "Business" in this listing document sets out our Group's strategies and future plans. There are various factors that determine whether we will succeed in implementing our business plans, such as availability of funds, competition and change in government policies. It is anticipated that the business plans set out in the sub-section headed "Our business strategies and future plans" under the section headed "Business" in this listing document are achievable. However, there is no guarantee that any of such plans will be successfully implemented. Any failure or delay in achieving any or all of our Group's business plans may have an adverse effect on our Group's profitability and prospects.

We rely on our information management system in managing our operations and any system failure or deficiencies of our information management system may have an adverse effect on our business, financial condition and results of operations.

We rely on our information management system to monitor the daily operation for both of our pharmaceutical wholesale and distribution business and retail pharmacy business to maintain accurate and up-to-date operating and financial data for compilation of management information. Any damage or system failure caused by unforeseen events may lead to interruptions to the input, retrieval and transmission of data or increase in service time could disrupt our normal operations. There is no guarantee that we can effectively carry out our disaster recovery plan to handle the failure of our information management system, or that we will be able to restore our operational capacity within a time frame which could avoid disrupting our normal operations. If any of these events occur, it could have a material adverse effect on our business, financial condition and results of operations. In addition, if the capacity of our information system fails to meet the increasing needs of our expanding operations, our ability to expand may be constrained.

Product liability, personal injury or wrongful death claims or product recalls may incur loss to our Group.

Our Group will be exposed to risks if the pharmaceutical and healthcare products we distributed are unsafe, ineffective or defective, or if there is any improper filling of prescriptions, labeling of prescriptions, inadequacy of warnings or unintentional distribution of counterfeit medicines. If the use or misuse of our products results in personal injury or death, product liability claims may be brought against us, we may suffer from damages and may also be subject to product recalls, and in extreme cases, the PRC government may order the close down of the related operations.

Our Group's business, financial condition and results of operations may be materially and adversely affected if there is any successful claims against our Group. Regarding product liabilities, since there is currently no insurance product for distribution of pharmaceutical products in the PRC, our Group is not able to transfer or minimise such risk. In the event of allegations that any of our products are harmful, demand for products we distributed may decrease significantly. Any claims against us or product recalls, regardless of merit, may strain our financial resources in addition to consuming the time and attention of our management and materially and adversely affect our financial condition. We may incur monetary loss, and our reputation may be tarnished if any claims against us were to prevail and there is no guarantee that we will be able to recover the relevant amounts from the relevant manufacturers, or at all.

Furthermore, our in-store pharmacists provide consultation services, without additional charge, to our customers about medication, dosage, common side effects and other information deemed significant by our in-store pharmacists under applicable laws, rules and regulations. As advised by our PRC Legal Advisers, the provision of consultation services by our in-store pharmacists does not violate the relevant laws and regulations in the PRC. Our in-store pharmacists also have a duty to warn customers regarding any potential negative effects of a prescription medicine if these effects could be reduced or negated by the warning. We may be liable for claims arising from such advice given by our in-store pharmacists and in which event our business, financial condition, results of operations and reputation may be adversely affected.

Our brand and reputation may be damaged by any counterfeit pharmaceutical products in the PRC pharmaceutical market, which may have a material adverse effect on our business, financial condition, results of operations and prospects. During the Track Record Period, we had an incident where we sold counterfeit pharmaceutical products supplied to us by a pharmaceutical supplier.

There were certain pharmaceutical products distributed or sold in the PRC pharmaceutical retail market which had been proven to be counterfeit, which means these pharmaceuticals products are manufactured without proper licenses or approvals or are fraudulently mislabeled with respect to their content and/or manufacturer. Normally these counterfeit pharmaceutical products are sold at lower prices than the authentic pharmaceutical products due to their low production costs. In some cases, the outlook of counterfeit pharmaceutical products is very similar to the authentic pharmaceutical products. Counterfeit pharmaceutical products may or may not have the same chemical content as the authentic pharmaceutical products. The counterfeit pharmaceutical product regulation control and enforcement system in the PRC is not able to completely eliminate production and sale of counterfeit pharmaceutical products. We may unintentionally sell counterfeit pharmaceutical products in our pharmaceutical distribution and retail business and sales or distribution of these counterfeit pharmaceutical products may

have adverse effects to consumers demand, negative publicity of our brand name, incur fines and other administrative penalties or even result in litigation against us. Furthermore, before September 2012, the franchise stores operated under the franchise rights granted by FHP Chain contains the name "Huihao" in the stores, the sale of counterfeit pharmaceutical products by the franchise stores may adversely affect the reputation of our name. Since September 2012 and as at the Latest Practicable Date, the franchise stores have ceased to use the "Huihao" trademarks in their stores.

During the Track Record Period, we had had an incident where we sold counterfeit pharmaceutical products supplied to us by a pharmaceutical supplier and as a consequence of which, we paid damages in the sum of RMB323,885 to our customer and we were ordered by the relevant PRC authorities to turn over the proceeds generated from the sale of such counterfeit pharmaceutical products in the sum of RMB424,498.50 by 4 instalments over a period of 3 years. For further details of such incident, please refer to the paragraph headed "Legal Proceedings" under the section headed "Business" of this listing document. There is no assurance that we may not inadvertently sell counterfeit pharmaceutical products in future and our financial results and reputation may be adversely affected thereby.

Moreover, the continued proliferation of counterfeit pharmaceutical products and other products in recent years may reinforce the negative image of distributors and retailers among consumers in the PRC, and may severely harm the reputation and brand name of companies like us. As a result, the continued proliferation of counterfeit pharmaceutical products in the PRC could have a material adverse effect on our business, financial condition, results of operations and prospects.

We rely on our executive Directors and senior management and our ability to attract and retain a sufficient number of qualified staff, especially distribution personnel, retail managers and in-store pharmacists for our business.

The success of our Group depends on our ability to retain our executive Directors and senior management as well as qualified staff. The experience, expertise and contribution of our Directors and senior management are one of the elements to our success and we must also retain qualified staff for promoting pharmaceutical products across our networks. Failure to retain any of these Directors, senior management and qualified staff may negatively affect our profitability and prospects.

We have not been provided with valid or clear leasehold titles from lessors in respect of some of our leased properties. In addition, some of the lease agreements entered into between us and the relevant lessors in respect of the leased properties have not been registered in compliance with the relevant PRC laws.

As at the Latest Practicable Date, we leased 96 properties for our pharmaceutical retail business. Of these properties, 5 leased properties with an aggregate GFA of approximately 423.62 sq. m., which accounted for approximately 1.08% of the aggregate GFA of our leased properties, were leased from lessors who had not provided us with relevant documents showing building ownership titles in respect of these properties. In the event any of these lessors do not or fail to duly obtain property title, it may preclude us from enforcing our rights under the relevant lease agreement.

Details of these leased properties with defects are set out in the section headed "Business – Properties – Leased Properties" in this listing document.

We cannot assure you that ownership disputes or claims will not occur or that third parties will not assert any claims against us for compensation in respect of any illegal and/or unauthorized use of their land. In addition, our rights as lessee of the above land use rights and buildings may be adversely affected if formal title certificates are not obtained.

As at the Latest Practicable Date, 91 a lease agreements entered into between us and the relevant lessors in respect of the leased properties have not been registered in compliance with the relevant PRC laws, details of which are set out in the section headed "Business – Properties – Leased Properties" in this listing document. As advised by our PRC Legal Advisers, although the validity of the lease agreements should not be affected by the non-registration thereof and we remain legally entitled to occupy and use these properties, the relevant authorities in the PRC may impose an order to the relevant parties to the lease agreements, including the lessors and the lessees, to rectify the non-registration. For individuals who fail to effect the rectification, a fine of not exceeding RMB1,000 may be imposed, for business units who fail to effect the rectification, a fine of exceeding RMB1,000 but not exceeding RMB10,000 may be imposed. Therefore, our Group's maximum exposure of penalty is RMB910,000 if we fail to rectify the non-registration of lease agreements.

We cannot assure you that the relevant authorities in the PRC will not impose an order on us to rectify the non-registration of the lease agreements and that we could effect the rectification without the co-operation of the relevant lessors. If we fail to effect the rectification when ordered by the relevant authorities in the PRC, we may be liable to pay a fine.

We rely principally on dividends paid by our subsidiaries to fund any cash and financing requirements we may have, and any limitation on the ability of our subsidiaries to pay dividends to us could have a material adverse effect on our ability to conduct our business.

Our holding company is incorporated in the Cayman Islands as an exempted company, and a substantial portion of our business operations are located in the PRC and conducted through our PRC subsidiaries. We rely on dividend and other distributions paid by our PRC subsidiaries for our future cash needs, pay our debt or pay dividends.

Since our subsidiaries are established in the PRC, namely, Fuzhou Huihao, Fujian Huiming, Quanzhou Huihao, Putian Huihao and Huihao Sihai, they are subject to limitation relating to dividend payments. Currently, PRC corporations are only allowed to pay dividend out of accumulated profits as determined in accordance with generally accepted accounting principles in the PRC. PRC laws also require foreign-invested PRC corporations, such as our PRC subsidiaries, to set aside part of their net profit as statutory reserves. The statutory reserves are not available for distribution as cash dividends. Therefore, there is a limitation for our PRC subsidiaries to pay dividends to us under applicable PRC government laws and regulations, which may have a material adverse effect on our business, results of operations and financial condition.

Our operation is subject to risk associated with the use of third party delivery agents.

In our pharmaceutical wholesale and distribution business, we rely on a number of independent third-party logistics providers for the transportation and delivery of our products to our customers, either by road or by rail. Delivery may be disrupted for various reasons beyond our control, including poor handling by logistics providers, transportation bottlenecks, adverse weather conditions and natural disasters, social unrest and labour strikes, which could result in delayed or lost deliveries, and may result in loss of revenue and damage to our reputation. In addition, any significant increase in the cost of transportation, such as increased fuel cost, will increase our operating expenses. Any delay in or lost of deliveries may result in loss of revenue, payments of compensation to customers and damage to our reputation, and may materially and adversely affect our business, results of operations and financial position.

Our intellectual property rights and other forms of protection under PRC law may be infringed by third parties and our Group may be subject to claims on infringing third parties intellectual property.

Obtaining and maintaining our intellectual property rights and other forms of protection afforded to our services under PRC laws, and defending these rights against third-party challenges is essential to our Group's success. There is no assurance that our competitors or any third parties will not infringe our trademarks and that our efforts to claim against such infringement will be successful. If any misappropriation or infringement of our intellectual property rights occurs in the future, our Group may need to protect our intellectual property through litigation in which our management's attention may be diverted from our business operation and significant legal cost may be incurred with the outcome of any litigation being uncertain. Moreover, our market share and reputation may be damaged as a result of infringement of our intellectual property rights, which may materially and adversely affect our business, financial condition and results of operations.

Our Group may be subject to claims or litigation on infringing third parties', including our competitors, patent, trademark, copyright and other intellectual property rights. As we continue to expand our business and diversify our product portfolio, the risk of being subject to intellectual property infringement claims will increase. Due to the confidential nature of PRC patent applications and the numerous patent applications currently being reviewed in the PRC, we may be unable to determine whether the intellectual property rights of any third parties have been infringed. More importantly, any claims, regardless of their merit, will divert our management's attention from the operation of our business and significant legal cost may be incurred. If the claims are successful, we may need to obtain licenses from the claimants to continue distributing such products. Such licenses may be limited or not commercially reasonable. In addition, our Group may need to stop distributing such product at all and may be required to compensate the claimant for any intellectual property infringement. In such event, our reputation may be damaged which may materially and adversely affect our business, financial condition and results of operations.

RISKS RELATING TO THE INDUSTRY IN WHICH WE OPERATE

The healthcare industry is highly regulated by the PRC government, and the regulatory framework, requirements and enforcement trends may change from time to time.

The healthcare industry in the PRC is highly regulated by the PRC government. Certain aspects of our operations, such as licensing and certification requirements, procedures for distribution and retail sales of pharmaceutical products and operating and security standards are subject to various local, regional and national regulatory regimes. There is no guarantee that the legal framework, licensing and certification requirements and enforcement trends will not change, or we will be able to respond to such changes. Any adverse changes in these regulatory regimes may result in increase in cost of operation, which may materially and adversely affect our business, financial condition and results of operations.

As a pharmaceutical distributor and retailer, we are required to obtain certain permits and licenses from various PRC governmental authorities, including Good Supply Practice, or GSP, certifications. As at the Latest Practicable Date, we have obtained all required permits, licenses and GSP certifications required by the current standards and regulations. These permits and licenses and GSP certifications are subject to periodic renewal and/or reassessment by the relevant PRC government authorities and the standards of such renewal or reassessment may change from time to time. Our Group intends to renew such permits, licenses and certifications when required by applicable laws and regulations, however, there is no guarantee that we will be able to renew such permits, licenses and certifications or that we will be able to obtain such permits, licenses and certifications if there is any change in the standards and regulations. Any failure to obtain and maintain all these licenses, permits and certifications may restrict the conduct of our business, decrease our turnover, and reduce our profitability and prospects which may have a material adverse effect on our business, financial condition and results of operations and may severely disrupt our business or prevent us from our normal business operation.

Our action, including our employees' or our affiliates', may violate anti-corruption measures adopted by the PRC government to prevent fraud and abuse in the pharmaceutical industry. If we fail to comply with these measures, or effectively manage our employees and affiliates, our reputation, results of operations and business prospects may be adversely affected.

Our pharmaceutical distribution and retail business are subject to PRC laws, rules and regulations relating to healthcare fraud and abuse. Therefore, there are risks that our action, including our employees' or our affiliates' action, violate anti-corruption measures adopted by the PRC government to prevent fraud and abuse in the pharmaceutical industry. Typical corrupt practice in the pharmaceutical industry includes, among others, receipt of kickbacks and bribes or other illegal gains or benefits by pharmacies. If we, our employees or affiliates, violate these laws, rules or regulations, we may be subject to damage payments or fines, or may be forced to cease our business, the occurrence of which may have a material adverse effect on our reputation, results of operations and prospects.

The pharmaceutical industry in which we operate is highly competitive and it comprises a large number of competitors, and our business, financial condition and results of operations may be adversely affected if we are not able to compete effectively.

The pharmaceutical industry in which we operate is highly competitive. The key competitors involve large national and regional distributors of pharmaceutical and healthcare products. We also compete with foreign pharmaceutical distribution, retail and service companies with operations in the PRC and local distributors of pharmaceutical products, manufacturers that engage in direct selling and other retail pharmaceutical stores. These companies may be more competitive than our Group as they have substantially greater resources, in terms of financial, technical, marketing, distribution, and other resources. There is no guarantee that we will be able to distinguish our distribution services and diversified product portfolio to sustain our competitiveness, or to maintain our supplier relationships, nor can we assure you that we will increase or maintain our existing market share. Any significant increase in competition could adversely affect our profitability. If we are unable to compete effectively against our competitors, our business, financial condition and results of operations may be materially and adversely affected.

RISKS RELATING TO CONDUCTING BUSINESS IN THE PRC

The legal system in the PRC is less mature and systematic compare to other developed countries. It could limit the legal protection available to our shareholders.

The legal system in the PRC is based on written statutes and legal interpretations made by the Standing Committee of the National People's Congress. The PRC government has been developing a comprehensive system of commercial laws since 1979. Although considerable progress has been made in establishing laws and regulations dealing with economic matters such as foreign investment, corporate organization and governance, commerce, trade and taxation, these laws and regulations are relatively new and, interpretation and enforcement of the laws and regulations in the PRC involve uncertainties and our Group's legal rights may not be well protected.

It may be difficult to effect services of process upon us or our Directors or executive officers who reside in the PRC or to enforce against them or us in the PRC any judgments obtained from non-PRC courts.

We are a company incorporated in the Cayman Islands. Most of our Directors primarily reside in the PRC and most of our assets are located in the PRC. Hence, it may not be possible for investors to effect service of process upon us or those persons reside in the PRC. The PRC government has not entered into treaties or arrangements providing for the recognition and enforcement of judgments made by courts of most other jurisdictions including, among other, United States, the United Kingdom, or most western countries or Japan. Therefore, the recognition and enforcement in the PRC of judgments of a court in any of these jurisdictions in relation to any matter not subject to a binding arbitration provision may be difficult or even impossible.

Any outbreaks of contagious diseases in the PRC may have a material adverse effect on our Group's business, financial condition and results of operations.

As our business is conducted in the PRC and a substantial portion of our assets are located in the PRC, any occurrence of outbreaks of contagious diseases in the PRC leading to disruption and shutdown of our business operation may materially and adversely affect the PRC economy as a whole and may negatively affect our Group's business and operation as well.

We may be deemed a PRC "resident enterprise" under the new PRC enterprise income tax law and be subject to PRC taxation on our income.

Pursuant to the "Enterprise Income Tax Law"# (《中國企業所得税法》) of the PRC, a resident enterprise is subject to enterprise income tax for income derived from both inside and outside the territory of the PRC. Non-resident enterprises which have set up organizations and establishments in the PRC are subject to enterprise income taxes for the income of such organizations or establishments that derived from the PRC as well as those income derived outside the PRC but with actual connection with such organizations or establishments in the PRC. The tax rate for the said enterprise income tax is 25% as at the Latest Practicable Date.

Non-resident enterprises which have not set up organizations or establishments in the PRC, or which have set up organizations or establishments in the PRC but the incomes derived has no actual connection with such organizations or establishments in the PRC, are subject to enterprise income taxes for income derived from the PRC (including income and interest from equity investment (such as dividend and bonus), rental income, licenses fee income) at a prevailing enterprise income tax rate of 20%. However, according to the requirements of "Implementation Regulations of the Enterprise Income Tax of the People's Republic of China"#(《中華人民共和國

企業所得税法實施條例》) issued on 6 December 2007 and became effective from 1 January 2008, the aforesaid income of a non-resident enterprise is subject to enterprise income tax at a reduced tax rate of 10%.

According to relevant provisions of the "Arrangement between the Mainland of China and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to Taxes on Income"# (《內地和香港特別行政區關於對所得避免雙重徵税和防止偷漏税的安排》) promulgated by the State Administration of Taxation on 21 August 2006 and became effective from 8 December 2006, where a Hong Kong company directly holds not less than 25% capital in a foreign invested enterprise in China, the tax payable on the dividend received from the said foreign invested enterprise shall not be more than 5% of the dividend payment. During the Track Record Period, a provision for PRC enterprise income tax of approximately HK$2.7 million was recognised in our financial statements at the tax rate of 5% in respect of the dividends received from a PRC subsidiary of our Group.

On 27 October 2009, the State Administration of Taxation issued the Notice Regarding the Understanding and Recognition of "Beneficial Owners" under Tax Treaties (Guoshuihan [2009] No.601)#《國家税務總局關於如何理解和認定税收協定中"受益所有人"的通知》(國税函[2009] 601號) (the "**Circular 601**") to address which entities are treated as "beneficial owners" in respect of treaties on dividends, interest and royalties. According to Circular 601, the PRC tax authorities shall determine whether an applicant (income recipient) is a qualified "beneficial owner" on a case-by-case basis based on the factual status rather than the mode of establishment. It is possible, based on these principles, that the PRC tax authorities may not consider our Hong Kong subsidiary, namely Huihao Hong Kong, as the "beneficial owner" of dividends paid by our PRC subsidiaries, and the claim for the reduced rate of withholding tax will be denied and this will result in dividends from our PRC subsidiaries to Huihao Hong Kong being subject to PRC withholding tax at a rate of 10% instead of 5%. In such event, our tax exposure during the Track Record Period would amount to HK$4.2 million and the aforesaid provision for PRC enterprise income taxes would be inadequate, resulting in a negative impact on our financial results.

RISKS RELATING TO THE SPIN-OFF

There is no existing public market for our Shares and their liquidity and market price may fluctuate.

Prior to completion of the Spin-off, there was no public market for our Shares. Our Company has applied for the listing of, and permission to deal in, the Shares on the Stock Exchange. The Listing, however, does not guarantee that an active trading market for our Shares will develop or, if it does develop, that it will be sustained following completion of the Spin-off or that the market price of our Shares will not fluctuate following completion of the Spin-off. In addition, we cannot assure you that the Listing will result in the development of an active and liquid public trading market for our Shares. Furthermore, the price and trading volume of our Shares may be volatile. Factors such as the following may affect the trading volume and price at which our Shares will trade:

- actual or anticipated fluctuations in our results of operations;
- announcements of new projects or acquisitions by us or our competitors;
- news regarding recruitment or loss of key personnel by us or our competitors;
- announcements of competitive developments, acquisitions or strategic alliances in our industry;
- changes in earnings estimates or recommendations by financial analysts;
- potential litigation or regulatory investigations;
- general economic, market or regulatory conditions or other developments affecting us or the industry in which we operate;
- the operating and stock price performance of other companies, other industries and other events or factors beyond our control; and
- release of lock-up or other transfer restrictions on the outstanding Shares or sales or perceived sales of additional Shares by our Company, our Controlling Shareholders or other Shareholders.

You should note that the stock prices of companies in the pharmaceutical industry have experienced wide fluctuations. Such wide market fluctuations may adversely affect the market price of our Shares. In addition, the securities markets have from time to time experienced significant price and trading volume fluctuations that are not related to the operating performance of particular companies. These market fluctuations may also materially and adversely affect the market price of our Shares.

Shareholders' interests in our Company's share capital may be diluted in the future.

In order to expand our business, we may consider offering and issuing additional Shares or equity-linked securities in the future, which may result in a dilution in our net tangible book value or earnings per Share. The Board has been granted an unconditional general mandate to issue new Shares with an aggregate nominal value of not more than 20% of the aggregate nominal value of our Company's share capital on the Listing Date as described in the section headed "Share Capital" in this listing document. As at the Latest Practicable Date, we did not have any intention to offer additional Shares or equity-linked securities.

Forward-looking information may prove inaccurate.

This listing document contains forward-looking statements and information relating to us and our operations and prospects that are based on our current beliefs and assumptions as well as information currently available to us. When used in this listing document, the words "anticipate", "believe", "continue", "could", "expect", "going-forward", "intends", "may", "ought to", "plans", "potential", "project", "seek", "should", "will", "would" or similar expressions, as they relate to us or our business, are intended to identify forward-looking statements. Such statements reflect our current views with respect to future events and are subject to risks, uncertainties and various assumptions, including the risk factors described in this listing document. Should one or more of these risks or uncertainties materialise, or should any of the underlying assumptions prove incorrect, actual results may diverge significantly from the forward-looking statements in this listing document. We do not intend to update these forward-looking statements in addition to our on-going disclosure obligations pursuant to the Listing Rules or other requirements of the Stock Exchange.

We cannot guarantee the accuracy of certain facts and statistics contained in this listing document.

Certain facts and statistics in this listing document, including those relating to the PRC, its economy and its pharmaceutical industry have been derived from various official government and other publications generally considered to be reliable. We believe that the sources of such information are appropriate sources for such information and have taken reasonable care in extracting and reproducing such information. We have no reason to believe that such information is false or misleading in any material respect or that any fact has been omitted that would render such information false or misleading in any material respect. The information has not been independently verified by us, the Sponsor, any of our or their respective directors, officers or representatives or any other person involved in the Spin-off and no representation is given as to its accuracy. Due to possibly flawed or ineffective collection methods or discrepancies between published information and market practice, the facts and statistics contained in this listing document may be inaccurate or may not be compatible to facts and statistics produced with respect to other economies. Further, we cannot assure you that they are stated or compiled on the same basis or with the same degree of accuracy (as the case may be) in other jurisdictions. Therefore, you should not unduly rely upon the facts and statistics contained in this listing document.

We strongly caution you not to place any reliance on any information contained in press articles or other media regarding us and the Spin-off.

Prior to the publication of this listing document, there has been press and media coverage regarding us and the Spin-off. Such press and media coverage may include certain development and operational information, financial information, financial projections, valuations and other information about us that are not contained in this listing document. There may continue to be additional press and media coverage on us and the Spin-off. We do not accept any responsibility for any such press or media coverage or the accuracy or completeness of any such information. We make no representation as to the appropriateness, accuracy, completeness or reliability of any such information or publication. To the extent that any such information appearing in publications other than this listing document is inconsistent or in conflict with the information contained in this listing document, we disclaim it, and accordingly you should not rely on any such information.

In preparation for the Listing, we have sought the following waivers from strict compliance with the relevant provisions of the Listing Rules:

I. MANAGEMENT PRESENCE

Pursuant to Rule 8.12 of the Listing Rules, a new applicant applying for a primary listing on the Stock Exchange must have a sufficient management presence in Hong Kong. This normally means that at least two of its executive Directors must be ordinarily resident in Hong Kong. At present, the Board consists of two executive Directors, namely, Mr. Weng and Mr. Chen Yong. While Mr. Weng is ordinarily resident in Hong Kong, Mr. Chen Yong ordinarily resides in the PRC.

Since the current business operations of our Group are substantially located, managed and conducted in the PRC and our Group does not and, in the foreseeable future, will not have substantial operation in Hong Kong, our Company considers that it would be very difficult and unduly burdensome for our Company to relocate all our executive Directors to Hong Kong or to appoint additional executive Director(s) who are ordinarily residing in Hong Kong. Further, the appointment of additional executive Director(s) in Hong Kong would not only increase the administrative expenses of our Group, but would also reduce the effectiveness of our Board in making decisions for our Group, especially when business decisions are required to be made within a short period of time.

In addition, if such additional executive Director is appointed in Hong Kong, since he/she will not be physically present in the PRC all the time, he/she will not be able to fully understand the daily operations of our Group or fully appreciate the circumstances surrounding or affecting the business operations and development of our Group from time to time. As such, such executive Director may not be able to exercise his/her discretion on a fully informed basis, or make appropriate business decisions or judgments that are most beneficial to the operation and development of our Group. Accordingly, we have applied to the Stock Exchange for a waiver from strict compliance with the requirements of Rule 8.12 of the Listing Rules.

Our Company has received from the Stock Exchange a waiver from strict compliance with Rule 8.12 of the Listing Rules subject to the following conditions:

(a) Our Company has appointed and will maintain two authorised representatives (the "**Authorised Representatives**") pursuant to Rule 3.05 of the Listing Rules, who will act as our Company's principal communication channel with the Stock Exchange. Our Company has appointed Mr. Weng and Ms. Tsang Pui Yee, the company secretary of our Company, as the authorised representatives to act as the principal communication channels with Stock Exchange after the Listing. Each of the authorised representatives shall be available to meet with any officers of the Stock Exchange in Hong Kong within a reasonable period of time upon request and will be readily contactable by telephone, facsimile or e-mail. Each of the authorised representatives has been duly authorised to communicate on behalf of our Company with the Stock Exchange;

(b) The authorised representatives will have the means to contact all members of the Board (including the independent non-executive Directors) promptly at all times as and when the Stock Exchange may wish to contact the members of the Board for any matters. In addition, each Director shall provide his or her mobile phone number, residential phone number, office phone number, fax number and e-mail address to the authorised representatives and to the Stock Exchange;

(c) All of our executive Directors and independent non-executive Directors who are not ordinarily residents in Hong Kong have confirmed that they possess valid travel documents to visit Hong Kong and they will also be able to meet with the officers of the Stock Exchange within a reasonable period of time upon request; and

(d) Our Company has appointed Messis Capital as our compliance adviser pursuant to Rule 3A.19 of the Listing Rule, who will also act as an additional communication channel with the Stock Exchange. The appointment of Messis Capital will commence for a period from the date on which our Shares commencing trading on the Stock Exchange and ending on the date on which our Company distributes the annual report for the first full financial year after the date on which our Shares commence trading on the Stock Exchange in accordance with Rule 13.46 of the Listing Rules.

II. CONNECTED TRANSACTIONS

Members of our Group have entered into certain transactions which would constitute non-exempt continuing connected transactions of our Company under the Listing Rules upon Listing. We have applied to the Stock Exchange and the Stock Exchange has granted a waiver from strict compliance with the requirements under Chapter 14A of the Listing Rules to our Company. Further details of such non-exempt continuing connected transactions are set out in the section headed "Connected transactions" in this listing document.

DIRECTORS' RESPONSIBILITY FOR THE CONTENTS OF THIS LISTING DOCUMENT

This listing document, for which our Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to our Company. Our Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this listing document 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 listing document misleading.

Copies of this listing document are available, for information purposes only, during normal office hours from 9:00 a.m. to 5:00 p.m. at the office of Messis Capital at Room 1606, 16/F, Tower 2, Admiralty Centre, 18 Harcourt Road, Hong Kong from Monday, 30 September 2013 to Friday, 11 October 2013 (both dates inclusive).

INFORMATION ON THE SPIN-OFF

We have not authorised anyone to provide any information or to make any representation not contained in this listing document. You should not rely on any information or representation not contained in this listing document as having been authorised by us, the Sponsor, or any of our or their respective directors, officers or representatives or any other person involved in the Spin-off. Neither the delivery of this listing document nor the distribution of Shares pursuant to the Hua Xia Distribution should, under any circumstances, constitute a representation that there has been no change or development reasonably likely to involve a change in our affairs since the date of this listing document or imply that the information contained in this listing document is correct as at any date subsequent to the date of this listing document.

RESTRICTIONS ON THE USE OF THIS LISTING DOCUMENT

This listing document is published solely in connection with the Spin-off. It may not be used for any other purpose and, in particular, no person is authorised to use or reproduce this listing document or any part thereof in connection with any offering of Shares or other securities of our Company. Accordingly, this listing document does not constitute an offer or invitation in any jurisdiction to acquire, subscribe for or purchase any of the Shares or other securities of our Company nor is it calculated to invite any offer or invitation for any of the Shares or other securities of our Company.

APPLICATION FOR LISTING ON THE STOCK EXCHANGE

Application has been made to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Shares in issue and to be issued (including any Shares which may be issued pursuant to the exercise of options that may be granted under the Share Option Scheme). No part of the share or loan capital of our Company is listed or dealt in on any other stock exchange and no such listing or permission of dealing is being or is proposed to be sought.

ABOUT THE SPIN-OFF

The Spin-off does not involve an offering of Shares or any other securities of our Company for purchase or subscription and no money will be raised in conjunction with the Spin-off.

CONDITION OF THE SPIN-OFF

The Spin-off is conditional on the Listing Committee granting the listing of, and permission to deal in, the Shares in issue on the Main Board of the Stock Exchange on or prior to the Long Stop Date. If such condition is not satisfied, the Hua Xia Distribution will not be made and the Spin-off will not take place, in which case an announcement will be made.

NO CHANGE IN BUSINESS

No change in the business of our Company immediately following the Spin-off is contemplated.

PROFESSIONAL TAX ADVICE RECOMMENDED

You are recommended to consult your professional advisers, if you are in any doubt as to the taxation implications of holding, disposal of, and dealing in the Shares or the exercise of any rights in relation to them.

Our Company, the Sponsor and any of their respective directors, officers, employees, agents or representatives of any of them or any other person or party involved in the Listing do not accept responsibility for any tax effects on, or liabilities of, any person resulting from purchase, holding or disposal of, dealing in or the exercise of any rights in relation to the Shares.

HONG KONG REGISTER OF MEMBERS AND STAMP DUTY

Our principal register of members will be maintained by the principal share registrar in the Cayman Islands, Royal Bank of Canada Trust Company (Cayman) Limited. All Shares will be registered on our Hong Kong register of members maintained by Tricor Investor Services Limited in Hong Kong. Only Shares registered on our Hong Kong register of members maintained in Hong Kong may be traded on the Stock Exchange.

Dealings in the Shares registered on our register of members in Hong Kong will be subject to Hong Kong stamp duty.

SHARES WILL BE ELIGIBLE FOR ADMISSION INTO CCASS

Subject to the approval of the listing of, and permission to deal in, the Shares on the Stock Exchange and the compliance with the stock admission requirements of HKSCC, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the Listing Date or, under contingent situation, any other date as determined by HKSCC. Settlement of transactions between participants of the Stock Exchange is required to take place in CCASS on the second business day after any trading day.

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

All necessary arrangements have been made for the Shares to be admitted into CCASS. If investors are unsure about the details of CCASS settlement arrangement and how such arrangements will affect their rights and interests, they should seek the advice of their stockbroker or other professional adviser.

COMMENCEMENT OF DEALINGS IN THE SHARES

Dealings in the Shares on the Stock Exchange are expected to commence at 9:00 a.m. on Friday, 11 October 2013.

The Shares will be traded in board lots of 5,000 Shares each. In order to facilitate the trading of odd lots of our Shares, Hua Xia has appointed Phoenix Capital Securities Limited to provide matching services, on a best efforts basis, to those Qualifying Hua Xia Shareholders who wish to acquire odd lots of our Shares to make up a full board lot or to dispose of their holdings of odd lots of our Shares during the period from Friday, 11 October 2013 to Tuesday, 10 December 2013 (both dates inclusive) (the "**Odd Lots Trading Period**").

Qualifying Hua Xia Shareholders who wish to trade odd lots of our Shares should contact Mr. Ricky Chan of Phoenix Capital Securities Limited at Unit 3006, 30/F, COSCO Tower, Grand Millennium Plaza, 183 Queen's Road Central, Hong Kong (telephone: (852) 2850 0728) during 9:00 a.m. to 6:00 p.m. on a Business Day during the Odd Lots Trading Period. Qualifying Hua Xia Shareholders should note that the matching of and the sale and purchase of odd lots of our Shares is on a best efforts basis, and is not guaranteed and will depend on odd lots amount of 5,000 Shares available for such matching. Qualifying Hua Xia Shareholders are advised to consult their own professional advisers if they are in doubt about the facility described above.

WEBSITES

The contents of any website mentioned in this listing document do not form a part of this listing document.

PRACTICE NOTE 3 OF THE GEM LISTING RULES

The Spin-off has been approved by Hua Xia Shareholders at an extraordinary general meeting held on 4 September 2013. Hua Xia is required to comply with the requirements of Practice Note 3 of the GEM Listing Rules which, among others, require the Group to offer the Assured Entitlements to Qualifying Hua Xia Shareholders. For further details of the Assured Entitlements, please refer to the section headed "The Hua Xia Distribution and the Spin-off" in this listing document.

LANGUAGE

If there is any inconsistency between this listing document and the Chinese translation of this listing document, the English language version of this listing document shall prevail. Translated English names of, governmental authorities, institutions, natural persons, other entities or products names included in this listing document and for which no official English translation exists are unofficial translations for your reference only.

ROUNDING

Any discrepancy in any table between totals and sums of individual amounts listed in any table are due to rounding.

DIRECTORS

Name	Residential address	Nationality
Executive Directors		
Mr. Weng Jiaxing（翁加興）	Flat F, 20th Floor, Billionaire Royale, 83 Sa Po Road, Kowloon City, Kowloon, Hong Kong	Chinese
Mr. Chen Yong（陳勇）	Room 305, Block 6, Tian Jun Blue Water Bay, No. 99, Minjiang Street, Cang Shan District, Fuzhou City, Fujian Province, PRC	Chinese
Independent non-executive Directors		
Mr. Liang Yichi（梁一池）	Room 507, Block 7, Gaoxiao Residential District, 12 West Jiangbin Road, Gulou District, Fuzhou City, Fujian Province, PRC	Chinese
Mr. Zhu Donghai（朱東海）	Room 401, Block 3, 21-1 Village Down, Gu Lou District Fuzhou City, Fujian Province, PRC	Chinese
Mr. Wong Hon Kit（黃漢傑）	Flat B, 20/F, Tower 6, Uptown, Yuen Long, New Territories, Hong Kong	Chinese

PARTIES INVOLVED IN THE LISTING

Sponsor	Messis Capital Limited Room 1606, 16/F Tower 2, Admiralty Centre 18 Harcourt Road Hong Kong
Legal advisers to the Company	*As to Hong Kong law:* Michael Li & Co. 19/F, Prosperity Tower 39 Queen's Road Central Hong Kong *As to PRC law:* Fujian Minjiang Lawyer Office 20th Floor, Tianfu Hotel No. 138 Wusi Road Fuzhou, 350003 People's Republic of China *As to Cayman Islands law:* Conyers Dill & Pearman (Cayman) Limited Cricket Square Hutchins Drive P.O. Box 2681 Grand Cayman KY1-1111 Cayman Islands
Legal advisers to the Sponsor	*As to Hong Kong law:* Vincent T.K. Cheung, Yap & Co. 11/F, Central Building 1-3 Pedder Street, Central Hong Kong *As to PRC law:* Beijing Zhongyin Law Firm 31/F, Office Tower A Jianwai SOHO 39 Dongsanuan Zhonglu Chaoyang District Beijing, 100022 People's Republic of China
Auditors and reporting accountants	HLB Hodgson Impey Cheng Certified Public Accountants 31/F, Gloucester Tower The Landmark, 11 Pedder Street Central Hong Kong

Registered office	Cricket Square Hutchins Drive PO Box 2681 Grand Cayman KY1-1111 Cayman Islands
Head office and principal place of business in Hong Kong	Room 1902, 19th Floor 101 King's Road Hong Kong
Headquarters and principal place of business in the PRC	8 Huihao Road Shangjie Town Minghou County Fuzhou City Fujian Province, PRC
Company's website address	www.wanjia-gp.com *(information contained in this website does not form part of this listing document)*
Company secretary	Ms. Tsang Pui Yee
Authorised representatives	Mr. Weng Jiaxing Flat F, 20/F Billionaire Royale 83 Sa Po Road Kowloon City Kowloon Hong Kong Ms. Tsang Pui Yee Flat D, 33/F Tower 8, Park Central Tseung Kwan O Hong Kong

Members of Audit Committee	Mr. Wong Hon Kit *(chairman)* Mr. Liang Yichi Mr. Zhu Donghai
Members of Remuneration Committee	Mr. Wong Hon Kit *(chairman)* Mr. Chen Yong Mr. Zhu Donghai
Members of Nomination and Corporate Governance Committee	Mr. Weng Jiaxing *(chairman)* Mr. Liang Yichi Mr. Zhu Donghai Mr. Wong Hon Kit
Compliance adviser	Messis Capital Limited Room 1606, 16/F Tower 2, Admiralty Centre 18 Harcourt Road Hong Kong
Principal banker	Bank of Communications Co., Ltd. 20 Pedder Street Central Hong Kong
Principal share registrar and transfer office	Royal Bank of Canada Trust Company (Cayman) Limited 4/F., Royal Bank House 24 Shedden Road, George Town Grand Cayman, KY1-1110, Cayman Islands
Hong Kong branch share registrar and transfer office	Tricor Investor Services Limited 26/F., Tesbury Centre 28 Queen's Road East Wanchai, Hong Kong

The information provided in this section is derived from various published sources and/or official government sources. Our Company believes that the sources of such information are appropriate sources for such information and has taken reasonable care in extracting and reproducing such information. Our Company has no reason to believe that such information is false or misleading or that any fact has been omitted that would render such information false or misleading in any material respect. The information in this section may not be consistent with or may not have been compiled with the same degree of accuracy or completeness as statistics or other information compiled elsewhere. The information has not been independently verified by our Company, the Controlling Shareholders, the Sponsor, any other party involved in the Listing or their respective directors, officers, employees, advisers or agents and no representation is given as to the accuracy or completeness of such information. Accordingly, you should not place reliance on statements in this section.

THE PRC PHARMACEUTICAL INDUSTRY

Overview

The PRC pharmaceutical industry is one of the fastest-growing pharmaceutical markets in the world. According to the Twelfth Five-Year Plan for Pharmaceutical Industry# (醫藥工業「十二五」發展規劃) published by the Ministry of Industry and Information Technology of the PRC (中華人民共和國工業和信息化部), the industrial output value of the pharmaceutical industry in the PRC grew at a CAGR of approximately 23.0% between 2005 and 2010 and reached approximately RMB1.2 trillion by 2010. The profit generated by the pharmaceutical industry in 2010 amounted to approximately RMB14.1 billion, representing a CAGR of approximately 31.9% between 2005 and 2010. As announced by IMS Health Incorporated ("**IMS**"), an independent provider of market intelligence to the healthcare industries, the total medicines spending in the PRC grew at a CAGR of approximately 23.9% between 2006 and 2010 and reached approximately US$41.1 billion in 2010. IMS projects that the total medicines spending in the PRC will reach approximately US$115 billion to US$125 billion by 2015 with a CAGR ranging from approximately 19% to 22% between

2011 and 2015. By 2015, the PRC is expected to become the third-largest market after the United States and Japan. The following table sets out the total medicines spending and CAGRs of various countries for the periods indicated:

	Total medicines spending			
		2006-2010		2011-2015
	2010	CAGR	2015	CAGR
	(US$ billion)	*approx. (%)*	*(US$ billion)*	*approx. (%)*
Country				
United States	310.6	4.5	320-350	0-3
Japan	96.5	2.6	110-140	2-5
Germany	40.5	4.1	38-43	1-4
France	38.0	2.7	34-39	0-3
Italy	26.5	4.5	24-29	1-4
Spain	22.2	6.6	20-25	1-4
United Kingdom	20.2	4.2	28-23	(2)-1
Canada	21.5	6.2	20-25	(2)-1
South Korea	11.1	10.7	14-19	5-8
The PRC	**41.1**	**23.9**	**115-125**	**19-22**
Brazil	22.9	14.1	31-36	10-13
India	12.3	15.7	25-30	14-17
Russia	13.6	20.0	23-28	11-14

Source: IMS

The rapid growth of the PRC pharmaceutical industry was primarily driven by a number of favorable socioeconomic factors such as the fast growing GDP and increasing disposable income, the increase in the average life expectancy and the proportion of its aging population, rising healthcare awareness and healthcare spending and support provided by the PRC government.

IMS is an Independent Third Party and the statistics sourced from IMS have not been commissioned by us.

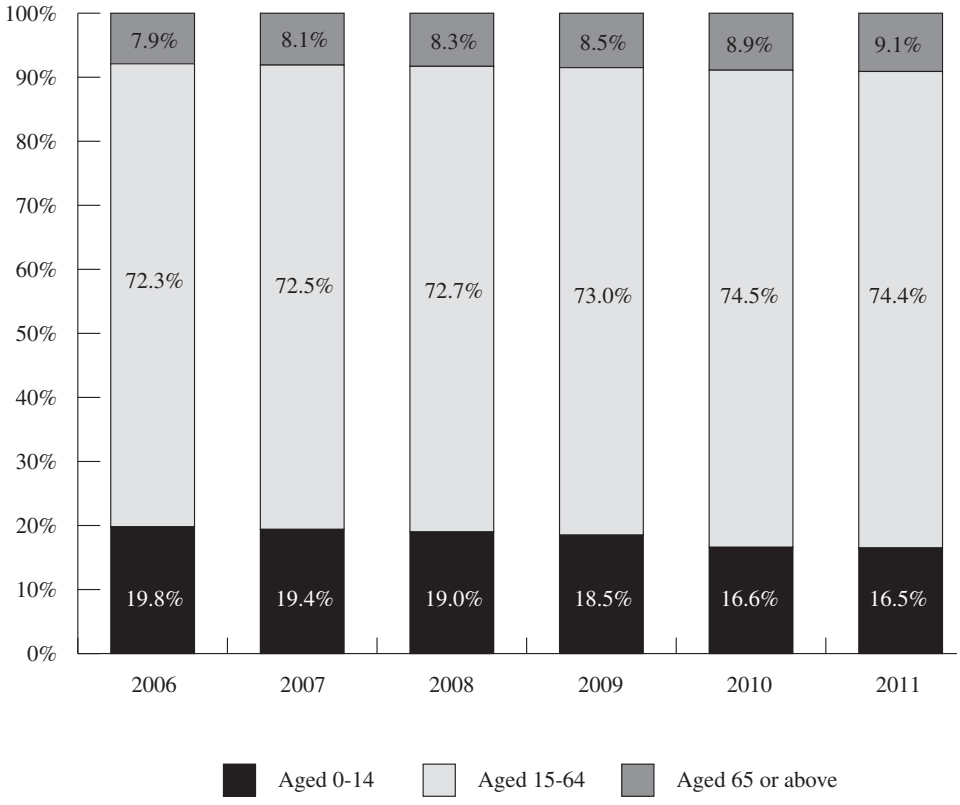
Primary growth drivers of the PRC pharmaceutical industry

Fast growing economy and increasing disposable income

According to the National Bureau of Statistics of China ("**NBSC**"), the nominal GDP of the PRC increased from approximately RMB21.6 trillion in 2006 to approximately RMB47.3 trillion in 2011, representing a CAGR of approximately 17.0%. The per capita GDP in the PRC increased from approximately RMB16,500 in 2006 to approximately RMB35,181 in 2011, representing a CAGR of approximately 16.3%. During the same period, the disposable income of both urban and rural residents increased significantly, which is expected to contribute to the increase in the healthcare expenditures in the PRC. According to NBSC, the per capita annual disposable income of urban residents in the PRC increased from approximately RMB11,759 in 2006 to approximately RMB21,810 in 2011, representing a CAGR of approximately 13.2% between 2006 and 2011, and the per capita annual disposable income of rural residents increased from approximately RMB3,587 to approximately RMB6,977, representing a CAGR of approximately 14.2% between 2006 and 2011.

Increased life expectancy and aging of the population

The increasing life expectancy and the aging population are expected to drive up the demand for the pharmaceutical industry. In general, neonatal and elderly groups have weaker immune systems, resulting in a higher incidence of illness and corresponding demand for medical treatment and drugs. The prevalence of chronic health problems is expected to increase associated with the increased life expectancy and the growth of aging population. Currently, the most common diseases among those over the age of 60 are diseases of the circulatory system, the eye and adnexa, the nervous system, and endocrine, nutritional, and metabolic diseases, all of which require long-term treatment care. According to NBSC, the average life expectancy of the population in the PRC has risen from 71.4 years of age in 2000 to 74.8 years of age in 2010. In addition, according to the NBSC, the proportion of the population aged 65 or above in the PRC has increased from approximately 7.9% in 2006 to approximately 9.1% in 2011. The following chart illustrates the growth of the population aged 65 or above in the PRC in the periods indicated:

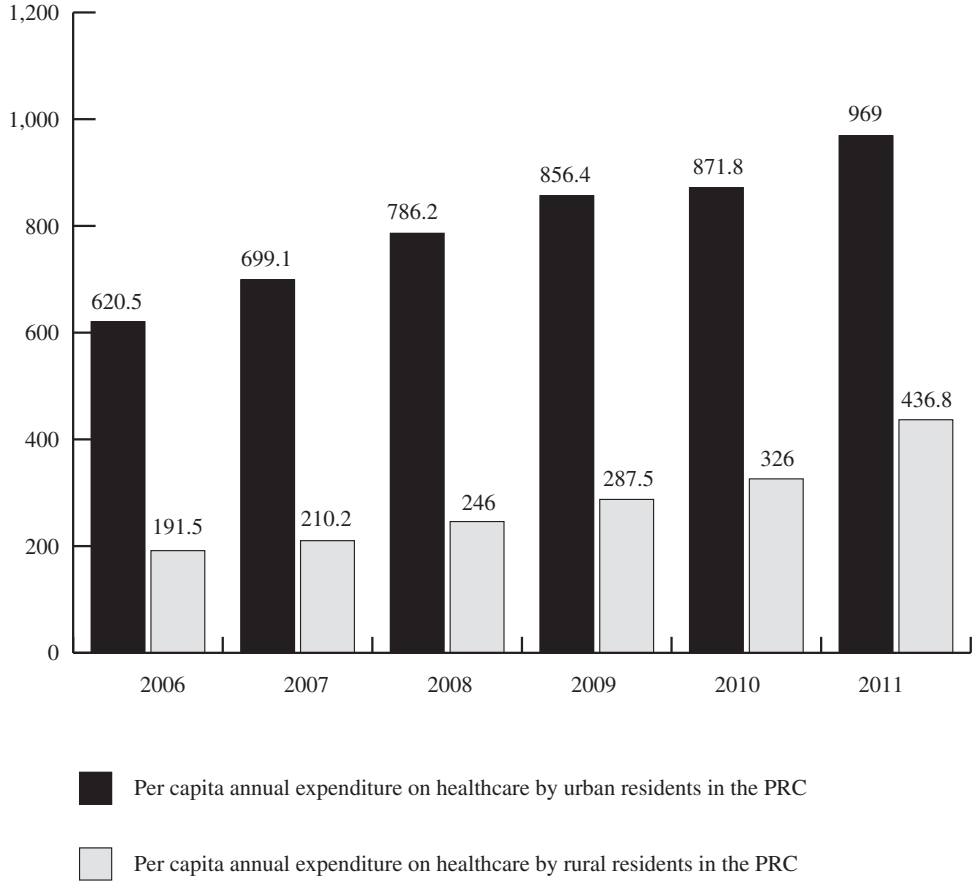


Source: NBSC

We believe that the aging population in the PRC, which historically spends the most on medical treatment and drugs, will contribute to the growth of the PRC pharmaceutical industry.

Rising healthcare awareness and healthcare spending

Over the past decade, along with the growing economy and rising living standards, the per capita expenditure on healthcare in the PRC has experienced rapid growth. According to NBSC, the per capita expenditure on healthcare of urban residents in the PRC increased from approximately RMB620.5 in 2006 to approximately RMB969.0 in 2011, representing a CAGR of approximately 9.3% while the per capita expenditure on healthcare of rural residents in the PRC increased from approximately RMB191.5 in 2006 to approximately RMB436.8 in 2011, representing a CAGR of approximately 17.9%. The following chart shows the growth of per capita expenditure on healthcare of both urban and rural residents in the PRC in the periods indicated:



Source: NBSC

The growth in the per capita expenditure on healthcare in the PRC was mainly due to an increase in the demand for healthcare products and services. The rise in healthcare awareness and the increased affordability of healthcare products and services have played a major role in this regard.

Continuous support from the PRC government

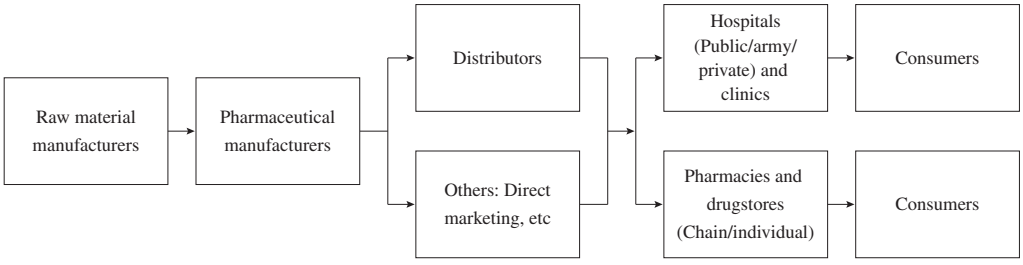
As part of the Twelfth Five-Year Plan for National Economic and Social Development of the PRC# (中華人民共和國國民經濟和社會發展第十二個五年規劃綱要) (the "**Twelfth Five-Year Plan**") which was published on 16 March 2011, the PRC government sets out plans to increase the investment to improve the healthcare system and promote the development of the pharmaceutical industry in the PRC. In order to achieve such target, certain policies will be taken by the PRC government, including: (i) strengthening the construction of public healthcare service system, in particular, increasing per capita funding in fundamental healthcare service and improving the network of disease prevention; (ii) strengthening the construction of the urban and rural medical system and making available more healthcare resources to expand the grassroots medical networks; (iii) improving social medical insurance programs; (iv) improving the supply system of the drugs; (v) promoting the reform of the public hospitals; and (vi) supporting the development of traditional Chinese medicine and pharmacy.

The social medical insurance programs provided by the PRC government are primarily made up of three major components: the Urban Worker Basic Medical Insurance Program# (城鎮職工基本醫療保險), a mandatory scheme covering urban workers and their minor children; the Urban Resident Basic Medical Insurance Program# (城鎮居民基本醫療保險), a voluntary program that covers the rest of the urban residents not covered by the Urban Worker Basic Medical Insurance Program; and New Rural Cooperative Medical Insurance Scheme# (新型農村合作醫療保險), a voluntary scheme that provides medical coverage for the rural population. According to the Twelfth Five-Year Plan, at the end of 2010, the New Rural Cooperative Medical Insurance Scheme has covered approximately 96.3% of the rural residents in the PRC. The PRC government further announced its goal of increasing the coverage of the above three medical insurance programs by 60 million residents by the end of 2015.

The Twelfth Five-Year Plan as well as the increasing coverage of social medial insurance programs will continue to encourage the consumption of the pharmaceutical products and services, which will in turn promote the development of the pharmaceutical industry in the PRC.

The PRC pharmaceutical distribution market

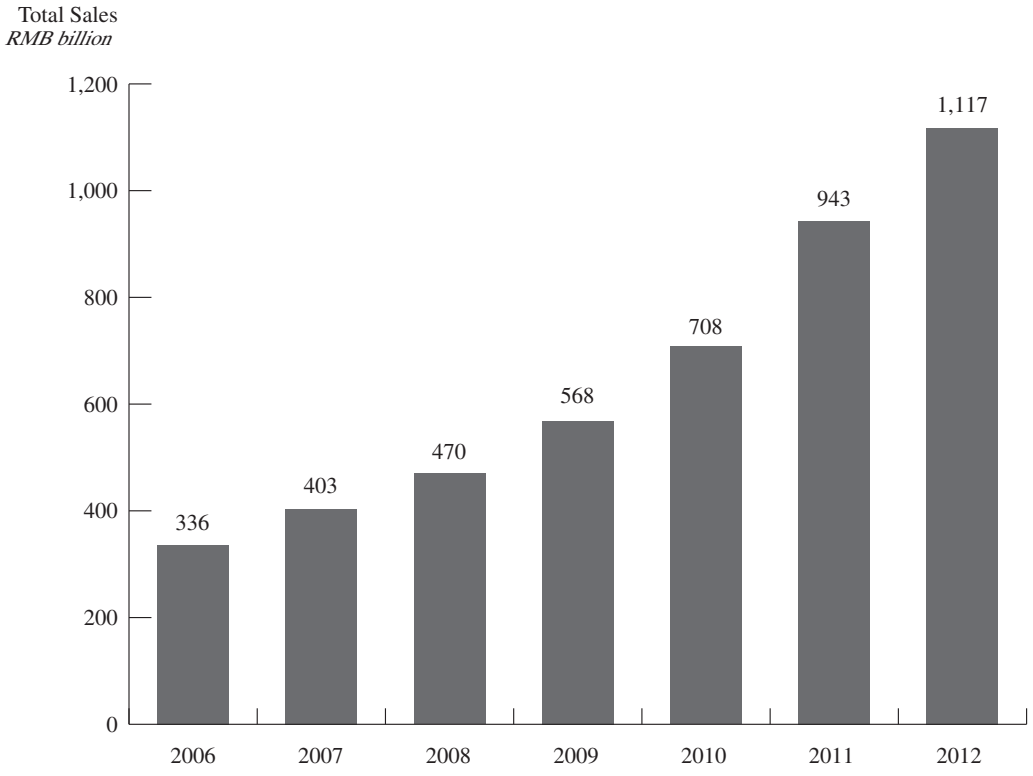
The pharmaceutical industry value chain in the PRC mainly consists of raw material manufacturers, pharmaceutical manufacturers, distributors, hospitals and clinics, pharmacies and drugstores, and consumers. The chart below illustrates the pharmaceutical industry value chain in the PRC:



In the above industry value chain, distributors purchase pharmaceutical products from pharmaceutical manufacturers and resell those pharmaceutical products downstream and provide relevant services to customers in the retail market. Therefore, distributors usually play an important role in the pharmaceutical industry value chain by their sales scale and expertise to purchase, store, resell and transport pharmaceutical products. Distributors can help pharmaceutical manufacturers improve their operational efficiencies by relieving them from the burden of delivery to, and collecting payment from, numerous retailers. As resellers of pharmaceutical products, distributors can also increase the efficiencies for retailers by reducing their transactions costs and administrative burdens.

The pharmaceutical supply chain in the PRC involves three tiers of distributors: national, provincial and municipal. To create a geographically significant distribution network, manufacturers typically work with hundreds of distributors, including a few national distributors and many provincial distributors, depending on the size of their product portfolio. According to the Ministry of Commerce of the PRC（中華人民共和國商務部）(the "**Ministry of Commerce**"), the total sales

of the PRC pharmaceutical distribution market grew from approximately RMB300 billion in 2005 to approximately RMB1,117 billion in 2012. The following chart sets forth the historical growth in the PRC pharmaceutical distribution market for the periods indicated:



Source: the Ministry of Commerce

The pharmaceutical distribution network in the PRC was historically a state-owned distribution system that focused on provincial and local networks. In the 1980s, as the PRC began its transformation toward a market economy, the demand for pharmaceutical products increased dramatically and the distribution system began to decentralise. A surge in the number of distributors has created a highly fragmented pharmaceutical distribution market in the PRC. According to the Ministry of Commerce, there were 13,900 pharmaceutical distributors in the PRC by the end of 2011. The fragmentation of the pharmaceutical distribution market created intense competition among the distributors and limited the size and reach of each distributor in the market. The increasing competition caused by the fragmented market together with concerns about efficiency and cost from the market participants and the governmental authorities have contributed to the consolidation efforts made by them to the PRC pharmaceutical distribution market during

recent years. The introduction of GSP requirements and the centralization of tendering processes imposed by the healthcare reform plan of the PRC government have also accelerated the trend of consolidation. According to CAPC, the aggregate revenue of the ten largest distributors accounted for approximately 44.8% of the total sales of the PRC pharmaceutical distribution market of approximately RMB894,900 million in 2012. The following table sets forth the respective sales and market share of the ten largest pharmaceutical distributors in the PRC in 2012:

Rank	**Distributor**	**Sales** *(RMB in approximate million)*
1	China National Pharmaceutical Group Corporation# (中國醫藥集團總公司)	149,661
2	China Resources Pharmaceutical Commercial Group Ltd# (華潤醫藥商業集團有限公司)	63,827
3	Shanghai Pharmaceutical Co., Ltd# (上海醫藥集團股份有限公司)	61,676
4	Jointown Group Co., Ltd.# (九州通醫藥集團有限公司)	29,409
5	Guangzhou Pharmaceutical Corporation# (廣州醫藥有限公司)	20,941
6	Chongqing Medicines (Group) Co., Ltd# (重慶醫藥(集團)股份有限公司)	18,789
7	Nanjing Pharmaceutical Co., Ltd# (南京醫藥股份有限公司)	18,024
8	Huadong Medicine Co., Ltd# (華東醫藥股份有限公司)	14,534
9	Sichuan Kelun Medicine & Trade Co., Ltd# (四川科倫醫藥貿易有限公司)	13,037
10	Zhejiang Int'l Medicine Co., Ltd# (浙江英特藥業有限責任公司)	10,570

Source: CAPC

The PRC pharmaceutical retail chain market

The pharmaceutical retail chain market in the PRC is highly fragmented. According to the Ministry of Commerce, there were 2,607 pharmaceutical retail chain enterprises with an aggregate of over 146,700 chain stores, and more than 277,100 individual drugstores in the PRC by the end of 2011.

The following table sets forth the respective sales of the ten largest pharmaceutical retail chain enterprises in the PRC in 2012:

Rank	**Retail chain enterprises**	**Sales** *(RMB in approximate million)*
1	Sinopharm Holding Guoda Drug Store Co. Ltd.# (國藥控股國大藥房有限公司)	4,760
2	Beijing Tong Ren Tong Group Co., Ltd.# (中國北京同仁堂(集團)有限責任公司)	4,383
3	Chongqing Tongjunge Pharmacy Chain Store Ltd.# (重慶桐君閣大藥房連鎖有限責任公司)	4,362
4	China Nepstar Chain Drugstore Ltd.# (中國海王星辰連鎖藥店有限公司)	3,970
5	Guangdong Da Shen Lin Chain Drug Store Ltd.# (廣東大參林連鎖藥店有限公司)	3,909
6	Chongqing Peace Drug Store Ltd.# (重慶和平藥房連鎖有限責任公司)	3,560
7	Yunnan Hongxiang Yixintang Pharmacy (Group) Ltd.# (雲南鴻翔一心堂药業(集團)股份有限公司)	3,252
8	Hubei Tongjitang Pharmacy Co. Ltd.# (湖北同濟堂藥房有限公司)	3,020
9	Liaoning Chengda Fangyuan Pharmacy Chain Ltd.# (遼寧成大方圓醫藥連鎖有限公司)	2,824
10	Zhejiang Zhenyuen Corporation Ltd.# (浙江震元股份有限公司)	2,272

Source: CAPC

PHARMACEUTICAL MARKET IN FUJIAN PROVINCE

Overview

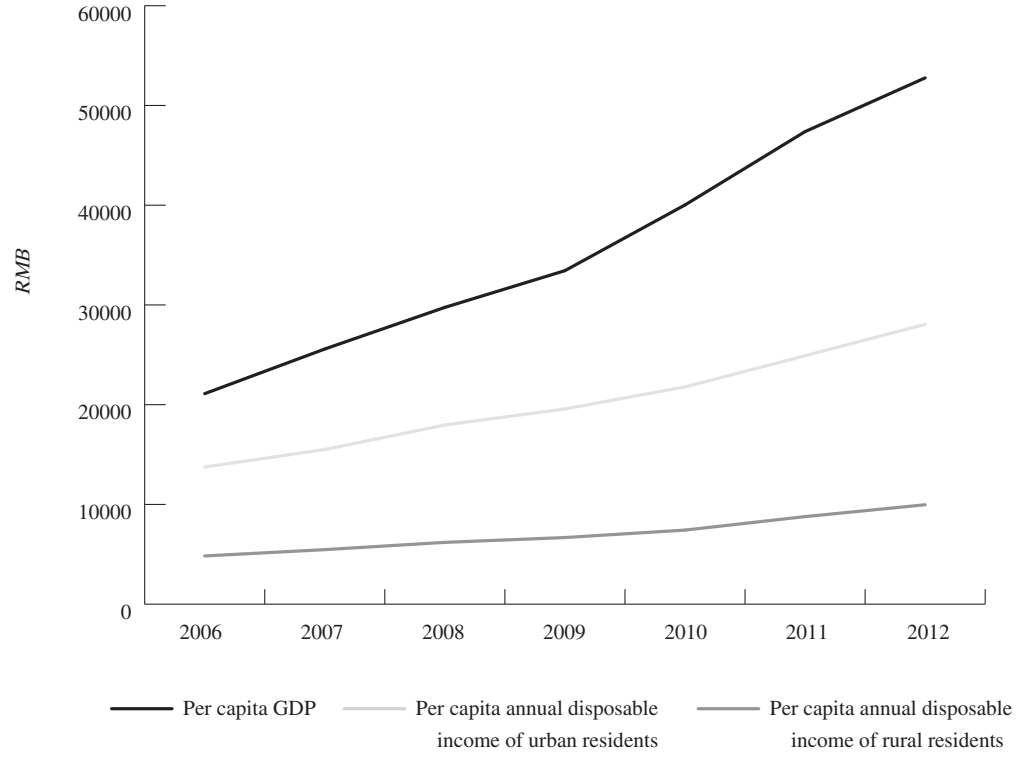
In line with the development trend of the PRC pharmaceutical industry, the pharmaceutical market in Fujian Province has had a rapid growth during the recent years. The industrial output value and sales of the pharmaceutical industry in Fujian Province have achieved double-digit growth from 2005 to 2009. According to Fujian Provincial Economic and Trade Commission (福建省經濟貿易委員會), the industrial output value of the pharmaceutical industry in Fujian Province increased from approximately RMB7.0 billion in 2005 to approximately RMB11.8 billion as at the end of 2009, representing a CAGR of approximately 14.0%. During the same period, the sales of the pharmaceutical industry in Fujian Province increased from approximately RMB6.4 billion to approximately RMB11.0 billion as at the end of 2009, representing a CAGR of approximately 14.5%.

Primary growth drivers of the healthcare and pharmaceutical market in Fujian Province

Rapid development of the GDP and growing disposable income of residents in Fujian Province

According to Fujian Provincial Bureau of Statistics (福建省統計局) ("**FPBS**"), the per capita GDP in Fujian Province increased from approximately RMB21,105 in 2006 to approximately RMB52,763 in 2012, representing a CAGR of approximately 16.5%. During the same period, the per capita annual disposable income of the urban residents in Fujian Province increased from approximately RMB13,753 in 2006 to approximately RMB28,055 in 2012, representing a CAGR of approximately 12.6%, and the per capita annual disposable income of rural residents increased from approximately RMB4,835 in 2006 to approximately RMB9,967 in 2012, representing a CAGR

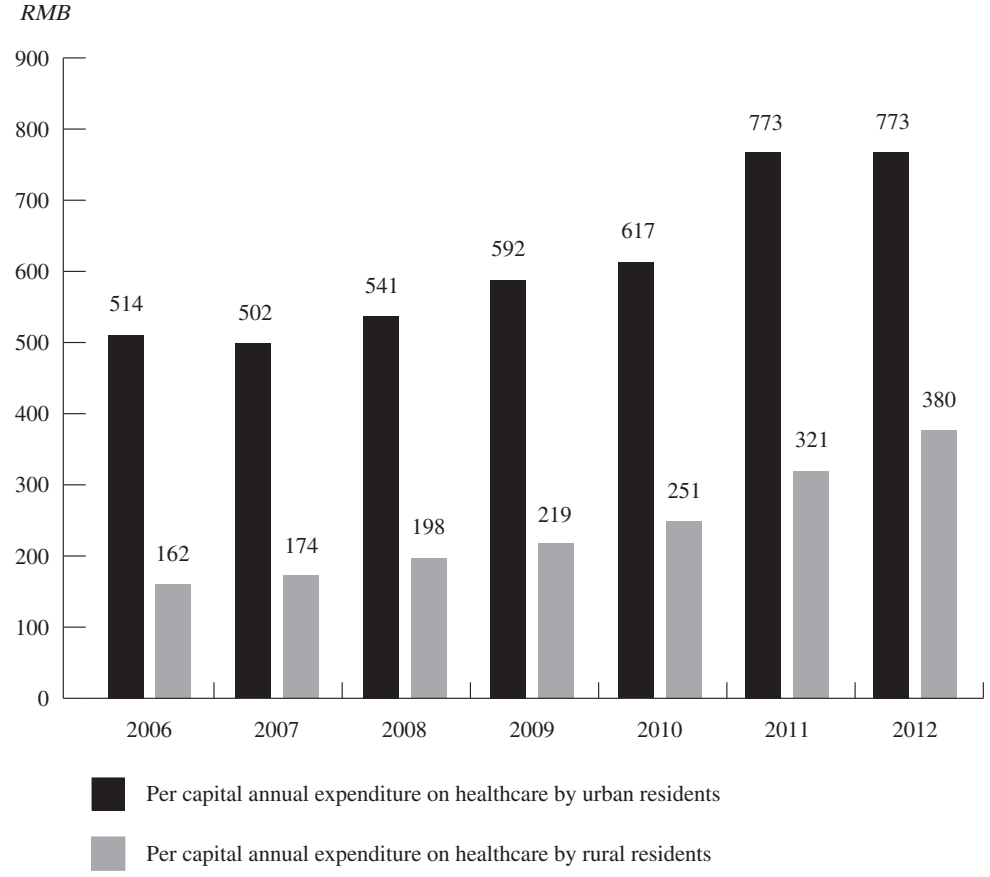
of approximately 12.8%. The following chart illustrates the growth of per capita GDP and the per capita annual disposable income of both urban and rural residents in Fujian Province in the periods indicated:



Source: FPBS

Increasing healthcare spending by residents in Fujian Province

According to FPBS, the per capita expenditure on healthcare of urban residents in Fujian Province increased from approximately RMB514 in 2006 to approximately RMB773 in 2012, representing a CAGR of approximately 7.0% while the per capita expenditure on healthcare of rural residents in Fujian Province increased from approximately RMB162 in 2006 to approximately RMB380 in 2012, representing a CAGR of approximately 15.3%. The following chart illustrates the growth of the per capita expenditure on healthcare of both urban and rural residents in Fujian Province in the periods indicated:

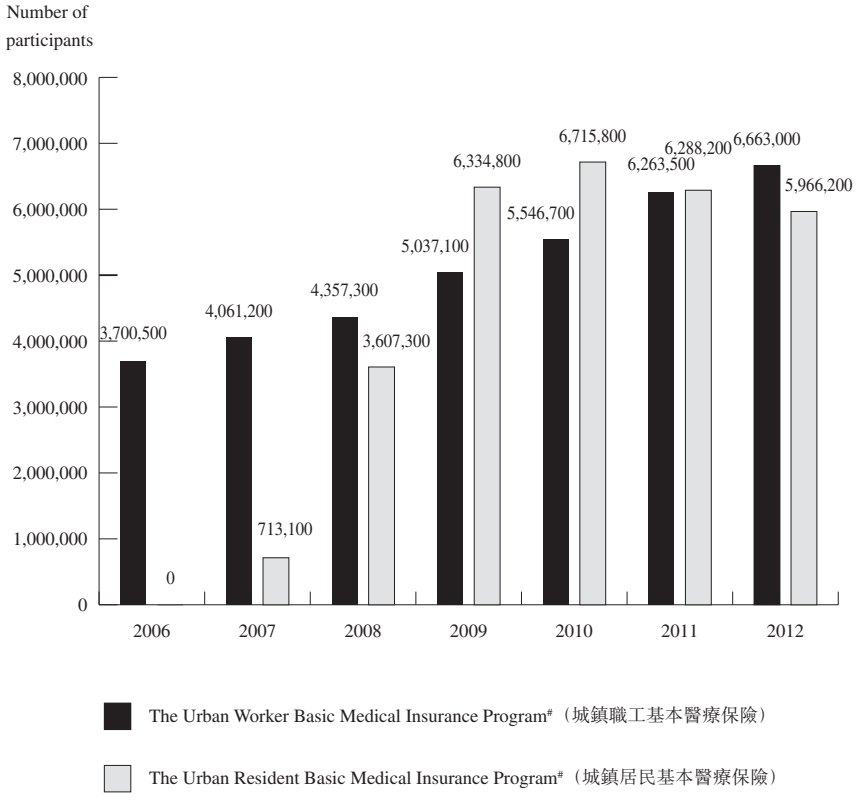


Source: FPBS

Healthcare system reform and expansion of the coverage of social medical insurance programs

As announced by Fujian Development and Reform Commission (福建省發展和改革委員會) in April 2012, notable progress has been made in the healthcare system in Fujian Province during the past three years. From 2009 to 2011, a total of approximately RMB30.7 billion was spent by the local government on the healthcare system reforms, including: promoting the reforms of the basic pharmaceutical system and basic healthcare institutions; improving the healthcare services system; promoting the equalization of public healthcare services and the pilot reform of public hospitals. Driven by the healthcare system reforms and the funding from the local government, the coverage of social medical insurance expanded rapidly during the same period. As at the end of 2011, the coverage of the Urban Worker Basic Medical Insurance Program# (城鎮職工基本醫療保險) and the Urban Resident Basic Medical Insurance Program# (城鎮居民基本醫療保險) in Fujian Province has reached approximately 95%. In the meantime, the New Rural Cooperative Medical Insurance Scheme# (新型農村合作醫療保險) has covered approximately 99.28% of the rural residents in Fujian Province.

The following chart illustrates the expansion of coverage of the Urban Worker Basic Medical Insurance Program# (城鎮職工基本醫療保險) and the Urban Resident Basic Medical Insurance Program# (城鎮居民基本醫療保險) in Fujian Province from 2006 to 2012:



Source: Fujian Province Human Resources and Social Security Bureau (福建省人力資源和社會保障廳)

According to the Plan and Implementation Measures for Deepening the Healthcare System Reform in Fujian Province during the Period of the Twelfth Five-Year Plan# (福建省「十二五」期間深化醫療衛生體制改革規劃暨實施方案) which was announced by the government of Fujian Province in 1 September 2012, the local government will continue to deepen the healthcare system reform and increase related healthcare expenditure for the coming years. Under such newly announced plan, the local government targets to expand the coverage of the urban worker and resident basic medical insurance programs in Fujian Province to 96% and maintain the coverage of the New Rural Cooperative Medical Insurance Scheme at 98% or above during the period of the Twelfth Five-Year Plan. The annual subsidies from the local government to participants under the Urban Resident Basic Medical Insurance Program and the New Rural Cooperative Medical Insurance Scheme will be raised to RMB360 per participant. As driven by the aforesaid healthcare system reform in Fujian Province, the coverage of the social medical insurance programs will continue to expand and the healthcare expenditure of the participants under those programs will increase in the coming years. Huihao Sihai is included in the list of retail pharmacies that are covered by social medical insurance programs in Fujian Province. As such, it is expected the pharmaceutical retail chain business of our Group will benefit from the healthcare system reforms and the further expansion of the coverage of the social medical insurance programs in Fujian Province. In addition, the local government will introduce the reforms to pharmaceutical distribution area in order to develop large scale pharmaceutical wholesale and retail enterprises in Fujian Province. As part of the aforesaid healthcare system reform plan, the sales of the top 10 pharmaceutical wholesale enterprises would account for 90% of the total sales of pharmaceutical wholesale enterprises in Fujian Province and the sales of the pharmaceutical retail chain enterprises would account for over half of the sales of pharmaceutical retail stores in Fujian Province. Our Group, being one of the established pharmaceutical wholesale and retail groups in Fujian Province, may benefit from the considerable supports from the local government in pharmaceutical distribution reforms.

Pharmaceutical distribution and retail market in Fujian Province

According to the Ministry of Commerce, the sales of the pharmaceutical distribution market in Fujian Province amounted to approximately RMB16 billion in 2010. According to Fujian Food and Drug Administration (福建省食品藥品監督管理局), the number of the pharmaceutical wholesale enterprises increased from 115 in 2005 to 305 in 2011. Most of the pharmaceutical wholesalers are characterised as small and local wholesalers. According to Fujian Food and Drug Administration (福建省食品藥品監督管理局), the number of the pharmaceutical retail chain enterprises increased from 41 in 2005 to 65 in 2011.

According to CAPC, among the 100 largest pharmaceutical retail chain enterprises in the PRC in 2010, only Xiamen Luyan Pharmacy Ltd.# (廈門鷺燕大藥房有限公司) and Huihao Sihai were located in Fujian Province, which ranked 88 and 92, respectively, in terms of their respective sales. In 2011 and 2012, Huihao Sihai ranked 78 and 77 among the 100 largest pharmaceutical retail chain enterprises in the PRC respectively and was the only pharmaceutical retail chain enterprise located in Fujian Province. The revenue of our Group of approximately HK$1,712 million (equivalent to approximately RMB1,410 million) and HK$1,885 million (equivalent to approximately RMB1,534 million) for each of the two financial years ended 31 March 2013, representing approximately 7.8% and 7.2% respectively of the aggregate revenue of Fujian pharmaceutical wholesale and retail market of approximately RMB18,137 million and RMB21,257 million in 2011 and 2012 respectively.

REGULATORY FRAMEWORK GOVERNING THE PHARMACEUTICAL INDUSTRY

Our operations in the PRC are subject to regulatory controls governing the PRC pharmaceutical industry. The *Law of the PRC on the Administration of Pharmaceuticals*# (中華人民共和國藥品管理法) as amended on 28 February 2001 by the Standing Committee of the National People's Congress of the PRC, which came into effect on 1 December 2001, provides the basic legal framework for the administration of the production and sales of pharmaceutical products in the PRC and covers areas including the manufacturing, trading, medical prescription, packaging, research, pricing and advertising of pharmaceutical products in the PRC. Its implementation rules were set out under the *Implementation Regulations of the Law of the PRC on the Administration of Pharmaceuticals*# (中華人民共和國藥品管理法實施條例), which came into effect on 15 September 2002.

The following are other major laws and regulations applicable to the pharmaceutical industry in the PRC:

- *Regulations for the Supervision and Administration of Medical Devices*# (《醫療器械監督管理條例》)
- *Provisions for Supervision of Drug Distribution*# (《藥品流通監督管理辦法》)
- *Measures for the Administration of Prescriptions*# (《處方管理辦法》)
- *Measures for GSP certification*# (《藥品經營質量管理規範認證管理辦法》)

Major Administrative Authorities

We are subject to regulation and administration by different levels of governmental authorities in the PRC. In particular, the CFDA and the National Health and Family Planning Commission of the PRC ("**NHFPC**") (中華人民共和國國家衛生和計劃生育委員會) are two major bodies in the PRC that have nationwide jurisdiction over the pharmaceutical industry.

CFDA

The CFDA is the authority of the State Council of the PRC ("**State Council**")(中華人民共和國國務院)that comprehensively supervises the safety administrations of healthcare foods and cosmetics and it is in charge of drug supervisions and controls. It is responsible for administrative supervision and technical supervision on research, manufacture, distribution and use of drugs (including Chinese herbal medicine, Chinese herbal pieces, traditional Chinese medicines, chemical raw materials and their preparations, antibiotics, biochemical drugs, biological products, diagnostic drugs, radioactive drugs, narcotics, toxic drugs, psychotropic drugs, medical devices, sanitary materials and pharmaceutical packaging materials etc.). It is also responsible for the overall supervision and coordination of safety administration of foods, healthcare products and cosmetics, organizing and performing investigations on significant accidents according to laws, and approval of healthcare products. The major responsibilities of the CFDA include without limitation to:–

(1) To draft regulations and rules for supervision and administration of food (including food additives and dietary supplements) safety, drugs (including Chinese medicines and folk medicines), medical devices and cosmetics; to formulate policies, plans, department regulations and rules; to promote the establishment and implementation of a mechanism that places the major responsibility for food safety on the manufacturers and overall responsibility on local government; to establish, implement and supervise a direct reporting system of significant information concerning food and drugs; to strive on preventing regional and systematic risks in food and drugs security;

(2) To formulate and monitor the implementation of the approach of administrative approval of food; to establish mechanisms for investigation and management of food safety hazards; to formulate and implement annual plan for national inspection on food safety and plan for rectification on major incidents; to establish a unified system for the disclosure of food safety information for announcing significant food safety information; to participate in the development of risk monitoring plan on food safety, and the establishment of food safety standards and conduct safety risk monitoring accordingly;

(3) To organize the formulation, publication and implementation of the drug and medical device standardization and classification mechanisms such as the national pharmacopeia; to compile, supervise and implement the quality control specifications on the research and development, production, operation and utilization of drugs and medical devices; to supervise the registration and inspection of drugs and medical devices; to establish the surveillance system of the adverse effect of drugs and adverse incidents of medical devices and conduct monitoring and take actions accordingly; to draft and complete the qualification system for licensed pharmacists and supervise the registration of licensed pharmacists; to participate in the formulation of National

List of Essential Drugs and the implementation of national essential drug system; to formulate and supervise the implementation of the supervision and management measures of cosmetics;

(4) To formulate and organize the implementation of the mechanism of the inspection on the monitoring and management of food, drugs, medical devices and cosmetics, organize investigations into serious violations; to establish and supervise the implementation of the recall and disposal mechanism for defective products;

(5) To construct the emergency responding system for food and drug safety issues; to organize and instruct the reaction and investigation of food and drug safety issues; to supervise the implementation of the accident investigation.

(6) To formulate and organize the implementation of the developing plan of scientific technology of food and drug safety; to promote the construction of inspection and testing system, electronic monitoring tracing system and information technology for food and drugs;

(7) To initiate the promotion of food and drug safety, education and training, international exchanges and cooperation; to promote the construction of credible system;

(8) To instruct the local institutions on supervision and management of food and drugs; to regulate the administrative law enforcement and consummate the conjunction between administrative law enforcement and criminal jurisdiction;

(9) To undertake the daily work of the Food Safety Commission of State Council# (國務院食品安全委員會); to be responsible for the overall coordination of food safety monitoring and promote the improvement of coordination linkage mechanism; to supervise the inspection and conduct appraisal on the provincial governments' fulfilment of the responsibility of monitoring and management on food safety; and

(10) To undertake other tasks assigned by the State Council and the Food Safety Commission of State Council# (國務院食品安全委員會).

NHFPC

NHFPC is a department of the State Council. Before establishment of the CFDA, NHFPC was responsible for supervision and administration of the pharmaceutical industry, formulating, promulgation and implementation of industry planning and monitoring policies. Since the establishment of the CFDA, NHFPC is responsible for administration of public health. In March 2008, the "Decision of the State Council on Institutional Reform Programme" was reviewed and approved at the first meeting of the eleventh National People's Congress meeting, it was decided that the CFDA will be under NHFPC. In addition, NHFPC is also in charge of the Administration of National Chinese Medicine. The major regulatory duties of NHFPC in the pharmaceutical industry include without limitation to: participating in the formulation of the pharmacopeia and the National List of Essential Drugs, organizing formulation of national drug policies, enacting policies and measures for national essential drugs procurement, distribution and use, proposing policies with the relevant departments to encourage and support manufacture of drugs in the National List of Essential Drugs, proposing suggestions on national essential drugs pricing policies, drafting laws and regulations to promote the development of the traditional Chinese medicine industry, formulating the relevant regulations and policies, instructing the formulation of mid-term and long-term development plans for traditional Chinese medicine industry, and incorporating the same into the overall planning and strategic objective for the development of the healthcare industry.

The Fujian Food and Drug Administration (福建省食品藥品監督管理局) and the Fujian Provincial Health Department# (福建省衛生廳) are the main administration authorities in the pharmaceutical industry in Fujian Province.

SALES OF PHARMACEUTICAL PRODUCTS

Permits and Licenses

According to the Drug Administration Law, the establishment of a pharmaceutical wholesale enterprise must be approved by the drug regulatory department under the government of the province, autonomous region or municipality directly under the Central Government, and the Pharmaceutical Operation Permit# (藥品經營許可證) must be obtained; the establishment of a pharmaceutical retail enterprise must be approved by the local drug regulatory department of county level or above where the enterprise is located, and the Pharmaceutical Operation Permit must be obtained. The enterprise must apply for registration at the industry and commerce administrative department with the Pharmaceutical Operation Permit. No pharmaceutical operation shall be allowed without the Pharmaceutical Operation Permit.

The criteria that the drugs regulatory department reviews and requires a pharmaceutical operation enterprise to have mainly include: with legally qualified pharmaceutical technician; with business premises, equipment, storage facilities and sanitary environment that are suitable for the pharmaceutical operation; with the quality management agency or personnel that are suitable for the pharmaceutical operation; with the pharmaceutical regulations and systems that guarantees the quality of the pharmaceutical operation.

The Pharmaceutical Operation Permit# (藥品經營許可證) that issued to the pharmaceutical operation enterprise is valid for five years, if there is any change of the permitted business or upon expiry, the enterprise must apply to the permit issuing authority for variation or replacement. If it involves change of the permitted business, application for variation registration must be made to the permit issuing authority 30 days before occurrence of variation of the permitted business; in case of expiry, application for replacement of the Pharmaceutical Operation Permit# (藥品經營許可證) must be made 6 months before expiry of the permit. If the pharmaceutical operation enterprise discontinues operation or closes down, the permit issuing authority shall cancel the Pharmaceutical Operation Permit# (藥品經營許可證).

GSP

Pharmaceutical operation enterprise must operate in accordance with the GSP formulated by the drug supervisory department of the State Council. Newly established pharmaceutical wholesale enterprises and pharmaceutical retail enterprises must, within 30 days upon obtaining the Pharmaceutical Operation Permit# (藥品經營許可證), apply to the drug regulatory department or drug supervisory authority that issued them the Pharmaceutical Operation Permit# (藥品經營許可證) for the GSP certificate ("**GSP Certificate**"). The drug regulatory department of the province, autonomous region or municipality directly under the Central Government shall certify within 3 months after receipt of the application for certification, and issue the certificate if the certification is passed. Enterprises that are noticed by the drug regulatory department in writing of failure of the certification can re-apply for the GSP Certificate 6 months after issuance of such notice.

Pharmaceutical operation enterprises that apply for the GSP Certificate shall have the following criteria: (i) fall into any one of the following categories: a pharmaceutical operation enterprise of enterprise legal person status; a pharmaceutical operation enterprise owned by an enterprise not specifically engages in pharmaceutical operation; a pharmaceutical operation enterprise without enterprise legal person status and not under quality control by any supervisory entity; (ii) hold the Pharmaceutical Operation Permit# (藥品經營許可證) and the Enterprise Legal Person Business License# (企業法人營業執照) or the Business License# (營業執照); (iii) after internal review, the enterprise is in compliance with the conditions and requirements as stipulated by the GSP and its implementation rules; (iv) in the 12 months before the application for certification, the enterprise has not operated illegally and distributed counterfeit or inferior medicine.

The drug regulatory department will conduct supervision and inspection on pharmaceutical operation enterprises that passed the certification, so as to confirm that such certified enterprises are still in compliance with the certification criteria. Supervision and inspection include follow-up examination, routine spot check and special inspection. Certified enterprises that are found not in compliance with the GSP requirements will be required to correct within certain period of time or imposed administrative penalty. The GSP certificate of enterprises that seriously or frequently violate the GSP requirement will be revoked according to the laws.

The GSP Certificate is valid for 5 years. Within 3 months before expiry, the pharmaceutical operation enterprise shall apply for re-certification. After examination and review, the drug regulatory department of the province, autonomous region or municipality directly under the Central Government will issue a new certificate to the certified enterprise. If enterprises fail to pass the review or fail to re-apply for certification upon expiry of the certificate, their original certificate will be withdrawn or revoked.

For enterprises whose certificate has been revoked or expired, application for certification shall be made 6 months after revocation or expiry of the certificate.

Pharmaceutical operation enterprises that do not comply with the GSP will be punished by ways of warning, ordering to correct within certain period of time, suspension of business for rectification, fines or revocation of the Pharmaceutical Operation Permit# (藥品經營許可證).

Prescription medicine and over-the-counter medicine

In order to promote safety, efficacy and convenience in the use of pharmaceutical products, the SDA, the predecessor of the CFDA, promulgated the *Trial Administrative Measures regarding the Classification of Prescription Medicines and Over-the-Counter Medicines#* (《處方藥與非處方藥分類管理辦法》(試行)) in June 1999 to implement the classification system for prescription medicines and over-the-counter medicines.

The country divides drugs into prescription medicines and over-the-counter medicines according to their type, specification, the relevant disease or ailment which they are designed to treat, dosage and method of administration. Distribution, purchase and intake of prescription medicines require prescription by practicing doctors or assistant doctors. Sales of over the-counter medicines do not require prescription. Sales of prescription medicines shall not be open-shelf-demand sales.

Also, depending on the safety of the over-the-counter medicines, over-the-counter medicines are further subdivided into type A and type B. Pharmaceutical retail enterprises of both prescription and type A over-the-counter medicines are required to have licensed pharmacist or other legally qualified pharmacy technicians. Pharmaceutical retail enterprises of type B over-the-counter medicines are required to have operational staff who passed the examination organized by the drug regulatory authority of district city level or drug regulatory authority of county level directly set by the drug regulatory department of the province, autonomous region or municipality directly under the Central Government.

Medical Device Operation Permit

According to the *Regulations for Supervision and Administration of Medical Devices*# (《醫療器械監督管理條例》) and the *Administrative Measures for Permits of Medical Devices Operation Enterprises*# (《醫療器械經營企業許可證管理辦法》), a first class medical devices operation enterprise must apply for records at the drug regulatory department of the province, autonomous region or municipality directly under the Central Government. A second class or third class medical devices operation enterprise shall be reviewed and approved by the drug regulatory department of the province, autonomous region or municipality directly under the Central Government, and a Medical Device Operation Permit# (《醫療器械經營企業許可證》) must be obtained. Such permit is valid for 5 years, application for review and issuance of new permit must be made within 6 months before expiry of the permit to continue the operation.

A medical devices operation enterprise shall have the following criteria: (i) with business premise and environment that are suitable for the medical devices operation; (ii) with the quality inspection personnel that are suitable for the medical devices operation; and (iii) with the ability for provision of technology training, maintenance and other after-sale services for the medical devices operation.

Enterprises that violate the regulations and engage in operation of the second or third class medical devices without the Medical Device Operation Permit# (《醫療器械經營企業許可證》) may be ordered to cease operations by the drug regulatory department, products for illegal operation and illegal income will be confiscated, and a fine will be imposed, as the case may be. They may also be held criminally liable if a crime is established.

Regulation on Trademark

According to the *PRC Trademark Law*# (《中華人民共和國商標法》) which was promulgated on 23 August 1982 and later amended on 22 February 1993 and 27 October 2001 respectively, and the *PRC Trademark Implementing Regulations*# (《中華人民共和國商標法實施條例》) which was promulgated on 3 August 2002 and became effective on 15 September 2002, the Trademark Office of the Administrative Department of Industry and Commerce of the State Council# (國務院工商行政管理部門商標局) ("**Trademark Office**") is responsible for the registration and administration of trademarks throughout the country. Local administrative departments of industry and commerce are responsible to supervise and administer the use of trademarks, investigate and punish trademark right infringements on its own or as requested by the trademark owners, so as to protect the legitimate rights and interests of trademark owners and consumers. A trademark registered at the Trademark Office is a registered trademark and protected by law. A registered trademark is valid for 10 years, application for renewal registration must be made within 6 months before expiry. Each renewal registration is valid for 10 years.

In order to transfer ownership of a registered trademark, the transferor and the transferee must enter into transfer agreement and jointly apply to the Trademark Office. Announcement will be made upon approval for transfer of the registered trademark. The transferee will obtain the exclusive right to use a trademark from the date of the announcement. The trademark owner can assign the right to use the registered trademark to others by entering into trademark license agreement.

On 30 August 2013, the PRC National People's Congress Standing Committee approved and announced on the same day that Trademark Law of the PRC#《中華人民共和國商標法》, which will be implemented since 1 May 2014, stipulates that the trademark owner should apply for renewal registration within 12 months before expiry and if such application is not made on time, a grace period of 6 months will be given.

Advertising Restriction

According to the *PRC Advertising Law*# (《中華人民共和國廣告法》) which was promulgated on 27 October 1994 and came into effect on 1 February 1995, the contents of drug advertisements must be in accordance with the specification as approved by the administrative department of health of the State Council or the administrative department of health of the province, autonomous region or the municipality directly under the Central Government. Advertisement of therapeutic drugs that are required by laws to be used under the guidance of a doctor must be marked "To be purchased and used with prescription of a doctor". No advertisement can be made for special drugs such as narcotic drugs, psychotropic substances, toxic drugs and radioactive pharmaceuticals.

Advertisements for drugs and medical devices shall not contain any of the following contents: (i) unscientific assertions or assurances; (ii) cure rate and effectiveness rate; (iii) comparison with the effectiveness and safety of other drugs and medical devices; (iv) use the name or image of medical research institutes, academic institutions, medical institutions or experts, doctors or patients as proof; and (v) other contents that are not allowed by the laws or administrative regulations.

Contents of advertisements for drugs, medical devices, pesticides or veterinary drugs or other advertisements subject to be reviewed as required by the laws or administrative regulations through radio, film, television, newspapers, periodicals and other media must be reviewed by the relevant administration authority according to the relevant laws and regulations before publishing or broadcasting. No publication or broadcast can be made without such review.

According to the *Drug Advertisements Review Measures#* (《藥品廣告審查辦法》) which was promulgated by the CFDA and the State Administration for Industry & Commerce of the PRC (中華人民共和國國家工商行政管理總局) ("**SAIC**") on 13 March 2007 and came into effect on 1 May 2007, any advertisements published through various medias or format and that contain the name of the drug, the pharmaceutical indications (attending functions) or other drug-related contents are drugs advertisements, and review shall be conducted on such drug advertisements in accordance with the measures. Advertisements for over-the-counter medicine that merely advertise the name of the drug (including the generic name or the trade name of the drug), or advertisements for prescription medicine that merely advertise the name of the drug (including the generic name or the trade name of the drug) on the specified medical pharmaceutical magazines are not subject to review. Drug regulatory departments of the province, autonomous region or municipality directly under the Central Government are the authorities to review the drug advertisements and are responsible to review the drug advertisements within the local administrative regions. Industrial and commerce administration departments at or above the county level are the regulatory authorities for drug advertisements.

National List of Essential Drugs

On 18 August 2009, the Ministry of Health and other eight ministries and commissions in the PRC issued the *Provisional Measures on the Administration of National List of Essential Drugs#* (《國家基本藥物目錄管理辦法(暫行)》), and the *Guidelines on the Implementation of the National List of Essential Drugs System#* (《關於建立國家基本藥物制度的實施意見》) (the "**Implementation Guidelines**"), that aim to promote essential medicines sold to consumers at fair prices in the PRC and ensure that the general public in the PRC have equal access to the drugs contained in the National List of Essential Drugs. On the same day, the Ministry of Health promulgated the *National List of Essential Drugs (Catalogue for the Basic Healthcare Institutions)#* (《國家基本藥物目錄(基層醫療衛生機構配備使用部分)》), which applies to basic healthcare institutions. The National List of Essential Drugs (2012), which became effective on 1 May 2013, contains certain adjustments and improvements to the *National List of Essential Drugs (Catalogue for the Basic Healthcare Institutions)* (2009), such as increasing the number of varieties, improving the catalogue structure and increasing the varieties and formulations for special groups of users, etc. According to the Implementation Guidelines, in the counties (cities, districts) where the essential drugs system is implemented, no-mark-up sale will be implemented for essential drugs distributed to and used by the government-run primary healthcare institutions, and subsidies

will be provided by the government. The government encourages consumers to use essential drugs, essential drugs are all included into the basic medical insurance drugs reimbursement catalogue, and their reimbursement percentages are significantly higher than that of the non-essential drugs.

Pricing policy

On 20 July 2000, the predecessor of the NDRC, promulgated the *Opinion on Reforming Drug Prices Management#* (《關於改革藥品價格管理的意見》) to implement government pricing and market-regulated pricing for the drugs in China. Later, the *Drugs Administration Law#* (《藥品管理法》) and the *Implementation Rules for the Drugs Administration Law#* (《藥品管理法實施條例》) further stipulated that government pricing, government-guided pricing or market-regulated pricing will be implemented in pricing of drugs. Specifically, government pricing or government-guided pricing will be applicable to drugs in the National Basic Medical Insurance Drugs Catalog# (國家基本醫療保險藥品目錄) and drugs not in the National Basic Medical Insurance Drugs Catalog# (國家基本醫療保險藥品目錄) but the production and operation of which are monopolized, while market-regulated pricing will be applicable for other drugs.

In respect of drugs on which market-regulated pricing is implemented according to law, production enterprises, operation enterprises and medical institutions shall determine the prices in accordance with the principles of fair, reasonable, honest and quality-price consistency, so as to provide drugs to consumers at reasonable prices. Drugs product enterprises, operation enterprises and medical institutions shall comply with the drug pricing regulations of the pricing department of the State Council when they determine and mark the retail prices of drugs. Fraudulent conducts that generate huge profits and harm the interests of drug consumers are prohibited.

Medical insurance catalogue

According to the *Social Insurance Law#* (《社會保險法》), medical expenses that are in line with the Basic Medical Insurance Drugs Catalog# (基本醫療保險藥品目錄) and the clinical and medical services and facilities standards as well as medical expenses for emergency and rescue can be paid by the basic medical insurance fund in accordance with the national regulations. Certain portions of the medical expenses of the insured that shall be paid by the basic medical insurance fund will be directly settled between the social insurance agencies and the medical institutions and pharmaceutical operation units. Social insurance administration departments and healthcare administration departments shall establish a medical expenses settlement system for medical treatments carried out in different places, so as to facilitate the insured to enjoy basic medical insurance benefits.

On 27 November 2009, the Ministry of Human Resources and Social Security of the PRC (中華人民共和國人力資源和社會保障部) promulgated the *Notice regarding Publication of the National Basic Medical Insurance Drugs, Industrial Injury Insurance Drugs and Maternity Insurance Drugs Catalog#* (《關於印發國家基本醫療保險、工傷保險和生育保險藥品目錄的通知》), according to which all therapeutic drugs of the National List of Essential Drugs have been incorporated in the *Drugs List#* (《藥品目錄》) as type A drugs. For prices of type A drugs, co-ordinate regions must fully pay in accordance with the provisions of the basic medical insurance and shall not set proportions to be paid by individuals. For type B drugs, certain percentages of the prices to be responsible by the individuals can be set according to the capacity of the fund, then payment will be made based on the provisions of the basic medical insurance. For anti-human immunodeficiency virus drugs that are provided by the state for free, and for anti-tuberculosis drugs, antimalarial and anti-schistosomiasis drugs that involved the state's basic public health programs, if used by the insured and they are within the payment scope of public health programs, the basic medical insurance, industrial injury insurance and maternity insurance funds will not pay; if they are not within the payment scope of public health programs, the basic medical insurance, industrial injury insurance and maternity insurance funds will pay according to the provisions.

Collective tendering system for drugs purchases by medical institutions

On 21 February 2000, the State Commission for Economic Restructuring# (國家經濟體制改革委員會) and seven other departments and commissions of PRC promulgated the *Guidance on Restructuring of the Medical and Healthcare System in Urban Areas#* (《關於城鎮醫藥衛生體制改革的指導意見》), which requires that public hospitals and medical institutions must procure drugs through a centralised tendering process. The Ministry of Health and other relevant government authorities promulgated a series of regulations and announcements to implement the bidding requirement. On 23 September 2004 and 17 January 2009, the Ministry of Health and other relevant government authorities separately promulgated the *Certain Provisions on Further Regulating the Centralised Bidding Process of Drugs by Medical Institutions#* (《關於進一步規範醫療機構藥品集中招標採購的若干規定》) and the *Opinions on Further Regulating the Centralised Purchasing of Drugs by Medical Institutions#* (《關於進一步規範醫療機構藥品集中採購工作的意見》) to amend and improve the tendering system. According to these laws and regulations, public hospitals and medical institutions of the governments of county level or above must comply with the centralised bidding provisions. The bidding process shall be operated and organized by the government authorities of the province or the city level such as the department of health of the province or the city. The centralised bidding process will be held annually in the relevant provinces and cities in China. Except for the drugs set out in the National List of Essential Drugs and certain other special drugs, in principle public hospitals and medical institutions that participate in the bidding process shall only use the drugs set out in the drugs procurement lists formulated by the government authorities of the relevant provinces and cities. Such public hospitals and medical institutions can only procure drugs through open tendering, online auction, centralised bargaining and direct online pricing (including through implementation of government-authorized price controls). In order to increase the transparency of drugs procurement, public hospitals and medical institutions must procure drugs through the online platforms set up by the government authorities of the provinces or cities.

In order to further regulate the centralised procurement of drugs of medical institutions, relevant documents on policies, including the *Implementation Opinions on Further Regulating the Centralised Purchasing of Drugs by Medical Institutions*# (《關於進一步規範醫療機構藥品集中採購工作的實施意見》) jointly promulgated and implemented by the Public Health Bureau of Fujian Province# (福建省衛生廳), Office for Rectifying of Fujian Province# (福建省政府糾風辦), Fujian Provincial Economic and Trade Commission (福建省經濟貿易委員會), Fujian Provincial Department of Finance (福建省財政廳), Fujian Provincial Human Resources and Social Security Bureau (福建省人力資源和社會保障廳), Fujian Provincial Pricing Administration (福建省物價局), Administration for Industry & Commerce of Fujian (福建省工商行政管理局) and Fujian Food and Drug Administration (福建省食品藥品監督管理局) on 2 September 2009 and the *Notice on the Publication of 3 Individual Sets of Administration Measures for Centralised Purchasing, Tendering and Distribution of Drugs in Fujian Province by Fujian Food and Drug Administration*# (《福建省食品藥品監督管理局關於印發福建省藥品集中採購招標配送三個管理辦法的通知》) on 30 September 2009, are applicable to the seventh and eighth rounds of tendering in relation to centralised purchasing of drugs by medical institutions in Fujian Province. According to the provisions of those documents, centralised purchasing of drugs is required to be conducted with province as a unit. Non-profit medical institutions under people's governments of counties or those at a higher level, state-owned enterprises (including state-owned holding enterprises) shall participate in centralised purchasing of drugs. Only competent drugs manufacturers and drug distribution operators with the qualifications awarded by Fujian Food and Drug Administration (福建省食品藥品監督管理局) are deemed as eligible tenderers and distributors to the tender. In principle, centralised purchasing will be effected once every one and a half year (18 months). Drugs included in the list of centralised purchasing shall be purchased through the processes of open tendering, online auction, centralised bargaining and direct online pricing. Awarded drugs as to the tender shall be distributed to medical institutions directly by relevant manufacturers; alternatively relevant manufacturers of awarded drugs may establish administration regions for individual districts and cities (provincial medical institutions shall be deemed as being located in the same administration region) and appoint qualified operators of drug businesses in the individual administration regions to distribute the drugs to medical institutions. In principle, as to an individual administration region, only one qualified operators of drug businesses is allowed to conduct centralised distribution for each kind of awarded drug the purpose of centralised distribution. Distribution fees of awarded drugs shall fall within the band of 5% to 8% of the awarded price and be included therein. Drug enterprises and medical institutions shall fulfill the duties and obligations stipulated in sales and purchase agreements of drugs in accordance with the *Contract Law*# (《合同法》) and other requirements and the term of those agreements is generally not less than 1 year. Medical institutions shall make timely payments in accordance with the agreed schedule stipulated in the agreement and the payment shall be made within 60 days upon delivery of drugs.

On 15 July 2010, Ministry of Health, State Council Office for Rectifying# (國務院糾風辦), NDRC, Ministry of Supervision of the PRC (中華人民共和國監察部), Ministry of Finance of the PRC (中華人民共和國財政部), SAIC and CFDA jointly promulgated the *Standard for Centralised Pharmaceutical Procurement of Medical Institutions#* (《醫療機構藥品集中採購工作規範》) ("**Standard for Centralised Procurement**"), which is applicable to centralised pharmaceutical procurement institutions, medical institutions and pharmaceutical manufacturing enterprises that have participated in the centralised pharmaceutical procurement for medical institutions. Non-profit making medical institutions established by (among others) county or upper level government and state-owned enterprises (including enterprises controlled by state-owned enterprises) must participate in the centralised pharmaceutical procurement for medical institutions, and to encourage other medical institutions to participate in the centralised pharmaceutical procurement. Standard for Centralised Procurement has clearly provided that the procurement and sales of pharmaceutical products of medical institutions and pharmaceutical manufacturing enterprises must be carried through the non-profit centralised pharmaceutical procurement platform established by provincial, (district, city) government, so as to unify the organization, platform and regulation of the procurement. Pharmaceutical manufacturing enterprises that are responsible for distribution must be those qualified for conducting sales through the centralised pharmaceutical procurement platform, they shall confirm orders, stock up and distribute products according to regulations and requirements, and to ensure the pharmaceutical supplies of the participating medical institutions. Distribution fees for centralised pharmaceutical procurement have been included in the price of centralised procurement. Manufacturing enterprises can distribute those shortlisted pharmaceutical products either directly on its own or entrust the distribution to pharmaceutical companies. The entrusted distribution of each pharmaceutical product cannot be subcontracted in principle, but the product distribution in the same region can be entrusted to different companies. If the entrusted company cannot complete the distribution work directly, it can entrust another pharmaceutical company to distribute the products, and report to the provincial authorities responsible for the administration of the centralised pharmaceutical procurement for record, but the procurement price of the pharmaceutical products shall not be raised.

In order to facilitate the monitoring and administration of the online centralised pharmaceutical procurement directed by the government at provincial, autonomous region and municipal level, as well as standardize the centralised pharmaceutical procurement, the Office for Rectifying Incorrect Industry Practices# (糾正行業不正之風辦公室) of the State Council promulgated the *State Rectifying Measures (2010) No. 6 Measures for Monitoring and Administrating the Centralised Pharmaceutical Procurement#* (國糾辦發(2010) 6號《藥品集中採購監督管理辦法》) ("**Administrative Measures for Centralised Procurement**") on 15 July 2010. Administrative Measures for Centralised Procurement stipulated that the centralised pharmaceutical procurement shall be monitored and administrated by levels, which will be mainly at provincial level, and will become the leadership system and working mechanism to be carried out under the close co-operation of relevant authorities according to their statutory power. The monitoring and administration of the centralised pharmaceutical procurement is targeted on: (I) governmental authorities and civil servants that organized the centralised pharmaceutical procurement; (II) units responsible for conducting the centralised pharmaceutical procurement and their respective staff and proposed staff; and (III) medical institutions and pharmaceutical manufacturing enterprises that participated in the centralised pharmaceutical procurement and their respective staff. According to the laws, authorities responsible for the monitor and administration of the centralised pharmaceutical procurement shall have the right to access to and make copies of relevant documents, information, accounts, electronic information data, etc., and to require explanation from relevant units or staff on relevant matters, and seek assistance from relevant authorities or professional institutions.

Product liability

In order to protect the legal rights and interests of consumers, the PRC government enacted a number of laws, including the *Law of the People's Republic of China on the Protection of Consumer Rights and Interests#* (《中華人民共和國消費者權益保護法》), the *Law of the People's Republic of China on Product Quality#* (《中華人民共和國產品品質法》) and the *Law of the People's Republic of China on Tort Liability#* (《中華人民共和國侵權責任法》). Consumers purchase and use products and services for daily living and consumption needs and their rights and interests shall be protected by law. The personal and property safety of consumers shall not be infringed and affected during the course of purchasing and using products and services and consumers are entitled to know the facts about the products and services being purchased and used. According to the law, consumers shall be entitled to be compensated for any personal injury and property loss suffered from the purchase and use of products and services. Where the legal rights and interests of consumers are infringed during the course of purchasing and using products, consumers are entitled to claim for compensation from sellers. Upon the payment of compensation, where the manufacturer or the third party seller who provide the seller with products shall be responsible for the infringement, the seller is entitled to claim for compensation from the manufacturer or the third party seller. Where consumers or other injured parties are suffered from personal injury or property loss because of manufacturing defects, they are entitled to claim for compensation from sellers or manufacturers. Where the legal rights and interests of consumers are infringed during the course of using services, they are entitled to claim for compensation from service providers.

Recall of pharmaceutical products

A reporting system for adverse effects of drugs is in effect in China. According to the requirements of the *Administration Measures on Reporting and Monitoring of Adverse Effect of Drugs#* (《藥品不良反應報告和監測管理辦法》), a management system for reporting and monitoring adverse effect of drugs shall be in place in the sectors of drug manufacturers, operators of drug businesses and medical institutions. Drug manufacturers shall establish dedicated departments equipped with specialized staff for the purpose of reporting and monitoring adverse effects of drugs produced by them, whereas operators of drug businesses and medical institutions shall establish dedicated departments equipped with specialized or non-specialized staff or appoint other bodies to take the same function as well. Drug manufacturers, operators of drug businesses and medical institutions shall frequently examine the quality, healing properties and effect of drugs manufactured by them. Where any serious adverse effect in relation to drugs is identified, timely reports shall be filed to relevant drug administration authorities and public health authorities under the people's government of provinces, autonomous regions or municipalities.

Meanwhile, a recall system is in effect in China in relation to drugs with potential safety problems. The recall system comprises recalls initiated by drug manufacturers and statutory recalls required by drug administration authorities. Drug manufacturers shall establish and improve the recall systems of their own in accordance with the requirements of the *Administration Measures of Drug Recall#* (《藥品召回管理辦法》) for the sake of collecting information about drug safety, investigating and assessing drugs with potential safety problems and recalling those drugs. Operators of drug businesses and institutions using those drugs shall work together with drug manufacturers to make recalls viable, to deliver messages of recalls and provide feedbacks in this regard in a timely manner according to the requirements of recalls and to control and collect drugs with potential safety problems. Where operators of drug businesses and institutions using those drugs identify potential safety problems regarding drugs operated or used by them, sales activities and usage of those shall be stopped immediately, and relevant drug manufacturers or suppliers shall be informed of the case whereas reports shall be filed to drug administration authorities. Drug manufacturers, operators of drug businesses and institutions using those drugs shall maintain full and comprehensive sales and purchase records to make tracking of drug sales and purchase activities feasible.

Where drug administration authorities consider particular kinds of drugs after investigation and assessment, relevant drug manufacturers shall initiate a recall but has not done so, drug administration authorities shall order the relevant drug manufacturers to recall the drugs in issue. Where necessary, drug administration authorities may require drug manufacturers, operators of drug businesses and institutions using the drugs to stop selling and using the drugs immediately.

PRICE CONTROLS

Pursuant to the *Opinion on Reforming Drug Prices Management*# (《國家計委關於改革藥品價格管理的意見》) issued by State Planning Commission of China# (國家計劃委員會), the predecessor of the NDRC, on 20 July 2000, and the *Circular of the National Development and Reform Commission on Issue of Price-controlled Pharmaceutical Products Catalog of National Development and Reform Commission*# (《國家發展改革委員會關於印發〈國家發展改革委定價藥品目錄〉的通知》), which became effective on 1 August 2005, prices of pharmaceutical products shall either be determined by the PRC government or based on market conditions. On 5 March 2010, the NDRC issued the *Circular of the National Development and Reform Commission on adjustment of Price-controlled Pharmaceutical Products Catalog of National Development and Reform Commission*# (《國家發展改革委關於調整〈國家發展改革委定價藥品目錄〉等有關問題的通知》), which has adjusted the Price-controlled Pharmaceutical Products Catalog issued in 2005. The prices of certain pharmaceutical products sold in the PRC, primarily those included in the National and Provincial Medical Insurance Drugs Catalogs are subject to price controls mainly in the form of fixed prices or price ceilings. Manufacturers and operators cannot set the actual price for any given price-controlled product above the price ceiling or deviate from the fixed price imposed by the government. The prices of medicines that are not subject to price controls are determined freely at the discretion of the relevant pharmaceutical companies. Sales of pharmaceutical products by pharmaceutical manufacturers in the PRC to overseas markets are not subject to any price control by the PRC government.

The NDRC issued the *Notice on the Guiding Retail Price of National Essential Drugs*# (《國家發展改革委關於公佈國家基本藥物零售指導價格的通知》) in September 2009, which sets ceiling prices for the national essential drugs. As a result, all kinds of medical institutions, retail pharmacies and other pharmaceutical manufacturers and distributors at all levels should not sell the national essential drugs at the prices which exceed the prices listed in this notice.

The prices of medicines that are subject to price controls are administered by the NDRC and provincial and regional price control authorities. From time to time, the NDRC publishes and updates a list of medicines that are subject to price controls. On 5 March 2010, the NDRC promulgated the *Circular of the National Development and Reform Commission on adjustment of Price-controlled Pharmaceutical Products Catalog of National Development and Reform Commission*# (《國家發展改革委員會關於調整〈國家發展改革委定價藥品目錄〉等有關問題的通知》), which revised the *Price-controlled Pharmaceutical Products Catalog of National Development and Reform Commission*# (國家發展改革委定價藥品目錄) issued in 2005. The latest price reductions occurred in September 2012 when the NDRC promulgated the notice for adjustment of the prices of medicines for certain immunomodulating agents, oncology and blood systems medications, setting out the ceiling prices for certain medicines within these therapeutic areas.

Fixed prices and price ceilings on medicines are determined based on profit margins that the relevant government authorities deemed reasonable, the type and quality of the medicine, average production costs, and the prices of substitute medicines. The NDRC directly regulates the price of a portion of the medicines on the list, and delegates to provincial and regional price control authorities the authority to regulate the pricing of the rest of the medicines on the list.

Further, pursuant to the *Notice Regarding Further Improvement of the Order of Market Price of Pharmaceutical Products and Medical Services#* (《關於進一步整頓藥品和醫療服務市場價格秩序的意見》) jointly issued by the NDRC, the State Council Legislative Affairs Office and the State Council Office for Rectifying, the Ministry of Health, the CFDA, the Ministry of Commerce, the Ministry of Finance and the Ministry of Labor and Social Security on 19 May 2006, the PRC government exercises price control over pharmaceutical products included in the National Medical Insurance Drugs Catalog and Provincial Medical Insurance Drugs Catalog, and made an overall adjustment of their prices by reducing the retail price of certain overpriced pharmaceutical products and increasing the retail price of certain underpriced pharmaceutical products in demand for clinical use but that have not been produced in large quantities by manufacturers due to their low retail price levels. In particular, the retail price charged by hospitals at the county level or above may not exceed 115% of the procurement cost of the relevant pharmaceutical products or 125% for certain Chinese medicine products.

On 9 November 2009, the NDRC, the Ministry of Health and the Ministry of Human Resources and Social Security (中華人民共和國人力資源和社會保障部) jointly promulgated the *Notice on Issuing Opinions on Reforming the Price Formation System of Medicine and Medical Services#* (《關於印發改革藥品和醫療服務價格形成機制的意見的通知》). According to this Notice, in addition to drugs included in the National Medical Insurance Drugs Catalog, Provincial Medical Insurance Drugs Catalog and certain drugs whose production or trading tend to create monopolies, drugs listed in the National List of Essential Drugs are subject to PRC government price control. The prices of other drugs are determined by the market conditions and are not subject to PRC government price control.

The manufacturer of a medicine or the distributor of an imported medicine may apply for an increase in the price of the medicine and it must either apply to the provincial price control authorities in the province where it is incorporated, if the medicine is provincially regulated, or to the NDRC, if the medicine is regulated at the central government level. For a provincially regulated medicine, in cases where provincial price control authorities approved an application, the provincial price control authorities must file the new approved price with the NDRC for record and make an announcement to the public through designated media.

In addition, if a particular pharmaceutical product is significantly superior to comparable products in terms of effectiveness, safety, treatment cycle and costs of treatment, its manufacturer or operator may apply for an approval for separate pricing, subject to approval of NDRC.

With respect to pharmaceutical products whose prices are determined by market conditions, the pharmaceutical manufacturers are able to determine the retail price of their products based on their production cost and market demand and supply for the relevant product. Wholesalers and retailers of such products are permitted to determine the actual retail price to the end customers, provided that such price does not exceed the retail price determined by the manufacturers. The pharmaceutical manufacturers are required to adjust the retail prices from time to time based on their production cost and the market demand and supply for the relevant product.

Under the *Measures on the Investigation of Ex-Factory Prices of Drugs (Trial Implementation)#*《藥品出廠價格調查辦法（試行）》) issued on 9 November 2011 and the *Notice on Enforcement of Investigation and Survey of Ex-Factory Prices of Drugs#*（《國家發展改革委辦公廳關於加強藥品出廠價格調查和監測工作的通知》）issued on 26 March 2012 by NDRC, the government will have the authority to conduct investigation on the ex-factory prices on medicines produced in China or imported from overseas but distributed in China. The pharmaceutical manufacturers should provide certain documents required by NDRC. The investigators are required to check the retail prices of these pharmaceutical products according to the pricing documents issued by the price authority or the pharmaceutical manufacturers. Once the measures are implemented, the government will be able to use the results of the investigation to set the ex-factory prices for the pharmaceutical products.

According to the *Notice of Investigation of Ex-factory Prices on Certain Medicines issued by NDRC#*（《國家發展改革委辦公廳關於對部分藥品進行出廠價格調查的通知》）issued on 1 July 2010, a survey of the wholesale prices of approximately 900 pharmaceutical products and the operations of the relevant pharmaceutical manufacturers will be conducted to understand the pricing structure of the selected pharmaceutical products, which may lead to further downward adjustments in the maximum retail prices of these pharmaceutical products based on the results of the survey.

According to the *Notice on Inspection of National Medical Healthy Service#*（《關於開展全國醫藥衛生服務價格大檢查的通知》）which was issued in March 2011, NDRC and other related authorities will inspect the fee rates of medical institutions, disease control and prevention centers, blood stations, medical organizations which conduct centralised procurement, and units engaged in medical service since 1 January 2010.

Under the *Circular of Regulating the Price of Medical Service and Related Items#*（《關於規範醫療服務價格管理及有關問題的通知》）issued on 4 May 2012, NDRC, Ministry of Health and National Administration of Traditional Chinese Medicine revised the *Standard of National Price for Medical Service 2012#*（《全國醫療服務價格項目規範（二零一二年版）》）. The newly revised *Standard of National Price for Medical Service 2012* comprehensively standardizes the prices of medical services, and strictly controls the prices of newly added medical services. Prices fixed for medical services published in the national standard are basis for charges of medical services in non-profit hospitals at various levels. The fee charging items which not listed in the national standard should be canceled in principle. The items which need to be preserved, should be submitted to the NDRC and Ministry of Health for approval before the end of May 2013. The charging items can exist during the approval period.

MAJOR LAWS AND REGULATIONS GOVERNING FOREIGN INVESTMENT

Foreign investment in the PRC

Companies established, operated and managed in China shall be regulated by the *Company Law of the People's Republic of China#* (《中華人民共和國公司法》) (the "**Company Law**"). The Company Law was promulgated by the Standing Committee of the 8th National People's Congress on 29 December 1993, and has been in effect since 1 July 1994 and was amended on 25 December 1999, 28 August 2004 and 27 October 2005 respectively. According to the Company Law, companies established in China comprise 2 categories: companies with limited liabilities and joint stock companies. The Company Law regulates the establishment, organization, capital contribution, equity transfer, merger, division, dissolution and liquidation of these 2 kinds of companies. The Company law is also applicable to foreign-invested limited companies and joint stock companies. Nevertheless, where there is particular law otherwise applicable to foreign investment, such particular law shall prevail.

Foreign-invested enterprises can be in the form of wholly foreign-owned companies, sino-foreign joint equity ventures and sino-foreign joint cooperative ventures as the case requires. Wholly foreign-owned companies and sino-foreign joint equity ventures are mainly regulated by the *Law of the People's Republic of China on Foreign-invested Enterprises#* (《中華人民共和國外資企業法》) (the "**Foreign-invested Enterprises Law**") adopted by the 6th National People's Congress on 12 April 1986 (as amended on 31 October 2000), the *Law of the People's Republic of China on Sino-foreign Joint Equity Ventures#* (《中華人民共和國中外合資經營企業法》) (the "**Sino-foreign Joint Ventures Law**") adopted by the 2nd Meeting of the 5th National People's Congress on 1 July 1979 (as amended on 4 April 1990 and 15 March 2001) and other laws in relation to foreign investment. The establishment of wholly foreign-owned companies and sino-foreign joint equity ventures shall be verified and approved by departments in charge of foreign trade and economics under the State Council or authorities delegated by the State Council and registered with departments in charge of the administration of industry and commerce. Legal operation and legal rights and interests of wholly foreign-owned companies and sino-foreign joint equity ventures are all protected by the law of China. Profits arising from legal operation, other income from legal activities and surplus fund after liquidation of wholly foreign-owned companies and sino-foreign joint equity ventures can be remitted to overseas countries.

Investment in PRC industries by foreign investors and foreign-invested enterprises shall comply with the requirements of the *Catalogue for the Guidance of Foreign Investment Industries#* (《外商投資產業指導目錄》) (the "**Catalogue**") published from time to time by the NDRC and the Ministry of Commerce. Investment in PRC industries by foreign investors and foreign enterprises are generally classified into four categories, namely the allowed, encouraged, restricted and prohibited categories. Those industries that are classified under the encouraged, restricted and prohibited categories are listed in the Catalogue whereas industries which are not listed in the Catalogue belong to the allowed category. Foreign investors and foreign enterprises are not allowed to invest and operate in industries that are classified under the prohibited category in the Catalogue. For the allowed, encouraged and restricted investment industries categories, foreign investors and foreign enterprises are allowed to invest and operate in these industries once approval has been granted by the relevant authorities.

The Catalogue (as amended in 2004), which was published on 30 November 2004 and became effective on 1 January 2005, had included the wholesale, retail and logistic distribution of drugs under the restricted foreign investment industries category and those with more than 30 pharmaceutical retail chain stores are not allowed to be controlled by foreign investors and foreign enterprises. In the Catalogue (as amended in 2007), which was published on 31 October 2007 and became effective on 1 December 2007, the wholesale, retail and logistic distribution of drugs were still classified under the restricted foreign investment industries category but there are no restrictions in the percentage of shareholdings to be held by foreign enterprises for wholesale and distribution of drugs. For retail of drugs, those with more than 30 retail chain stores selling different kinds and brands of drug products from many different suppliers must be controlled by PRC investors or enterprises. The fact that the wholesale, retail and logistic distribution of drugs are included under the restricted foreign investment industries category in the Catalogue (as amended in 2004 and 2007) does not mean that foreign investors and foreign enterprises are not allowed to invest and operate in these industries. Foreign investors and foreign enterprises are allowed to invest and operate in industries classified under the restricted foreign investment industries category in the Catalogue once approval has been granted by the relevant authorities. In the Catalogue (as amended in 2011), which was published on 24 December 2011 and became effective on 30 January 2012, the wholesale, retail and logistic distribution of drugs are removed from the restricted foreign investment industries category and are not listed in the Catalogue.

The Ministry of Commerce promulgated the *Administration Measures on Foreign Investment in Commercial Sectors*# (《外商投資商業領域管理辦法》) (the "**Administration Measures**") on 16 April 2004, which has been in effect since 1 June 2004. The Ministry of Commerce promulgated supplementary rules to the Administration Measures on 9 January 2006, 6 November 2006, 5 November 2007, 5 February 2009 and 10 April 2012 respectively. According to the Administration Measures, foreign-invested commercial enterprises shall meet the following requirements: (1) minimum registered capital as stipulated in the Company Law; (2) stipulations in relation to the registered capital and total investment applicable to foreign-invested enterprises; and (3) operation term of 30 years or less in general. Where shops are intended by foreign-invested commercial enterprises, requirements in relation to urban development and commercial development in urban area shall be observed. According to Supplementary Rules (IV) to the Administration Measures promulgated on 5 February 2009, the operation of service providers from Hong Kong and Macau Special Administrative Region are allowed to take the form of sole proprietorship where the operation of the same service provider, either from Hong Kong and Macau Special Administrative Region, is engaged in commodities like drugs, farm pesticides, farm plastic films, chemical fertilizers, vegetable oil, edible sugar and cotton under different brand names and such service provider has more than 30 shops in China.

FOREIGN EXCHANGE CONTROLS AND DIVIDEND POLICY

In China, issues regarding foreign exchange are mainly regulated by the *Regulations on the Foreign Exchange System of the People's Republic of China*# (《中華人民共和國外匯管理條例》) (the "**Foreign Exchange Regulation**"). The Foreign Exchange Regulation was promulgated by the State Council on 29 January 1996, and has been in effect since 1 April 1996 and was amended on 14 January 1997 and 1 August 2008 respectively. According to the requirements of the Foreign Exchange Regulation, all foreign exchange income and expenses and related operations of domestic entities and individuals and those of foreign entities and individuals conducted in China are regulated by the regulation. China imposes no restriction on current international payment and transfer. However, current foreign exchange income and expense items shall be based on actual and legal transactions. Direct investment in China by foreign entities and individuals shall be registered with foreign exchange administration authorities upon approval by competent departments. Foreign exchange related to capital projects and foreign exchange settlement funds shall be applied to purposes approved by relevant competent departments and foreign exchange administration authorities. Where a foreign-invested enterprise is terminated according to law and all settlements and tax payments have been made according to stipulations of China, all the surplus Renminbi amount attributable to the foreign investor may be converted to foreign exchange and remitted to overseas countries through financial institutions engaged in the business of foreign exchange settlement and trading. Foreign exchange administration authorities are entitled to monitor and examine the application of foreign exchange and foreign exchange settlement funds and the movement of accounts.

The State Administration of Foreign Exchange (國家外匯管理局) promulgated the *Notice of the State Administration of Foreign Exchange on Relevant Issues concerning Foreign Exchange Administration for Domestic Residents to Engage in Financing and in Return Investment via Overseas Special Purpose Companies*# (《國家外匯管理局關於境內居民通過境外特殊目的公司融資及返程投資外匯管理有關問題的通知》) on 21 October 2005, which has been in effect since 1 November 2005. It is stipulated in the said notice that domestic legal person or natural person residents shall file all applications for foreign exchange registration for overseas investment with local foreign exchange administration authorities before directly establishing or indirectly controlling overseas enterprises for the purpose of overseas equity financing with their domestic enterprise assets or interests. According to the requirements of the said notice, domestic legal person residents mentioned above refer to enterprise legal persons and other economic organizations established in China according to law whereas domestic natural person residents refer to natural persons holding legal identity documents like identity cards or passports of the People's Republic of China or, where no legal identity of China is vested, natural persons normally living in China due to economic interests.

According to requirements of laws and rules regarding foreign investment, including the company law, the foreign-invested enterprises law and the sino-foreign joint ventures law and related administration measures, after making tax payments for profits as stipulated by the tax law of China, wholly foreign-owned companies shall contribute to the reserve fund and the bonus and welfare fund for workers. The percentage of the appropriation to the reserve fund shall not be lower than 10% of the profit after taxation and appropriation may be waived when the accumulated amount of the reserve fund amounts to 50% of the registered capital. The percentage of the appropriation to the bonus and welfare fund for workers shall be determined by wholly foreign-owned companies. No profit can be appropriated by foreign-invested enterprises unless losses recorded in previous accounting years were covered. Undistributed profits from previous accounting years may be appropriated together with distributable profits of the current accounting year. The distribution of profit after taxation of sino-foreign joint ventures shall meet the following principles: (1) appropriations shall be made to the reserve fund, the bonus and welfare fund for workers and the enterprise development fund at percentages determined by the board of directors; (2) in addition to covering the loss of joint ventures, the reserve fund can also be applied to the increase of capital and the expansion of production scale upon the approval of competent authorities; and (3) where the board of directors determine to appropriate the distributable profit after appropriation to the funds mentioned above, it shall be distributed amongst all parties to the joint venture in accordance with the percentages of capital contribution of each party. Where evidencing documents, including resolutions of the board of directors and tax payment certificates, can be produced by foreign-invested enterprises, foreign exchange can be purchased for dividend payments.

MAJOR TAXES APPLICABLE TO ENTERPRISES IN THE PRC

According to tax laws and regulations of China, taxes related to the operation of drug business mainly include value-added tax, business tax, urban construction tax, sur-tax for education expense, local sur-tax for education expense, stamp duty and enterprise income tax.

According to the *Provisional Regulations of the People's Republic of China on Value-added Tax#* (《中華人民共和國增值税暫行條例》), entities and individuals engaged in the selling of products in China shall pay statutory value-added taxes at an ordinary rate of 17%. Nevertheless, the tax rate is 13% for the following: food grains, edible vegetable oil, tap water, heating, air conditioning, hot water, coal gas, liquefied petroleum gas, natural gas, methane gas, household coal and charcoal products, books, newspapers, magazines, feeds, chemical fertilizers, agricultural chemicals, agricultural machinery, plastic films for farming and products otherwise determined by the State Council.

According to the *Provisional Regulations of the People's Republic of China on Business Tax#* (《中華人民共和國營業税暫行條例》), entities and individuals engaged in the provision of labour services, the transfer of intangible assets or the sales of real properties shall pay business tax. The tax rate applicable to the transportation industry, the construction industry, the post and telecommunication industry and the culture and sports industry is 3%, the rate for the financial and insurance industry, the service industry, the transfer of intangible assets and the sales of real properties is 5% and that for the entertainment industry is 5% to 20%.

According to laws and regulations of China on urban construction tax, sur-tax for education expense, local sur-tax for education expense and stamp duty, relevant urban maintenance and construction tax, sur-tax for education expense, local sur-tax for education expense and stamp duty shall be paid as necessary in respect of sales of products. Regarding the urban maintenance and construction tax, the taxable amount is based on the consumption tax, the value-added tax and the business tax actually paid by the taxpayer and the effective tax rate is 1% to 7%, depending on the location of the relevant taxpayer. As for the sur-tax for education expense, the taxable amount is based on the value-added tax, the business tax and the consumption tax actually paid by the taxpayer and the effective rate is 3%. In respect of the local sur-tax for education expense, the taxable amount is based on the value-added tax, the business tax and the consumption tax actually paid by the taxpayer and the effective rate is 2%. In China, stamp duties shall be made payable where documents of contractual nature, instruments for property right transfer, account books for business, rights and licenses etc. are executed or served with. Pursuant to which, all sales and purchase agreement are subject to a tax rate of 0.03% of the amount sold or purchased.

According to the *Law of the People's Republic of China on Enterprise Income Tax#* (《中華人民共和國企業所得税法》), resident enterprises shall pay enterprises income tax for income from China and overseas countries. In respect of non-resident enterprises which have established entities and premises in China, enterprises income tax shall be made payable in relation to the income from China that earned by the entities and premises established therein and the income from overseas countries but actually related to those entities and premises. The applicable tax rate for the above is 25%.

Where non-resident enterprises have not established entities and premises in China, or where entities and premises have been established but the income earned is not actually related to those entities and premises, enterprises income tax shall be made payable in relation to the income earned in China and the applicable tax rate is 20%. For this purpose, income includes equity gains (such as dividend and bonus), interests, rentals and licencing fees. But according to the requirements of *Implementation Regulations of the Enterprise Income Tax of the People's Republic of China*# (《中華人民共和國企業所得税法實施條例》) which was issued at 6 December 2007 and become effective from 1 January 2008, the aforesaid income of a non-resident enterprise is subject to enterprise income tax at a reduced tax rate of 10%. According to relevant provisions of the *Arrangement between the Mainland of China and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to Taxes on Income*# (《內地和香港特別行政區關於對所得避免雙重徵税和防止偷漏税的安排》) promulgated by the State Administration of Taxation (國家税務總局) on 21 August 2006 and implemented in the PRC since 1 January 2007, where a Hong Kong company directly holds not less than 25% capital in a foreign-invested enterprise in China, the tax payable on the dividend received from the said enterprise shall not be more than 5% of the dividend payment.

LABOUR AND SAFETY

In China, the recruitment of labour force is regulated by the *Law of the People's Republic of China on Employment Contract*# (《中華人民共和國勞動合同法》) (the "**Employment Contract Law**"), its administration measures and the *Law of the People's Republic of China on Labour*# (《中華人民共和國勞動法》) (the "**Labour Law**").

The Employment Contract Law was promulgated by the Standing Committee of the National People's Congress# (全國人民代表大會常務委員會) on 29 June 2007, and was subsequently revised, approved and announced by the Standing Committee of the National People's Congress on 28 December 2012 and became effective from 1 July 2013. In China, the establishment of employment relationship between employees and domestic enterprises, individual economic entities and private non-enterprises units and the execution, fulfilment, amendment, cessation and termination of employment contracts shall comply with provisions of the Employment Contract Law. The employment relationship between the employer and the employee is deemed to be established on the day when the employee is employed and written employment contracts shall be executed accordingly. Where an employer ceases or terminates an employment contract in breach of the Employment Contract Law and where the employee demand the performance of the said contract, the employer shall do so as contracted. Nevertheless, where the employee does not demand the performance of the said contract or it is unable to perform the contract, the employer shall pay compensations accordingly.

The Labour Law was promulgated by the Standing Committee of the National People's Congress# (全國人民代表大會常務委員會) on 5 July 1994, and has been in effect since 1 January 1995. According to provisions of the Labour Law, the wage paid by the employer to the employee shall not be lower than the local standards of minimum wages. In addition, the employer shall establish and perfect a system for occupational safety and healthcare and strictly comply with national codes and standards on occupational safety and healthcare. The employer shall also provide employees with education on occupational safety and healthcare issues as well as occupational safety and healthcare conditions up to the national standard and all necessary protection equipment. Regular body check shall also be provided to employees engaged in activities with occupational hazards.

Meanwhile, China also promulgated a number of laws and regulations in relation to the social insurance for employees, including the *Regulations on Work-Related Injury Insurance#* (《工傷保險條例》), the *Regulations on Unemployment Insurance#* (《失業保險條例》), the *Provisional Measures on Maternity Insurance for Enterprise Employees#* (《企業職工生育保險試行辦法》), the *Provisional Measures on the Administration of Social Insurance#* (《社會保險登記管理暫行辦法》) and the *Provisional Measures on the Administration of Social Insurance Registration#* (《社會保險費徵繳暫行條例》), thereby establishing a social insurance system comprising pension insurance, medical insurance, unemployment insurance, work-related injury insurance and maternity insurance.

OVERVIEW

The history of our Group dates back to 2004 when Mr. Yung, an executive director and a substantial shareholder of Hua Xia, and Mrs. Yung, the spouse of Mr. Yung, established Huihao Hong Kong in Hong Kong. Our Group commenced pharmaceutical distribution and wholesale business through Fuzhou Huihao, Fujian Huiming and Putian Huihao from July 2008. In 2009, Mr. Yung acquired 99.29% equity interest in Huihao Sihai (formerly known as Fujian Sanming Sihai Pharmaceutical Chain Company Limited# (福建三明四海醫藥連鎖有限責任公司) ("**Sanming Sihai**")) which was established in Sanming, Fujian Province, the PRC by Independent Third Parties and has operated the pharmaceutical retail chain business since November 2001.

Hua Xia (formerly known as Grandy Corporation, Grandy Applied Environmental Technology Corporation, Grandy Environmental Holdings Limited and Lotus Sea Holdings Limited) was incorporated in the Cayman Islands on 28 May 2001 with limited liability, the issued shares of which have been listed on GEM since 10 May 2002. With a view to diversifying into the pharmaceutical wholesale and distribution and pharmaceutical retail chain businesses in the PRC, Hua Xia, through its wholly owned subsidiary, Timely Hero, entered into the Acquisitions Agreement on 13 November 2009 to acquire from Mr. Yung the entire issued share capital of Nurture Fit, which was then beneficially wholly-owned by Mr. Yung, and an indebtedness of approximately HK$35 million due to Mr. Yung from Nurture Fit Group. At the time of entering into of the Acquisitions Agreement and before completion of the Acquisitions, Nurture Fit owned 100% equity interest in Huihao Hong Kong which has been operating pharmaceutical wholesale and distribution business through Fuzhou Huihao, Fujian Huiming and Putian Huihao. In addition, pursuant to the Control Agreements dated 20 December 2009 and entered into among Mr. Yung, Huihao Sihai and Huihao Hong Kong, Huihao Hong Kong acquired and obtained from Mr. Yung an effective control of Huihao Sihai to operate the pharmaceutical retail chain business, notwithstanding that the 99.29% equity interest in Huihao Sihai were held by Mr. Yung for and on behalf of Huihao Hong Kong. The purpose of entering into the Control Agreements was because at the material time, Hua Xia did not have any suitable corporate vehicle that meet the requirement in order to benefit from CEPA to hold the 99.29% equity interest in Huihao Sihai. Details of the Acquisitions were disclosed in the Acquisitions Circular and completion of which took place on 8 March 2010. After Huihao Hong Kong obtained the approval from the Trade and Industry Department of the Government of Hong Kong as a recognised service provider under CEPA on 21 July 2011, Huihao Hong Kong proceeded to exercise its right under the Exclusive Share Purchase Agreement regarding the transfer of the 99.29% equity interest in Huihao Sihai held by Mr. Yung to Huihao Hong Kong. As the application for transfer of the 99.29% equity interest in Huihao Sihai upon Huihao Hong Kong obtaining the relevant qualification was new to Fujian Province Foreign Trade and Economic Cooperation Bureau# (福建省對外貿易經濟合作廳) which reviewed the case, such review and approval took several months before the relevant transfer procedures could take place. Completion of the transfer then took place on 6 January 2012. On 6 January 2012, Huihao Hong Kong completed the exercise of its right under the Exclusive Share Purchase Agreement pursuant to which the 99.29% equity interest in Huihao Sihai held by Mr. Yung were transferred back to Huihao Hong Kong at a cash consideration of HK$12,463,124.44 and such transfer was then filed and approved by Fujian Province Foreign Trade and Economic Cooperation Bureau# (福建省對外貿易經濟合作廳) on 1 February 2012. As stipulated under the Exclusive Share Purchase Agreement, the consideration should be the higher of (i) the loan amount of

HK$12,463,124.44 advanced by Huihao Hong Kong to Mr. Yung pursuant to the Loan Agreement; or (ii) the lowest amount permitted under the PRC laws at the time of the transfer. The consideration of HK$12,463,124.44 was equivalent to the loan amount advanced by Huihao Hong Kong to Mr. Yung pursuant to the Loan Agreement, which was not paid by cash and set off against the loan amount advanced by Huihao Hong Kong to Mr. Yung on 6 January 2012. Such consideration was determined in accordance with the terms of the Exclusive Share Purchase Agreement based on the then net asset value of the acquired assets and was made in compliance with the relevant laws in the PRC.

CORPORATE DEVELOPMENT

Our Company

Our Company was an exempted company incorporated with limited liability in the Cayman Islands on 9 July 2012 with an authorised share capital of HK$380,000 divided into 38,000,000 Shares, of which one nil paid Share (the "**Incorporation Share**"), representing our then entire issued share capital, was issued and allotted to Codan Trust Company (Cayman) Limited as subscriber, which was then transferred to Greatly Wealth at nil consideration on the same date.

Pursuant to the written resolutions of our sole Shareholder passed on 3 September 2013, the authorised share capital of our Company was increased from HK$380,000 to HK$20,000,000 by the creation of a further 1,962,000,000 Shares.

On 3 September 2013, our Company acquired the entire issued share capital of Luxuriant Expand from Hua Xia in consideration of our Company allotting and issuing 648,405,299 fully paid up Shares (all credited as fully paid) to Greatly Wealth and the crediting as fully paid at par of the Incorporation Share registered in the name of Greatly Wealth.

Luxuriant Expand

Luxuriant Expand was a company incorporated in the BVI on 10 April 2012 with an authorised share capital of US$50,000 divided into 50,000 shares of US$1 each, of which 100 shares were issued to Hua Xia on 4 July 2012. Following completion of the Reorganisation, Luxuriant Expand has become a direct wholly-owned subsidiary of our Company.

Timely Hero

Timely Hero was a company incorporated in the BVI on 1 December 2006 with an authorised share capital of US$50,000 divided into 50,000 shares of US$1 each, of which 1 share was issued to Hua Xia on 8 January 2007. On 13 November 2009, Timely Hero, a wholly-owned subsidiary of Hua Xia prior to the completion of the Reorganisation, as purchaser entered into the Acquisitions Agreement with Mr. Yung as vendor whereas Timely Hero agreed to purchase and Mr. Yung

agreed to dispose of (i) 1 share in Nurture Fit, representing its entire issued share capital whose subsidiaries comprised 100% equity interest in Huihao Hong Kong, Fuzhou Huihao (excluding the 100% equity interest in Quanzhou Huihao which was subsequently acquired by Fuzhou Huihao on 1 April 2011), Fujian Huiming, Putian Huihao and 99.29% equity interest in Huihao Sihai; and (ii) a loan of approximately HK$35 million indebted to Mr. Yung by Nurture Fit Group at a total consideration of HK$600 million which was satisfied (i) as to HK$20 million in cash; (ii) as to HK$290 million by the allotment and issue of a total of 4,833,333,333 Hua Xia CP Shares in favour of Mr. Yung; and (iii) as to the remaining HK$290 million by the issue of a promissory note by Hua Xia in favour of Mr. Yung. According to Hong Kong Financial Reporting Standard 3, the total consideration should be measured at fair value amounting to HK$840,211,000 on completion date of the Acquisitions which was determined by (i) HK$20 million in cash; (ii) the fair value of the promissory note amounting to approximately HK$240,211,000 calculated with the discount factor at an effective interest rate of 3% per annum; and (iii) the fair value of the then 4,833,333,333 Hua Xia CP Shares amounting, in aggregate, to approximately HK$580 million, representing HK$0.12 per Hua Xia CP Share. Timely Hero is an investment holding company. Following completion of the Reorganisation, Timely Hero has become an indirect wholly-owned subsidiary of our Company.

Nurture Fit

Nurture Fit was a company incorporated in the BVI on 16 July 2009 with an authorised share capital of US$50,000 divided into 50,000 shares of US$1 each. On 5 November 2009, Mr. Yung subscribed for 1 share in Nurture Fit at par in cash, representing its then entire issued share capital. On 13 November 2009, Timely Hero, a wholly-owned subsidiary of Hua Xia prior to completion of the Reorganisation, entered into the Acquisitions Agreement in relation to the Acquisitions and after the completion of the Acquisitions on 8 March 2010, Nurture Fit became a direct wholly-owned subsidiary of Timely Hero. Nurture Fit is an investment holding company. Following completion of the Reorganisation, Nurture Fit has become an indirect wholly-owned subsidiary of our Company.

Huihao Hong Kong

Huihao Hong Kong was a company incorporated in Hong Kong on 1 March 2004 with an authorised share capital of HK$1,000,000 divided into 1,000,000 shares of HK$1 each, of which 700,000 shares were issued to Mr. Yung and the remaining 300,000 shares were issued to Mrs. Yung. On 15 January 2010, Nurture Fit acquired 1,000,000 shares, representing the then entire issued share capital of Huihao Hong Kong from Mr. Yung and Mrs. Yung at a cash consideration of HK$1,000,000. After completion of the acquisition, Huihao Hong Kong became wholly-owned by Nurture Fit. Huihao Hong Kong is an investment holding company. Following completion of the Reorganisation, Huihao Hong Kong has become an indirect wholly-owned subsidiary of our Company.

Pursuant to the Catalogue for the Guidance of Foreign Investment Industries (外商投資產業指導目錄) (as amended in 2007) which was published by the NDRC and the Ministry of Commerce on 31 October 2007 and became effective on 1 December 2007, at the time of entering into the Acquisitions Agreement between Mr. Yung as vendor and Timely Hero as purchaser in relation to the Acquisitions, foreign invested enterprises are not allowed to hold the controlling interest in a company which is principally engaged in pharmaceutical retail chain business in the PRC with more than 30 retail pharmacy stores selling different kinds and brands of pharmaceutical products from many different suppliers. Under CEPA, preferential treatment is granted by the PRC authorities to either (i) a natural person who is a Hong Kong permanent resident; or (ii) a Hong Kong service provider which is a company having engaged in substantive business operations in Hong Kong for three to five years, to acquire the entire equity interests in the restricted business. As Hua Xia did not have any suitable corporate vehicle that meet the requirement in order to benefit from CEPA to hold the 99.29% equity interest in Huihao Sihai at the material time, Huihao Hong Kong and Huihao Sihai had entered into the Control Agreements with Mr. Yung, a Hong Kong permanent resident, a substantial shareholder and an executive director of Hua Xia, on 20 December 2009 in order to obtain an effective control on Huihao Sihai. The Control Agreements were designed to provide Huihao Hong Kong with an effective control over and the right to enjoy the economic benefits in and/or assets of, Huihao Sihai. In the view of the reporting accountants of our Company, Huihao Sihai could be accounted for as a subsidiary when our Group obtained the control over Huihao Sihai under the Control Agreements, which has been defined in Hong Kong Accounting Standard ("**HKAS**") 27. After the Control Agreements have been signed, our Group has the power to govern the financial and operating policies of Huihao Sihai so as to obtain benefits from its activities. Upon completion, Huihao Hong Kong would be able to govern the financial and operating policies of Huihao Sihai because (i) the board of directors of Huihao Sihai will be controlled by Huihao Hong Kong pursuant to the Management Appointment Agreement and the Directors' Undertaking; (ii) the general meeting will be controlled by Huihao Hong Kong pursuant to the Shareholder's Undertaking; and (iii) all the benefits arising from 99.29% equity interest in Huihao Sihai will be entirely conveyed to Huihao Hong Kong pursuant to the Share Charge. As the financial information of our Group has been prepared on a combined/consolidated basis, of which all the results of all subsidiaries within the same group will be combined/consolidated under common control of the ultimate shareholders/control of the parent company, and present in the single set of financial statement, Huihao Sihai has been accounted for as a subsidiary of our Group according to HKAS 27 instead of merely transfer of resources from subsidiaries to the holding company under the combined/consolidated process.

Details of the Acquisitions were disclosed in the Acquisitions Circular. Salient terms and conditions of the Control Agreements are set out below:

The Loan Agreement

Date:	20 December 2009
Parties:	(1) Mr. Yung, as borrower; and (2) Huihao Hong Kong, as lender
Subject:	Huihao Hong Kong agreed to advance an interest-free loan of approximately HK$12,463,124.44 for an initial term of ten years to Mr. Yung.
Term:	The purpose of the loan is solely for the acquisition of the 99.29% equity interest in Huihao Sihai by Mr. Yung. The loan will only be offset against the consideration under the Exclusive Share Purchase Agreement. The initial term of the Loan Agreement is ten years which is extendable automatically unless otherwise terminated by Huihao Hong Kong.

Exclusive Share Purchase Agreement

Date:	20 December 2009
Parties:	(1) Mr. Yung, as grantor; (2) Huihao Sihai; and (3) Huihao Hong Kong, as grantee
Subject:	Mr. Yung granted an irrevocable and exclusive right to Huihao Hong Kong or its nominee to acquire the entire or part of his equity interest in Huihao Sihai up to 99.29%.

Consideration:	The parties to the Exclusive Share Purchase Agreement agreed that the consideration for the acquisition of the 99.29% equity interest in Huihao Sihai of HK$12,463,124.44 will be offset against the loan amount under the Loan Agreement or by any other means in compliance with the relevant rules and requirements in the PRC upon exercise of the right to acquire equity interest in Huihao Sihai by Huihao Hong Kong.
Term:	Ten years from the date of entering into of the Exclusive Share Purchase Agreement, extendable for another ten years until the completion of acquisition of equity interest in Huihao Sihai. Huihao Hong Kong may exercise its rights under the Exclusive Share Purchase Agreement in whole or in part to acquire up to 99.29% of the equity interest in Huihao Sihai.

Share Charge

Date:	20 December 2009
Parties:	(1) Mr. Yung, as chargor; (2) Huihao Hong Kong, as chargee; and (3) Huihao Sihai
Subject:	In consideration of the advancement of the loan by Huihao Hong Kong to Mr. Yung under the Loan Agreement, Mr. Yung created a charge over his 99.29% equity interest in Huihao Sihai in favour of Huihao Hong Kong to secure the performance by Mr. Yung of his duties and obligations under the Exclusive Share Purchase Agreement and the Loan Agreement.
Term:	In accordance with the terms and conditions of the Share Charge, Mr. Yung charged his entire 99.29% equity interest in Huihao Sihai to Huihao Hong Kong and will procure Huihao Sihai to register the Share Charge in its register of members. The period of the Share Charge commences from the date of the Share Charge to the full discharge of the obligations of Mr. Yung under the Loan Agreement. During the term of the Share Charge, Mr. Yung shall convey all the dividends, distribution, capital bonus and other assets distributed paid or made by Huihao Sihai to him as a shareholder to Huihao Hong Kong with respect to his entire charged equity interest in Huihao Sihai.

Management Appointment Agreement

Date:	20 December 2009
Parties:	(1) Mr. Yung; and (2) Huihao Hong Kong
Subject:	Mr. Yung shall vote on every resolution proposed at a general meeting of shareholders of Huihao Sihai in accordance with the direction of Huihao Hong Kong. Huihao Hong Kong shall appoint two directors to the board of directors of Huihao Sihai creating an effective control over the board of directors of Huihao Sihai. In addition, Huihao Hong Kong is entitled to remove the general manager and legal representative of Huihao Sihai and replace them with its nominees.
Term:	Commencing from the date of the Management Appointment Agreement until the fulfillment of all of the obligations under the Exclusive Share Purchase Agreement.

Directors' Undertakings

Date:	20 December 2009
Parties:	Mr. Yung and Mrs. Yung
Subject:	Each of Mr. Yung and Mrs. Yung undertakes to pass a copy of all notices of directors' meetings received from Huihao Sihai to Huihao Hong Kong and to vote on any resolution proposed at the directors' meetings of Huihao Sihai in accordance with the voting instructions given by Huihao Hong Kong. Each of Mr. Yung and Mrs. Yung further undertakes to procure any of his/her replacement directors of Huihao Sihai to give a similar undertaking as aforesaid.

Shareholder's Undertaking

Date:	20 December 2009
Party:	Mr. Yung
Subject:	Mr. Yung undertakes to Huihao Hong Kong to vote on any resolution proposed at a general meeting of the shareholders of Huihao Sihai in accordance with the directions of Huihao Hong Kong.

Fuzhou Huihao

Fuzhou Huihao was established in the PRC on 9 July 2008 with a registered capital of RMB10,000,000, of which RMB2,000,000 was paid-up and contributed as to 45% by Mr. Weng Guomin (翁國民), a younger brother of Mr. Yung and 55% by Mr. Weng Jiale (翁加樂), a nephew of Mr. Yung and a brother of Mr. Weng. In August 2008, the remaining unpaid registered capital of RMB8,000,000 was fully paid-up and contributed by Mr. Weng Guomin (翁國民) and Mr. Weng Jiale (翁加樂) in proportion to their shareholdings in Fuzhou Huihao. By an equity transfer agreement dated 13 October 2008 entered into among Huihao Hong Kong, Mr. Weng Guomin (翁國民) and Mr. Weng Jiale (翁加樂), Huihao Hong Kong agreed to acquire 55% and 45% equity interest in Fuzhou Huihao from Mr. Weng Jiale (翁加樂) and Mr. Weng Guomin (翁國民) at a cash consideration of RMB5.5 million and RMB4.5 million respectively. The total consideration of RMB10 million was equivalent to the then registered capital of Fuzhou Huihao. Upon completion of the said equity transfer, Fuzhou Huihao became a wholly-owned subsidiary of Huihao Hong Kong. In November 2009, the registered capital of Fuzhou Huihao was increased to RMB30,000,000 which was fully paid-up at the same time. In December 2010, the registered capital of Fuzhou Huihao was further increased to RMB60,000,000 which was also fully paid-up at the same time. Fuzhou Huihao is principally engaged in the wholesale and distribution of pharmaceutical and healthcare products in the PRC.

Fujian Huiming

Fujian Huiming was established in the PRC on 10 July 2008 with a registered capital of RMB5,000,000, of which RMB1,000,000 was paid-up and contributed as to 15% by Mr. Weng Jiale (翁加樂), 12% by Mr. Weng Guomin (翁國民) and the remaining 73% by Mr. Zhou Jinshen (周金森) and Mr. Zheng Wenzhong (鄭文忠), both Mr. Zhou Jinshen (周金森) and Mr. Zheng Wenzhong (鄭文忠) are Independent Third Parties. In August 2008, the remaining unpaid registered capital of RMB4,000,000 was fully paid-up and contributed by the then shareholders of Fujian Huiming in proportion to their shareholdings in Fujian Huiming. By an equity transfer agreement dated 16 November 2008 entered into among Fuzhou Huihao on one side and Mr.

Weng Jiale (翁加樂), Mr. Weng Guomin (翁國民), Mr. Zhou Jinshen (周金森) and Mr. Zheng Wenzhong (鄭文忠) on the other side, Fuzhou Huihao agreed to acquire the entire equity interest in Fujian Huiming at a cash consideration of RMB5,000,000, which was equivalent to the then registered capital of Fujian Huiming. Following completion of the said equity transfer, Fujian Huiming became a wholly-owned subsidiary of Fuzhou Huihao. In December 2010, the registered capital of Fujian Huiming was increased to RMB20,000,000 which was fully paid-up at the same time. Fujian Huiming is principally engaged in the wholesale and distribution of pharmaceutical and healthcare products in the PRC.

Putian Huihao

Putian Huihao was established in the PRC on 11 July 2008 with a registered capital of RMB5,000,000, of which RMB1,000,000 was paid-up as to 89.88% by Mr. Weng Jiale (翁加樂) and 10.12% by Mr. Wu Jianguo (吳建國), an Independent Third Party. In August 2008, the remaining unpaid registered capital of RMB4,000,000 was fully paid-up and contributed by the then shareholders of Putian Huihao in proportion to their shareholdings in Putian Huihao. By two equity transfer agreements both dated 16 November 2008 entered into between Fuzhou Huihao and each of Mr. Weng Jiale (翁加樂) and Mr. Wu Jianguo (吳建國), Fuzhou Huihao agreed to acquire the entire equity interest in Putian Huihao at a cash consideration of RMB5,000,000, which was equivalent to the then registered capital of Putian Huihao. Following such equity transfers, Putian Huihao became a wholly-owned subsidiary of Fuzhou Huihao. In January 2011, the registered capital of Putian Huihao was increased to RMB10,000,000 and was fully paid-up at the same time. Putian Huihao is principally engaged in the wholesale and distribution of pharmaceutical and healthcare products in the PRC.

Huihao Sihai

Huihao Sihai (formerly known as Sanming Sihai) was established in the PRC on 30 November 2001 with a registered capital of RMB13,118,350, which was fully paid-up and contributed by individuals who are all Independent Third Parties. On 25 July 2002, the registered capital of Sanming Sihai was increased to RMB15,856,350 which was fully paid-up at the same time. By a resolution passed at the shareholders' meeting of Sanming Sihai held on 20 May 2008, the company name was changed from Sanming Sihai to Huihao Sihai and the registered address was changed from Sanming to Fuzhou.

On 10 February 2009, Mr. Yung and the shareholders of Huihao Sihai (save for Mr. Lin Shaowan (林紹綰) ("**Mr. Lin**")) entered into an equity transfer agreement to acquire 99.29% equity interest in Huihao Sihai at a cash consideration of RMB10,957,579, which was determined based on the then net asset value of Huihao Sihai. Following completion of the said equity transfer, Huihao Sihai was owned as to 99.29% by Mr. Yung and 0.71% by Mr. Lin, who is an Independent Third Party.

After completion of the Acquisitions, the Control Agreements became effective whereby Huihao Hong Kong has been able to control the financial and operating policies of Huihao Sihai by reasons of (i) the board of directors of Huihao Sihai would be under the control of Huihao Hong Kong pursuant to the Management Appointment Agreement and the Directors' Undertakings; (ii) the general meeting would be under the control of Huihao Hong Kong pursuant to the Shareholder's Undertaking; and (iii) all the benefits arising from 99.29% equity interest in Huihao Sihai would be entirely conveyed to Huihao Hong Kong pursuant to the Share Charge. The reporting accountants of our Company had confirmed that pursuant to the Control Agreements, Huihao Sihai has been accounted for as a 99.29% subsidiary of Huihao Hong Kong in accordance with generally accepted accounting principles in Hong Kong and the financial results of Huihao Sihai has been and will be consolidated with that of Huihao Hong Kong.

On 21 July 2011, Huihao Hong Kong obtained the approval from the Trade and Industry Department of the Government of Hong Kong as a recognised service provider under CEPA. On 6 January 2012, Huihao Hong Kong exercised its right under the Exclusive Share Purchase Agreement and in pursuance of which, the 99.29% equity interest in Huihao Sihai held by Mr. Yung was transferred back to Huihao Hong Kong at a consideration of HK$12,463,124.44, which was set off against the outstanding amount under the Loan Agreement. On the same day, Mr. Cui Jianwei (崔建偉) ("**Mr. Cui**"), acquired 0.34% equity interest in Huihao Sihai from Mr. Lin at a cash consideration of RMB92,016, which was determined with reference to the net asset value of Huihao Sihai as at 31 December 2011. To the best of knowledge, information and belief of our Directors, Mr. Lin and Mr. Cui are Independent Third Parties who had not been involved in the operation or management of our Group. Following completion of the said equity transfer, the Share Charge dated 20 December 2009 was discharged and Huihao Sihai was owned as to 99.29% by Huihao Hong Kong, 0.37% by Mr. Lin and the remaining 0.34% by Mr. Cui. Huihao Sihai is principally engaged in the business of pharmaceutical retail chain stores in the PRC.

Quanzhou Huihao

Quanzhou Huihao was established in the PRC on 17 May 2007 under the name Fujian Huahuang Limited# (福建華煌醫藥有限公司) ("**Fujian Huahuang**") by Mr. Luo Zhangyuan (盧章愿) and Mr. Xu Dechao (許德超), both are Independent Third Parties, with a registered capital of RMB5,000,000, of which RMB1,000,000 was paid-up and contributed as to 70% by Mr. Luo Zhangyuan (盧章愿) and the remaining 30% by Mr. Xu Dechao (許德超). In March 2008, the remaining unpaid registered capital of RMB4,000,000 was fully paid-up and contributed by the then shareholders of Quanzhou Huihao in proportion to their shareholdings in Quanzhou Huihao. By two equity transfer agreements both dated 1 April 2011 entered into between Fuzhou Huihao and each of Mr. Luo Zhangyuan (盧章愿) and Mr. Xu Dechao (許德超), Fuzhou Huihao agreed to acquire the entire equity interest in Fujian Huahuang at an aggregate cash consideration of RMB1,860,000, which was determined below the registered capital of Fujian Huahuang, in view of the accumulated

losses incurred by Fujian Huahuang. Upon completion of the said equity transfer, Fujian Huahuang became a wholly-owned subsidiary of Fuzhou Huihao. On 13 April 2011, the registered capital of Fujian Huahuang was increased to RMB10,000,000 which was fully paid-up at the same time. On 22 June 2011, the company name of Fujian Huahuang was changed to Quanzhou Huihao. Quanzhou Huihao is principally engaged in the wholesale and distribution of pharmaceutical and healthcare products in the PRC.

BUSINESS DEVELOPMENT

The key milestones in our business development are as follows:

2001	Huihao Sihai (formerly known as Sanming Sihai) was established in Sanming, Fujian Province, the PRC by Independent Third Parties.
2004	Our Group was founded when Huihao Hong Kong was incorporated in Hong Kong by Mr. Yung and Mrs. Yung.
2008	• Fuzhou Huihao, Fujian Huiming and Putian Huihao were established in Fujian Province. We commenced the wholesale of pharmaceutical products and distribution to hospitals in Fuzhou, Sanming, Putian in Fujian Province, the PRC and their surrounding areas. • Sanming Sihai changed its name to Huihao Sihai and moved its headquarters from Sanming, Fujian Province in the PRC to Fuzhou, Fujian Province in the PRC. Huihao Sihai expanded the geographical coverage of pharmaceutical retail chain to Fuzhou, Putian, Quanzhou, Xiamen and Nanping in Fujian Province in the PRC by establishing new retails stores.
2009	Taking advantage of the business network of Fuzhou Huihao, Putian Huihao and Fujian Huiming, our Group had set up special working group for the preparation works in relation to the distribution to hospitals by way of the Seventh Provincial Centralised Purchasing（福建省第七批藥品集中採購）and Eighth Provincial Centralised Purchasing（福建省第八批藥品集中採購）in Fujian Province, the PRC which were organized by the Fujian Province Drugs Centralised Purchasing Leading Group Office#（福建省藥品集中採購領導小組辦公室）

2010	• Our Group, through the Control Agreements, acquired the equity interest in Huihao Sihai and diversified into the pharmaceutical retail chain business
	• Huihao Sihai ranked 32nd among the "2010 Top 100 Pharmaceutical Retail Enterprises for Competitiveness in China#(中國藥品零售企業競爭力百強)" by Chinese Medicines Retailing Development Research Center#(中國零售藥品發展研究中心)
	• Huihao Sihai obtained the exclusive usage rights of 12 trademarks pursuant to the Trademarks Transfer Agreement I entered into with FHP Company and the Trademarks Transfer Agreement II entered into with FHP Chain
2011	• Huihao Sihai ranked 37th among the "2011 Top 100 Pharmaceutical Retail Enterprises for Competitiveness in China#(中國藥品零售企業競爭力百強)" by Chinese Medicines Retailing Development Research Center#(中國零售藥品發展研究中心)
	• Fuzhou Huihao acquired the entire equity interest in Fujian Huahuang and changed its name to Quanzhou Huihao.
	• Fuzhou Huihao, Fujian Huiming, Putian Huihao and Quanzhou Huihao had seized the opportunities brought by the Seventh and Eighth Provincial Centralised Purchasing in Fujian Province to successfully expand the distribution channels into the hospitals.
	• Our Group's "惠好" trademark was awarded the Fujian Province Famous Trademarks#(福建省著名商標)
2012	Our Group, through Huihao Hong Kong, acquired and directly held 99.29% equity interests in Huihao Sihai.
2013	As at the Latest Practicable Date, Huihao Sihai operated a total of 100 retail pharmacies.

REORGANISATION

In preparation for the Listing, our Group underwent the Reorganisation which primarily involved the following steps:

(a) incorporation of Luxuriant Expand on 10 April 2012 and allotment and issue of 100 ordinary shares of Luxuriant Expand to Hua Xia at par on 4 July 2012;

(b) incorporation of our Company on 9 July 2012 in the Cayman Islands and transfer of the Incorporation Share from Codan Trust Company (Cayman) Limited to Greatly Wealth at nil consideration as described in the paragraph headed "Our Company" above;

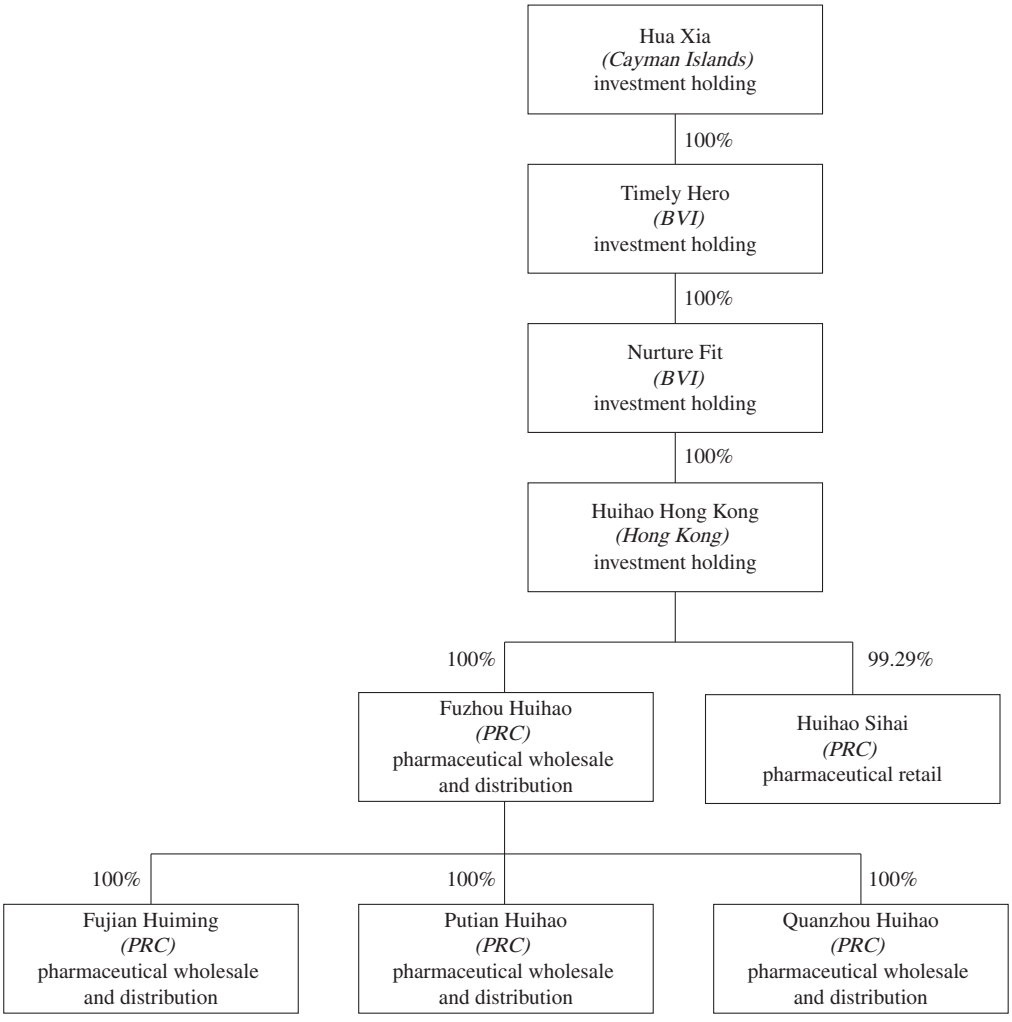
(c) acquisition of 1 ordinary share, representing the entire issued share capital in Timely Hero, by Luxuriant Expand from Hua Xia on 3 September 2013 in consideration of the allotment and issue of 200 shares of US$1 each in Luxuriant Expand, all credited as fully paid up, to Hua Xia;

(d) capitalisation of the outstanding amount of HK$866,810,761 due from Timely Hero to Hua Xia on 3 September 2013 in consideration of (i) the allotment and issue 1 share of US$1 in the share capital of Timely Hero to Luxuriant Expand, credited as fully paid up, at the direction of Hua Xia; and (ii) the allotment and issue of a total of 100 shares of US$1 each in the share capital of Luxuriant Expand, all credited as fully paid up, to Hua Xia in consideration of its receipt of 1 share in Timely Hero at the direction of Hua Xia; and

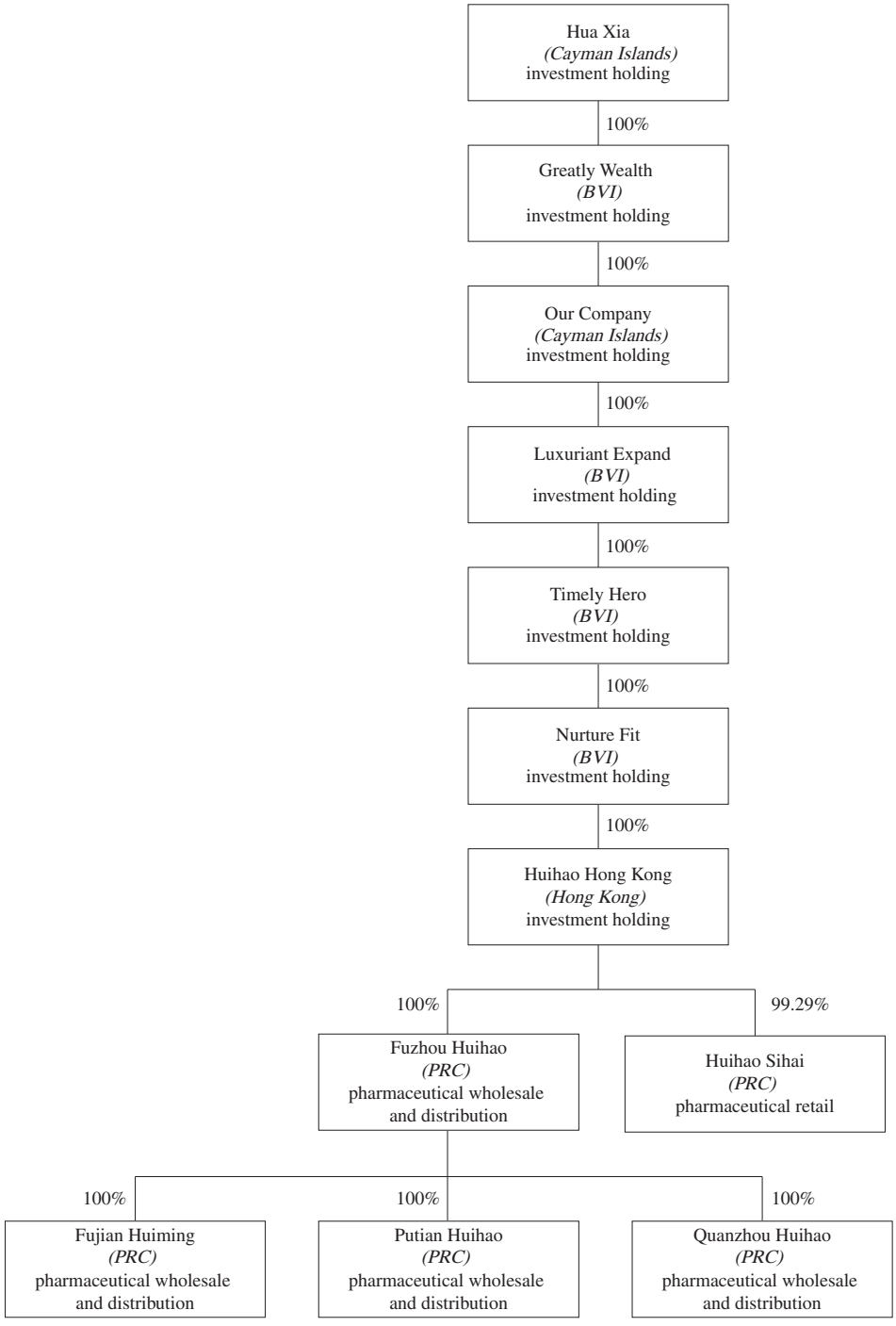
(e) acquisition of the 300 shares in Luxuriant Expand, representing its entire issued share capital, by our Company from Hua Xia on 3 September 2013 in consideration of (i) the allotment and issue of 648,405,299 Shares, all credited as fully paid up, to Greatly Wealth at the direction of Hua Xia and the crediting as fully paid at par of the Incorporation Share registered in the name of Greatly Wealth as described in the paragraph headed "Our Company" above; and (ii) the allotment and issue of a total of 100 shares of US$1 each in the share capital of Greatly Wealth, all credited as fully paid up, to Hua Xia in consideration of its receipt of 648,405,299 Shares from our Company at the direction of Hua Xia.

SHAREHOLDING STRUCTURE

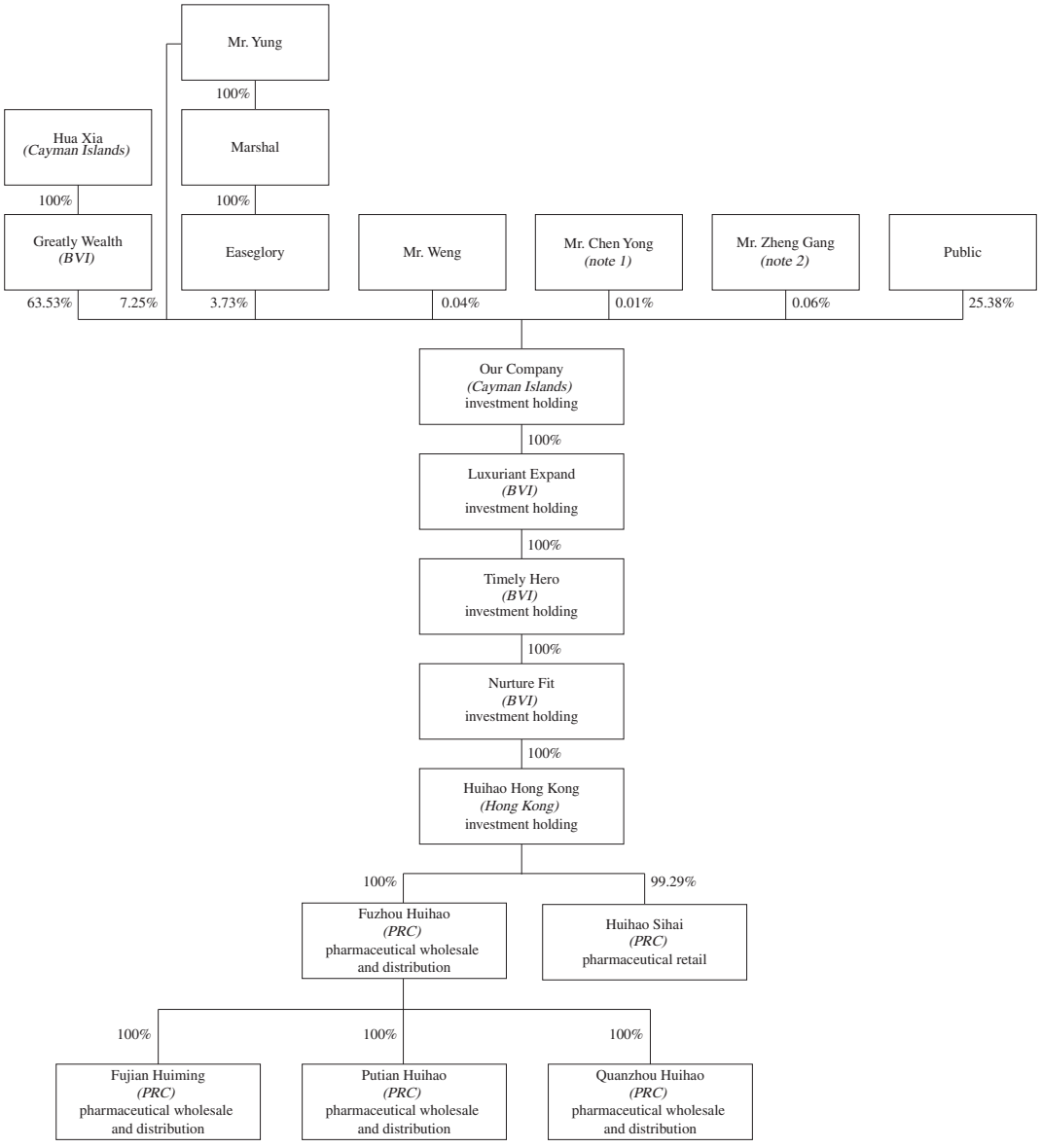
The following diagram illustrates the structure of our Group immediately prior to the completion of the Reorganisation:



The following diagram illustrates the structure of our Group immediately following the completion of the Reorganisation but before the Hua Xia Distribution:



The following diagram illustrates the structure of our Group immediately after the completion of the Reorganisation and the Hua Xia Distribution and upon the Listing:



Notes:

1. Mr. Chen Yong is an executive Director.

2. Mr. Zheng Gang is an executive director of Hua Xia.

3 The percentage of share holding of our Shareholders in our Company has been calculated based on 236,487,652 Shares being distributed to the Hua Xia Qualifying Shareholders pursuant to the Hua Xia Distribution.

OVERVIEW

We are an established wholesaler and distributor and retail chain operator of pharmaceutical and healthcare products in Fujian Province in the PRC currently operating four logistics centres in Fujian Province in the PRC with an aggregate area of approximately 22,000 sq.m. and 100 retail pharmacies in six prefectural-level districts in Fujian Province in the PRC as at the Latest Practicable Date. The integration of our pharmaceutical wholesale, distribution and retail businesses enables us to benefit from different stages of our pharmaceutical sales operations which provide synergies to our business operations. We have been able to increase our profits in a highly fragmented and competitive industry by taking advantage of our distribution network.

We primarily operate in the following business segments, namely:

- *Pharmaceutical wholesale and distribution*. We engage in the wholesale and distribution, logistics and other services for a broad range of pharmaceutical products of domestic manufacturers and suppliers.

- *Pharmaceutical retail*. We operate a chain of retail pharmacies located in six prefectural-level districts in Fujian Province in the PRC under the brand name "*Huihao Sihai*".

With our distribution network in Fujian Province in the PRC, we are able to distribute and sell pharmaceutical products that we sourced from our suppliers to our customers. In fact, over 80% of our sales were generated from our pharmaceutical wholesale and distribution business during the Track Record Period. We have a large and broad customer base through our distribution network in Fujian Province in the PRC. For the year ended 31 March 2013, our active customers included 744 hospitals and healthcare institutions, 367 distributor customers and 2,821 end customers such as companies operating pharmaceutical retail chain stores, independent pharmacies, out-patient departments of community hospitals, healthcare service stations and clinics. We define active customers as customers who have transactions with us during a financial year.

We focus on offering a comprehensive range of products through our distribution network for our pharmaceutical wholesale and distribution business. As at the Latest Practicable Date, we distributed different types of pharmaceutical products including approximately 1,100 Chinese pharmaceutical medicines, approximately 7,900 Western medicines, approximately 3,600 traditional Chinese medicines, approximately 700 healthcare products, approximately 1,200 medical supplies and medical devices and approximately 1,100 other products. We source our products from over 1,900 domestic pharmaceutical and healthcare products manufacturers and distributors.

As part of our pharmaceutical distribution operations, we offer other services to our suppliers and customers that enable them to maintain and improve their performances, such as joining efforts with our distributor customers to conduct products training or promotional activities with their customers, partnering with our suppliers to provide professional training on pharmaceutical products to our hospital customers by inviting doctors as specialists in Fujian Province in the PRC, as well as conducting trainings on product marketing to our customers. We believe that our suppliers and customers value our ability to provide these services, which enhance our relationships with them and strengthen our role as an established wholesaler and distributor and retail chain operator of pharmaceutical and healthcare products in Fujian Province in the PRC.

We operate our pharmaceutical retail business through Huihao Sihai, a 99.29% indirect-owned subsidiary of our Company, which is principally engaged in the business of retail sales of pharmaceutical products, healthcare food products, medical supplies and medical devices and other products. As at the Latest Practicable Date, we operated 100 retail pharmacies, all of which are operated under the brand name "*Huihao Sihai*". Huihao Sihai offers approximately 1,600 prescription medicines, approximately 2,100 over-the-counter medicines, approximately 1,100 healthcare food products, approximately 2,400 traditional Chinese medicines, approximately 1,300 medical supplies and medical devices and approximately 400 other products to our retail customers.

We have experienced modest revenue growth in recent years. The revenue of our Group increased from approximately HK$1,357.7 million for the year ended 31 March 2011 to approximately HK$1,712.1 million for the year ended 31 March 2012, representing an increase of approximately 26.1% from 2011 to 2012. The revenue of our Group grew by approximately 10.1% from approximately HK$1,712.1 million for the year ended 31 March 2012 to approximately HK$1,885.4 million for the year ended 31 March 2013. Our Group's profit attributable to Shareholders increased from approximately HK$32.8 million for the year ended 31 March 2011 to approximately HK$45.2 million for the year ended 31 March 2012, representing an increase of approximately 37.8% from 2011 to 2012. Our Group's profit attributable to Shareholders for the year ended 31 March 2013 was approximately HK$41.8 million, representing a decrease of approximately 7.5% compared to the previous year. For the year ended 31 March 2013, the segment revenue of our pharmaceutical wholesale and distribution and pharmaceutical retail business was approximately HK$1,672.9 million and HK$212.5 million respectively, representing approximately 88.7% and 11.3% of our revenue respectively.

OUR COMPETITIVE STRENGTHS

Extensive distribution network, high market penetration and comprehensive logistics arrangements in Fujian Province in the PRC

As at the Latest Practicable Date, we directly operated 100 retail pharmacies in six prefectural-level districts of Fujian Province in the PRC, including Fuzhou, Xiamen, Quanzhou, Sanming, Putian and Nanping. In relation to pharmaceutical wholesale and distribution, our high market penetration in Fujian Province in the PRC, in particular in cities such as Fuzhou, Putian, Sanming and Quanzhou where we have established logistics centres, make us a favourable business partner for national and regional pharmaceutical manufacturing companies in the PRC. We have extensive regional distribution network in Fujian Province in the PRC which enables us to deliver our products to our customers in a timely and cost effective manner. We also provide comprehensive logistics arrangements, consisting of storage, warehousing, and local transportation and delivery services through our well-established and improving logistics infrastructure which aim at managing the flow of products and information with high efficiency and precision, as well as our inventory holding costs.

Experienced professional management team

We are led by a strong team of experienced professionals with substantial management experience in the pharmaceutical wholesale and distribution and pharmaceutical retail businesses. The majority of our senior management team hold degrees from tertiary institutions and have extensive knowledge and professional experience in areas such as pharmacy, medical science, business administration, accountancy or law. We believe that with their industry expertise, professional management skills and strong execution capability, our management team will continue to successfully implement our business strategies for growth in the pharmaceutical industry.

Established pharmaceutical company with a wide range of products and strong brand name "*Huihao*" in Fujian Province in the PRC

We are recognised as one of the established pharmaceutical products distributors in the market in Fujian Province in the PRC in terms of scale of operation and distribution network, offering approximately 15,600 different types of pharmaceutical and healthcare products, medical supplies, medical devices and other products to our customers. We have a strong brand name "*Huihao*" which is recognised as one of the most well-known brand names in the pharmaceutical industry in Fujian Province in the PRC. In recent years, we have strengthened the reputation of our "*Huihao*" brand name through strategies, such as retail service, code of conduct, product resources, shop image, membership management and marketing and promotion. We believe that the well-established "*Huihao*" brand name plays an important role in our ability to maintain and enhance strong relationships with our suppliers and customers and contributes to the strength of our distribution network.

Strong relationships with customers and suppliers

For the year ended 31 March 2013, we had contracts with approximately 1,900 domestic suppliers and have established close business relationships with them. We also enjoy strong relationships with our customers, often serving as one of the primary sources of pharmaceutical and healthcare products for them. We have a stable and diverse customer base in Fujian Province in the PRC, comprising hospitals and healthcare institutions, distributor customers and end customers such as companies operating pharmaceutical retail chain stores, independent pharmacies, out-patient departments of community hospitals, healthcare service stations and clinics. The breadth of our distribution network and product portfolio, together with our sophisticated logistics services, strengthens our existing supplier and customer relationships and allows us to respond quickly and efficiently to our customers' pharmaceutical requirements and enables us to pursue new relationships with key suppliers and customers.

Strong operational capability in our pharmaceutical wholesale and distribution and retail businesses in Fujian Province in the PRC

We believe we have strong operational capability in pharmaceutical wholesale and distribution or retail business in Fujian Province in the PRC as we operate four logistics centres in Fuzhou, Putian, Sanming and Quanzhou in Fujian Province in the PRC with an aggregate area of approximately 22,000 sq.m. and have an extensive regional distribution network in Fujian Province in the PRC. As a result of our edge in operational capability in the pharmaceutical industry in Fujian Province in the PRC, we are a favourable business partner in Fujian Province in the PRC with pharmaceutical manufacturers in the PRC as well as a designated consultation enterprise in relation to proposed policy change in the pharmaceutical industry by the relevant governmental departments. We also adjust or make changes in our operations such as setting up special working groups for preparation of the Provincial Centralised Purchasing to cater the needs of the latest market development and competition.

Synergies across our business segments

Our business integrates pharmaceutical wholesale, distribution and retail businesses and through our coordinated efforts across business segments, we are able to benefit from the synergies created from each segment in the different stages of our operation process. As both our pharmaceutical wholesale and distribution and retail segments involve same stages in their operating processes such as purchasing products from domestic pharmaceutical manufacturers and suppliers, quality control and inspection and warehousing the products, instead of separating the same stages of our operations in different segments, we have combined and utilised our resources in the most efficient way so as to create synergies across our business segments. For example, we use the same centralised information system to monitor movement of merchandise in our warehouses. We believe that the synergies can provide cost savings to our business operations.

OUR BUSINESS STRATEGIES AND FUTURE PLANS

Our main objective is to consolidate or strengthen our position as one of the established wholesaler and distributor and retail chain operator of pharmaceutical and healthcare products in Fujian Province in the PRC through the following strategic initiatives:

Continue to optimise our wholesale and distribution operations, customer composition and product portfolio

We intend to continue to improve our wholesale and distribution operations, exploit our competitive strengths, and consolidate our position in the pharmaceutical distribution industry in the Fujian Province in the PRC. We intend to bolster our direct selling efforts to hospitals, in order to build stronger relationships with these significant customers. We also expect to enhance our penetration into new customer categories and demographics. We plan to optimise our pharmaceutical distribution operations by further centralising our procurement, establishing standard operating procedures, consolidating our information system and logistics resources and enhancing our internal controls. We will also seek to optimise our product portfolio to include more products with higher margins and expand our service offerings. We believe our greater sourcing capability and cost-efficiency will make us a more attractive distribution channel for many pharmaceutical and healthcare product manufacturers. Further, we intend to distinguish ourselves through the variety and depth of our products and value-added services, operational flexibility and rapid and responsive customer support that we can provide seamlessly to our customers. We also believe we can capitalise on significant market opportunities in the rapidly growing PRC pharmaceutical industry by expanding our existing market coverage and enhancing strategic cooperation with our suppliers and customers.

Continue to invest in our efficient logistics and information systems to improve cost and operational efficiencies

We intend to continue investing resources to upgrade our logistics and information systems and processes to maintain our competitiveness. As efficient logistics and information systems are critical to our business and distribution networks, we have built and will continue to invest in our logistics and information systems. For example, we have utilised our systems in the four logistics centres in Fuzhou, Putian, Sanming and Quanzhou as well as the 100 retail pharmacies operated by us as at the Latest Practicable Date and have integrated those systems with our centralised ERP System which provides a direct and real-time information exchange channel that covers each stage of our pharmaceutical operations, including electronic order entry, invoice preparation, purchasing, inventory tracking, warehousing and logistics and delivery arrangements, and thereby ensure consistency, punctuality and accuracy in meeting our customers' demands. We intend to continue to implement new technologies and upgrade our logistics and information systems in order to improve cost and operational efficiencies.

Continue to build upon our integrated business platform in order to enhance the synergies between our wholesale and distribution and retail businesses

We will continue to build upon our integrated business platform in order to enhance the synergies that arise from our pharmaceutical operations spanning the wholesale, distribution, and retail of pharmaceutical and healthcare products and expand our reach to customers. We plan to leverage our existing businesses to capitalise on particular opportunities that may arise and create efficiencies and cost savings in our business operations. We also plan to utilise our extensive distribution network to provide reliable supply channels for our pharmaceutical wholesale and distribution as well as our retail pharmacies. We expect to maintain the flexibility to reallocate the distribution of our products in response to potential changes in supply and demand, as well as to control inventory in a way that enables us to meet expected demand for our products. With operations in multiple segments of the pharmaceutical distribution industry in Fujian Province in the PRC, we are able to maintain control over the quality, supply chain management and marketing of our products. We believe that our integrated business platform maximises the synergies between our businesses by optimising our operational efficiency, allowing us to further consolidate our leadership in the pharmaceutical industry in Fujian Province in the PRC.

Continue to improve our Group's future business performance

As a result of competition among pharmaceutical distributors in the industry, our Group recorded (i) a decrease in turnover growth during the Track Record Period mainly attributable to a reduction in the rate of sales growth generated from the distributor customers; and (ii) a decrease in gross profit from the pharmaceutical and wholesale business mainly attributable to lowering the gross profit margin of products sold to our distributor customers and end customers. Our Directors believe that the lowering of the gross margin of some products sold to distributor customers and end customers during the Track Record Period was only a temporary measure. Our Group will continue to maintain the gross margins of existing products and increase the proportion of the sales of more high-margin products so as to improve our Group's overall gross profit margin. We aim to increase the proportion of sales generated from our Group's pharmaceutical retail business by opening up new retail pharmacies (details of which are outlined in the paragraph headed "Increase the number of our retail pharmacies through internal growth" below), offering more varieties of products with higher margin to retail customers and changing the composition of sales towards the higher margin retail business segment of our Group. Sales of pharmaceutical products to our hospital and healthcare institution customers under the Eighth Provincial Centralised Purchasing# (福建省第八批藥品集中採購) is expected to remain relatively stable under the remaining term of the tender. We will strengthen the relationship and communication with pharmaceutical manufacturers in an attempt to attract more pharmaceutical manufacturers to engage us for distribution of their products to public hospitals in the next provincial centralised purchasing in Fujian Province in the PRC. We aim to increase sales to our distributor customers by (i) analyzing and integrating the requirements of distributor customers and the types of products which pharmaceutical manufacturers produce; and (ii) exploring products with high market potential or growth and partnering with pharmaceutical

manufacturers of such products to become their first-tier or second-tier distributors. We will develop and build relationship with more end customers by (i) providing information in relation to new or highly demanded products to them; (ii) providing support by liaising with pharmaceutical manufacturers in relation to purchase costs, promotional gifts or training resources available from pharmaceutical manufacturers; and (iii) increasing the efficiency of procurement from end customers based on our extensive distribution network and capability. We aim to improve our net profit margin and gross profit margin by increasing our sales through implementing the above measures which would create efficiencies and cost savings from synergies arising from our pharmaceutical operations through our integrated business platform and lower the percentage of our labour costs and selling expenses in terms of our turnover. Please refer to the paragraph headed "Continue to build upon our integrated business platform in order to enhance the synergies between our wholesale and distribution and retail businesses" above in this section.

Grow further through acquisitions

In addition to growing organically, we may take advantage of the fragmented nature and rapid growth of the pharmaceutical industry in the PRC to acquire additional pharmaceutical businesses and form partnerships that complement our existing operations, align with our expansion strategies and increase our revenues and profits. We may expand and optimise our pharmaceutical distribution operations by capturing merger and acquisition opportunities in order to take advantage of the trend towards consolidation in the PRC pharmaceutical industry. We may leverage on the strengths of potential partners and target to expand our existing market position or establish a presence in a new market. We also believe our relationships with many industry participants and our knowledge of, and experience in, the PRC pharmaceutical industry, will attract potential partners and acquisition targets to cooperate with us.

In selecting acquisition targets that operate in pharmaceutical wholesale and distribution business, it is the current intention of our management that the following criteria would be taken into consideration: (i) whether the business nature and distribution network of the target companies supplement those of our Group and enhance our core competitiveness in the pharmaceutical wholesale and distribution business; (ii) the location and distribution network of the acquisition targets in Xiamen, Ningde, Nanping, Longyan and Zhangzhou in Fujian Province in the PRC are preferred; (iii) the mature or advanced stage of development of the acquisition targets in terms of distribution networks, business and operations and demonstrated earnings capabilities. We also select target companies operating pharmaceutical retail business based on the distribution network of their retail stores with preference given to those with retail stores situated in areas with higher customer footfall in Fujian Province in the PRC where none of our existing retail pharmacies are located. After identifying the acquisition targets and the acquisition project being approved by our Board, we will perform operational, financial and legal due diligence works which include but not limited to conducting site visits, interviewing their staff, customers and suppliers, their reviewing financial statements and other legal and regulatory documents. Such due diligence works are performed by a project acquisition committee which is headed by Mr. Chen Yong, an executive

Director, and comprises senior management who work in different departments in our Group such as accounting and finance, legal and compliance, sales and marketing and operation. Members of the project acquisition committee shall possess relevant professional qualifications and experience in performing their functions. After performing due diligence works, the project acquisition committee will prepare due diligence report and project appraisal and analysis report outlining the major terms and proposals of the acquisition which will be reviewed and approved by our Board. As at the Latest Practicable Date, we did not have any acquisition targets nor identified any partners to cooperate with us. Although we currently do not have any specific acquisition plans or targets and have not entered into any definitive agreements with any potential targets, we believe that we will be able to identify acquisition targets that complement our existing capabilities and businesses and allow us to continue to grow.

Increase the number of our retail pharmacies through internal growth

As at the Latest Practicable Date, we directly operated 100 retail pharmacies in six prefectural-level districts of Fujian Province in the PRC, including Fuzhou, Xiamen, Quanzhou, Sanming, Putian and Nanping. Our Group plans to open 30 new retail pharmacies (with GFA ranging from approximately 60 sq. m. to 350 sq. m.) in Fujian Province in the PRC during the financial year ending 31 March 2014 including 9 in Fuzhou, 11 in Sanming, 4 in Xiamen, 3 in Nanping, 2 in Quanzhou and 1 in Putian. Subsequent to the Track Record Period, we have opened 3 new retail pharmacies located at Yongan City in Sanming and in Fuzhou City with an aggregate GFA of approximately 252 sq.m.. Through opening new pharmacies, we can expand our geographical reach of our retail business to other customers located in other community areas or county towns within or outside Fujian Province in the PRC. We will conduct internal appraisal reports assessing various factors such as population structure, consumption level and convenience for each chosen location of the store for management's approval before new stores are opened. To mitigate the risk of potential competition among our Group's retail pharmacies, we will locate new retail pharmacies that are distant from our existing retail pharmacies in order to serve local retail customers in different regions. We estimated that the expected total investments in opening the 30 new retail pharmacies will be approximately RMB34.4 million which will be financed by our internal resources and the estimated payback period for the 30 new retail pharmacies is approximately 3 to 4 years. We will continue identifying any suitable acquisition targets if opportunities arise in the future. Through our "*Huihao Sihai*" brand name, we believe we can increase our market share and revenue, consolidate our leading position in Fujian Province in the PRC and expand our distribution network to other provinces in the PRC through increasing the number of our retail pharmacies.

OUR BUSINESS SEGMENTS

We are an established provider of pharmaceutical wholesale, distribution and retail chain services in Fujian Province in the PRC with integrated operations in the following business segments, namely:

- *Pharmaceutical wholesale and distribution*. We engage in the wholesale and distribution, logistics and other services for a broad range of pharmaceutical products of domestic manufacturers and suppliers.

- *Pharmaceutical retail*. We operate a chain of retail pharmacies located in six prefectural-level districts in Fujian Province in the PRC under the brand name "*Huihao Sihai*".

The following table sets forth the revenue generated from each of our business segments and the percentage of these revenues to the total revenue of our Group for the Track Record Period:

	For the year ended 31 March					
	2011 *(note)*		**2012** *(note)*		**2013** *(note)*	
	HK$	*%*	*HK$*	*%*	*HK$*	*%*
	(in millions, except for percentages)					
Revenue:						
Pharmaceutical wholesale and distribution	1,200.3	88.4	1,525.1	89.1	1,672.9	88.7
Pharmaceutical retail	157.4	11.6	187.0	10.9	212.5	11.3
Total revenue	1,357.7	100.0	1,712.1	100.0	1,885.4	100.0

Note: These figures are the revenue by business segment of our Group for each of the three financial years ended 31 March 2013 based on information provided by our Group.

The following table sets forth a breakdown of the revenue of our Group by major product categories for the periods indicated below:

	For the year ended 31 March					
	2011 *(note)*		**2012** *(note)*		**2013** *(note)*	
	HK$'000	*%*	*HK$'000*	*%*	*HK$'000*	*%*
Western medicines	1,030,634	75.9	1,389,515	81.1	1,468,786	78.0
Chinese medicines	154,265	11.4	93,602	5.5	171,858	9.1
Medical supplies and medical devices	29,096	2.1	51,362	3.0	38,116	2.0
Healthcare products	71,575	5.3	128,463	7.5	104,131	5.5
Others	72,109	5.3	49,205	2.9	102,478	5.4
Total	1,357,679	100.0	1,712,147	100.0	1,885,369	100.0

Note: These figures are the revenue by major product categories of our Group for each of the three financial years ended 31 March 2013 based on information provided by our Group.

PHARMACEUTICAL WHOLESALE AND DISTRIBUTION

Our pharmaceutical wholesale and distribution business is the core business of our Group, accounting for more than 80% of our total revenue in each year during the Track Record Period, and is operated by Huihao Medicine Wholesale Group. Huihao Medicine Wholesale Group involves in the wholesale trading of a comprehensive range of prescription medicines and over-the-counter medicines, consisting of branded and generic Western and Chinese medicines, as well as healthcare products, medical devices and other products through purchasing these products from domestic pharmaceutical manufacturers and other suppliers in the PRC and selling or distributing these products to our customers. Our direct sales customers include public hospitals and healthcare institutions as well as end customers such as companies operating pharmaceutical retail chain stores, independent pharmacies, out-patient departments of community hospitals, healthcare service stations and clinics. We also distribute prescription medicines and over-the-counter medicines as well as healthcare products, medical devices and other products to distributor customers located in Fujian Province and other provinces in the PRC.

The following table sets forth a breakdown of the revenue of our Group from our pharmaceutical wholesale and distribution business by types of customer for the Track Record Period:

	For the year ended 31 March					
	2011 *(note 1)*		**2012** *(note 1)*		**2013** *(note 1)*	
	HK$	*%*	*HK$*	*%*	*HK$*	*%*
	(in millions, except for percentages)					
Revenue:						
Hospitals and healthcare institutions	187.1	15.6	296.1	19.4	456.0	27.3
Distributor customers	838.8	69.8	1,036.3	67.9	1,055.4	63.1
End customers *(note 2)*	141.7	11.8	160.6	10.6	135.5	8.1
Others *(note 3)*	32.7	2.8	32.1	2.1	26.0	1.5
Total	1,200.3	100.0	1,525.1	100.0	1,672.9	100.0

Notes:

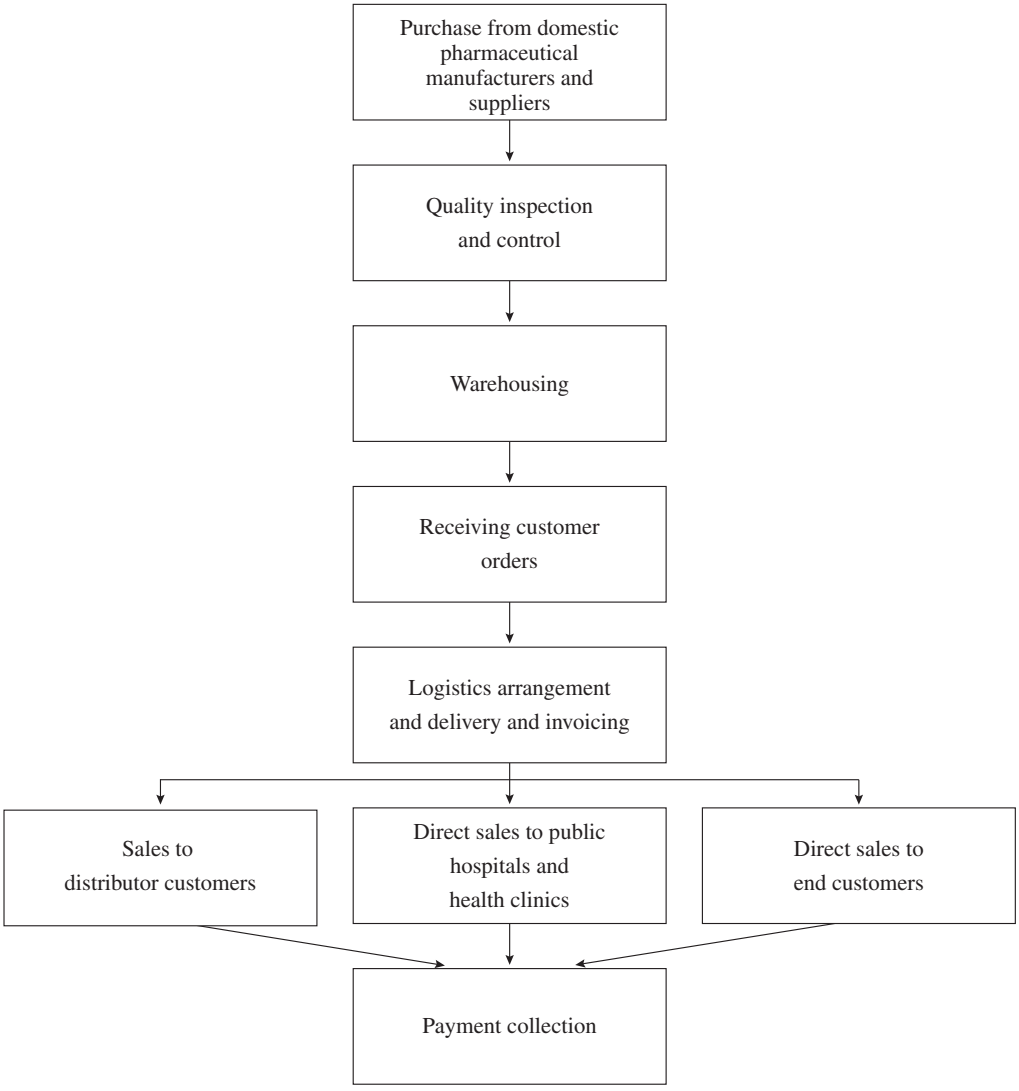
1. These figures are the revenue of our Group for each of the three financial years ended 31 March 2013 based on information provided by our Group.

2. End customers include companies operating pharmaceutical retail chain stores, independent pharmacies, out-patient departments of community hospitals, healthcare service stations and clinics. End customers may or may not be retail customers who are invariably individuals .

3. Others relate to rebates received (net of sales tax) from suppliers as rewards for meeting certain sales target set by the suppliers.

Operating process

The following diagram illustrates the operating process of our pharmaceutical wholesale and distribution business by Huihao Medicine Wholesale Group:



Our pharmaceutical wholesale and distribution operations involve several integrated procedures that allow for enhanced efficiency and ensure a high degree of quality control of our products in accordance with the GSP requirements at different stages of our operations, from procurement to delivery to our customers. Our purchasing staff place purchase orders with domestic pharmaceutical manufacturers and suppliers for pharmaceutical products. Depending on the location of our pharmaceutical manufacturers and suppliers, products normally take within one week to deliver to us after purchase orders have been placed. After products arrived at our logistics centres, the incoming products are placed in the quality inspection area where they are inspected by our quality inspection staff on the same day in accordance with the GSP implementation guidelines such as inspecting the physical appearance, the inner and outer packaging and marking of the products. After the products are inspected without quality problems, our warehouse staff will then store our products in a temperature-controlled environment. Upon receipt of customer orders by our sales staff, our warehouse and delivery staff will arrange logistics services and timely delivery of our products to our customers. Our invoicing staff will then issue sales invoices at the same time when the products are delivered to our customers. Products are normally delivered within one to two days for customers located in Fujian Province in the PRC and several days for customers located outside Fujian Province. The operating process concludes with the payment collection from our customers. The time it takes for receipt of payment from our customers depend on the credit term given which generally ranges from 30 to 90 days. Our finance department is responsible for payment collection from our customers.

Logistics centres and distribution network

As at the Latest Practicable Date, we had obtained the GSP certificate to operate our pharmaceutical wholesale and distribution business through four logistics centres located in Fuzhou, Sanming, Putian and Quanzhou in Fujian Province in the PRC. The GFA of our logistics centres ranges from approximately 2,139 sq.m. to 9,957 sq.m.. The major functions of our logistics centres include processing the products received from the suppliers, performing quantity check and quality inspection (usually confined to inspecting the physical appearance, the inner and outer packaging and marking of the products) and control on the products received and delivered, distributing the products ordered by the customers on a timely and speedy basis as well as storage and warehousing of products. All these functions have been carried out with the assistance of our computerized system known as the ERP System.

According to Article 13 of the Implementation Details Drug Administration Law which was promulgated by the State Council and has been in force since 15 September 2002, pharmaceutical enterprises are required to obtain the GSP certificate after passing the certification inspection conducted by the regional drug administrations of the relevant provincial, autonomous region, and municipal governments pursuant to the implementation methods and implementation details issued by the regulatory authorities of drugs under the State Council. GSP standards (《藥品經營質量管理規範》), which comprise a set of quality guidelines for operations related to pharmaceutical products, regulate pharmaceutical wholesale and retail operators to ensure the quality of pharmaceutical products in the PRC. The current applicable GSP standards require pharmaceutical operators to implement strict controls on the operation of pharmaceutical products, including standards regarding staff qualifications, premises, warehouses, inspection equipment and facilities, management and quality control. Under the Administrative Measures for Certification of Good Supply Practices# (《藥品經營質量管理規範認證管理辦法》) issued on 24 April 2003 by the CFDA, the GSP certificate is valid for five years and may be extended by application within three months' prior to its expiration upon a re-examination by the relevant authority.

In providing a comprehensive range of products, we play the role of either the first-tier distributor or the second-tier distributor depending on whom we purchase pharmaceutical products from. As a first-tier distributor, we purchase our pharmaceutical products directly from pharmaceutical manufacturers and distribute our products to second-tier distributor customers, public hospitals and healthcare institutions and end customers. As a second-tier distributor, we purchase our pharmaceutical products from first-tier distributors and distribute our products to our customers.

Sales and Marketing

As at the Latest Practicable Date, Huihao Medicine Wholesale Group had 113 sales and marketing representatives who are primarily responsible for the sales and marketing activities of the daily wholesale and distribution operations of Huihao Medicine Wholesale Group including developing general marketing and promotional plans, building and maintaining customer relationships in relation to our pharmaceutical wholesale and distribution business. The main sales and marketing practices which Huihao Medicine Wholesale Group adopted include organizing promotional sales fairs during festival periods, organizing product procurement clubs with our customers and recommending good quality products to them, obtaining the exclusive rights for distributing first-class products in Fujian Province in the PRC, rewarding staff for procuring sales by way of commission and attaching leaflets which list out the latest new products and sales offers when delivering products to customers.

The following table sets forth a geographical breakdown of our Group's revenue from the pharmaceutical wholesale and distribution business for the Track Record Period:

	For the year ended 31 March					
	2011		2012		2013	
	HK$	*%*	*HK$*	*%*	*HK$*	*%*
	(in million, except for percentages)					
Fujian Province	967.0	80.6	1,154.7	75.7	1,380.1	82.5
Other provinces	200.6	16.7	338.3	22.2	266.8	15.9
Others *(note)*	32.7	2.7	32.1	2.1	26.0	1.6
Total	1,200.3	100.0	1,525.1	100.0	1,672.9	100.0

Note: Others relate to rebates received (net of sales tax) from suppliers as rewards for meeting certain sales target set by the suppliers.

Sales and distribution arrangements

We distribute pharmaceutical products to our customers located principally in the Fujian Province and also sell pharmaceutical products in neighbouring provinces such as Guangdong, Hunan, Hubei, Jiangxi, Anhui and Zhejiang. For the year ended 31 March 2013, our active customers included 744 hospitals and healthcare institutions, 367 distributor customers and 2,821 end customers such as companies operating pharmaceutical retail chain stores, independent pharmacies, out-patient departments of community hospitals, healthcare service stations and clinics. We define active customers as customers who have transactions with us during a financial year.

Hospital and healthcare institution customers

Our direct sales to public hospitals and healthcare institutions are primarily channeled through the provincial collective tendering process, through which a hospital solicits public bids from pharmaceutical manufacturers as part of its pharmaceutical procurement process. The collective tendering process covers multiple categories of medicines used by public hospitals and all public hospitals in Fujian Province in the PRC must participate in the collective tendering process. When submitting bids during the collective tendering process, each pharmaceutical manufacturer must also provide the name of the distributor that will distribute a particular type of medicine from the pharmaceutical manufacturer to the hospitals on an exclusive basis. In accordance with the Medical Institutions Drugs Centralised Purchasing Practice# (醫療機構藥品集中採購工作規範) and the Drugs Centralised Purchasing Supervision and Administration# (藥品集中採購監督管理辦法) issued by the Ministry of Health of the PRC (中華人民共和國衛生部), the collective tendering process in Fujian Province in the PRC is organized by the Fujian Province Drugs Centralised Purchasing Leading Group Office# (福建省藥品集中採購領導小組辦公室). All pharmaceutical manufacturers have to submit relevant documents, name and descriptions of the pharmaceutical products that they want to bid to Fujian Province Medical Institutions Drugs Centralised Purchasing Centre# (福建省醫療機構藥品集中採購中心) as well as the

price quotations of the pharmaceutical products that they want to bid online through the Fujian Province Medical Device Centralised Procurement Website# (福建省藥械集中採購網) within the specified time period. A bid evaluation committee comprising pharmaceutical experts, medical experts and government officials will be organised and will be responsible for bid evaluations. The selection is based on a number of criteria, including bid price, quality, clinical effectiveness, and manufacturer's reputation and service quality. The tendering process can be conducted in various ways including open tendering, centralised bargaining and direct online pricing which are specified in the tender document for each bid. Open tendering is a process whereby all the submitted bids will be evaluated by the bid evaluation committee who will decide the final bid result based on certain selection criteria set by the committee when there are more than a certain number of submitted bids for the same type of pharmaceutical products. Centralised bargaining involves negotiations of the price quotations submitted by the pharmaceutical manufacturers with the bid evaluation committee. Some pharmaceutical products, usually those with low sales prices, will be conducted through direct online pricing where prices can be directly submitted online and all pharmaceutical products will be approved. According to the tender document, the term of the tender is for one and a half year but it may last for a longer period in practice. In general, the tender document stipulates that the supply of a particular type of medicine to the hospital is generally made on an exclusive basis by one pharmaceutical manufacturer and each pharmaceutical manufacturer can only assign one distributor to deliver a particular type of medicine to the hospitals within a prefectural-level district of Fujian Province in the PRC on an exclusive basis. After the tendering process, the hospitals can identify which distributor will distribute the products from the pharmaceutical manufacturer that has won the bid to them through the Fujian Province Medical Device Centralised Procurement Website# (福建省藥械集中採購網). Before the collective tendering process begins, pharmaceutical manufacturers will invite us to be the distributor for their pharmaceutical products to hospitals. Due to our established

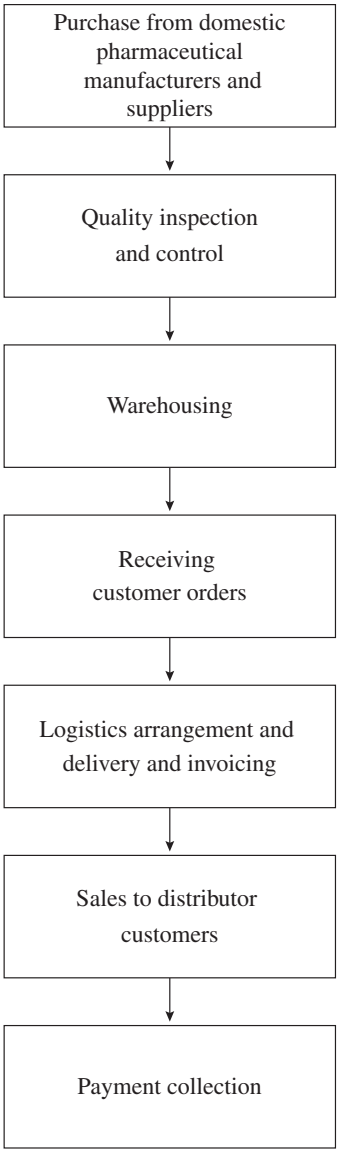
distribution network in Fujian Province in the PRC, we are able to team up with pharmaceutical manufacturers in the tendering process. After the pharmaceutical manufacturers have won their bids for their pharmaceutical products and upon receipt of purchase orders from hospitals, we enter into separate purchase agreements with the pharmaceutical manufacturers and sales agreements with our hospital customers. We then purchase the products from the pharmaceutical manufacturers and we receive invoices from the pharmaceutical manufacturers when the goods are delivered to us. Some pharmaceutical manufacturers require prepayments or deposits by us before delivery is made while owners have granted credit terms to us ranging from 30 to 90 days. We normally invoice our hospital customers when the goods are delivered to them and the credit terms given to hospital customers range from 60 to 90 days. The pricing of these pharmaceutical products has been determined in accordance with the respective tender and our profit margin usually ranges from 5% to 8% of the final tender price based on the purchase price of the pharmaceutical products under the purchase agreement with the pharmaceutical manufacturers. Nevertheless, there is no written guarantee in respect of the profit margin of pharmaceutical products given by the pharmaceutical manufacturers to our Group.

Our Group's sales of pharmaceutical products to our hospital and healthcare institution customers for each of the three years ended 31 March 2013 were approximately HK$187.1 million, HK$296.1 million and HK$456.0 million respectively, representing approximately 15.6%, 19.4% and 27.3% respectively, of our revenue from our pharmaceutical wholesale and distribution business during the respective year.

Distributor customers

We sell our products to distributor customers because we currently do not directly cover every province or autonomous region in the PRC and some distributor customers have sales channels to reach hospitals, retail pharmacies and other healthcare institutions that are not in our customer base. It is a normal pharmaceutical industry practice in the PRC to sell to distributor customers. We distribute our products to distributor customers located within Fujian Province in the PRC and its neighbouring provinces including Guangdong, Hunan, Hubei, Jiangxi, Anhui and Zhejiang.

The following diagram illustrates the distribution process from pharmaceutical manufacturers and suppliers to our Group and then to our distributor customers:



Our purchasing staff place purchase orders with domestic pharmaceutical manufacturers and suppliers for pharmaceutical products. Depending on the location of pharmaceutical manufacturers and suppliers, the products normally take within one week to deliver to us after purchase orders have been placed with them. Some pharmaceutical manufacturers and suppliers would require prepayments or deposits by us before delivery is made while others would grant us credit terms ranging from 30 to 90 days. Settlement of payment to suppliers may be done by bills, telegraphic transfer or cash. After products arrived at our logistics centres, the incoming products are placed in the quality inspection area where they are inspected by our quality inspection staff on the same day in accordance with the GSP implementation guidelines such as inspecting the physical appearance, the inner and outer packaging and marking of the products. After the products are inspected without quality problems, our warehouse staff would then store our products in a temperature-controlled environment. Upon receipt of customer orders by our sales staff, our warehouse and delivery staff will arrange logistics services and timely delivery of our products to our distributor customers. Our invoicing staff will then issue sales invoices at the same time when the products are delivered to our distributor customers. Products are normally delivered within one to two days for distributor customers located in Fujian Province and several days for distributor customers located outside Fujian Province. The operating process concludes with the payment collection from our distributor customers. The time required for receipt of payment from our distributor customers depend on the credit terms given which generally range from 30 to 60 days. Payment from our distributor customers may be done by cash, bankers' acceptances or cheque. Our finance department is responsible for payment collection from our distributor customers.

The sales agreements we enter into with our distributor customers generally specify, among other things, the selling price of the pharmaceutical products which is ultimately subject to price ceilings or other forms of price controls set by the PRC government, the qualifications of the distributor customers, the exclusivity and terms of the distribution and sales of such products by our distributor customers as well as order, delivery and payment arrangements between us and the distributor customers. The selling price of pharmaceutical products sold to our distributor customers is normally determined either by the agreed price under the distribution agreements entered between us and pharmaceutical manufacturers and suppliers or with reference to the prevailing market price. The terms of the sales agreements we entered into with our distributor customers are similar to those we entered into with our hospital and healthcare institution customers and end customers. The sales agreements entered between us and our distributor customers usually have a fixed term of one year and under normal circumstances, they are renewable upon expiration. Our Directors confirm that it is normal industry practice for pharmaceutical distributors not to enter into long-term sales contracts with distributor customers. In addition, the sales agreements with our distributor customers do not stipulate initial or ongoing minimum purchase requirements and the quantity of goods sold to our distributor customers for each transaction depends on the product's selling price and our service as well as other factors such as actual demand and inventory levels of our distributor customers which are beyond our control.

Among the three types of our customers in the pharmaceutical wholesale and distribution business, only distributor customers will resell the pharmaceutical products to their customers under prevailing industry practice in the PRC. In general, we enter into purchase agreements with suppliers for supplying the products and sales agreements with our distributor customers for the sale of our products. Details of the purchase or distribution agreements entered between our suppliers and us are disclosed in the paragraph headed "Suppliers" in this section. We do not enter into any two-party distribution agreements with our distributor customers. Our relationship with our distributor customers is that of buyer and seller but not principal and agent. Once our goods are sold and delivered to our distributor customers, the legal title and significant risks and rewards of ownership of goods are transferred to our distributor customers and therefore sales transactions with our distributor customers are completed. We have no control over our distributor customers with respect to (i) their sales or inventory policy such as stock accumulation; (ii) compliance with our pricing policy as the selling price of our products is either determined/suggested by pharmaceutical product manufacturers or set with reference to the prevailing market price; and (iii) sales and avoidance of competition between our different distributor customers. During the Track Record Period, we had not sold goods to (i) distributors or sales representatives who were previously employees of our Group; and (ii) sales partners who had traded under our name. We only accept goods returned from our distributor customers if the goods have quality problems or they are being recalled at the supplier's request.

We request our potential distributor customers to provide us with their business registration certificates and other documentary evidence showing their lawful existence before recognising them as our distributor customers and accepting orders from them. When we assume the role of a first-tier distributor, we either select our distributor customers based on, among other things, market reputation, size and scale, distribution network and geographical location or we distribute the pharmaceutical products to distributor customers designated by the pharmaceutical manufacturers. During each of the three years ended 31 March 2013, we had 323, 324 and 367 distributor customers, respectively. The increase in our distributor customers was mainly due to the expansion of our distribution network outside Fujian Province as the number of our distributor customers located outside Fujian Province increased from 91 to 135 during the Track Record Period. The following table sets forth the changes in the number and geographical breakdown of the distributor customers:

	Year ended 31 March		
	2011	**2012**	**2013**
Number of distributor customers during the previous year	366	323	324
Additions of new distributor customers during the year	109	103	134
Termination of existing distributor customers during the year *(note)*	(152)	(102)	(91)
Net increase/(decrease) in distributor customers during the year	(43)	1	43
Number of distributor customers during the year	323	324	367

Note: Termination of existing distributor customers refers to the circumstances where no sales transactions were made with these distributor customers during the year but transactions were made with these distributor customers during the previous year. If sales transactions were made with distributor customers that were terminated in the previous year, such distributor customers would be regarded as new distributor customers in the following year.

	Year ended 31 March		
	2011	2012	2013
Fujian Province	232	238	232
Other province/municipalities:			
Anhui	2	4	6
Beijing	1	1	1
Guangdong	40	36	40
Guangxi	1	–	2
Hainan	–	3	2
Hebei	1	–	4
Henan	5	6	3
Hubei	9	5	12
Hunan	–	2	4
Jilin	–	1	–
Jiangsu	1	–	4
Jiangxi	10	9	11
Liaoning	1	1	1
Inner Mongolia	1	–	–
Shandong	2	–	3
Shanxi	–	1	4
Shaanxi	1	–	3
Shanghai	2	1	4
Sichuan	–	4	3
Tianjin	2	–	1
Xinjiang	–	–	1
Yunnan	1	1	1
Zhejiang	7	9	19
Chongqing	4	2	6
Sub-total	91	86	135
Total	323	324	367

The following tables set forth certain information in relation to our Group's five largest distributor customers during the Track Record Period:

For the year ended 31 March 2011	**Approximate sales amount** *(HK$ million)*
Distributor customer A	78.84
Distributor customer B	59.59
Distributor customer C	59.20
Distributor customer D	46.84
Distributor customer E	39.45

For the year ended 31 March 2012	**Approximate sales amount** *(HK$ million)*
Distributor customer F	109.76
Distributor customer C	91.35
Distributor customer A	61.41
Distributor customer G	54.66
Distributor customer H	51.48

For the year ended 31 March 2013	**Approximate sales amount** *(HK$ million)*
Distributor customer F	106.06
Distributor customer I	104.39
Distributor customer A	84.95
Distributor customer E	52.16
Distributor customer G	48.20

Our Group's five largest distributor customers during the Track Record Period comprised 9 different companies which are all Independent Third Parties located in Fujian Province and Zhejiang Province. Total sales to our Group's five largest distributor customers accounted for approximately 33.4%, 35.1% and 46.1% of the total sales to all distributor customers of our Group for each of the three years ended 31 March 2013 respectively. Our business relationships with our major distributor customers during the Track Record Period range from approximately four to five years since our Group commenced pharmaceutical wholesale and distribution business from July 2008. During the Track Record Period, we discontinued our relationship with some of our existing distributor customers due to factors, including but not limited to, unsatisfactory performance or service, changes in staff of our distributor customers, closure of business of our distributor customers and cessation of existing distributor customers being chosen by pharmaceutical manufacturers as our second-tier distributors when we act as first-tier distributor to the pharmaceutical manufacturers. Further details of our role as first-tier or second tier distributor are disclosed in the paragraph headed "Suppliers – Suppliers arrangement" in this section. Since there are many factors which lead to termination of our business relationship with existing distributor customers, it is not possible to quantify the exact number of distributor customers for each reason. In general, we do not accept any return of goods that have already been sold to our distributor customers unless the goods are recalled upon the supplier's request or they are found to have quality problems by the General Administration of Quality Supervision, Inspection and Quarantine of the PRC（中華人民共和國國家質量監督檢驗檢疫總局）. The amount of outstanding balance owing from the distributor customers that we discontinued business with during each of the three years ended 31 March 2013 was nil, RMB80,966 and RMB1,220,000 respectively and such balances were still outstanding as at the Latest Practicable Date. Provision of doubtful debts in the amount of RMB1,220,000 had been made during the Track Record Period for the total balance outstanding as at 31 March 2013. We continue to add new distributor customers to expand our sales network which mitigates the impact of discontinued distributor customers on our sales.

During the Track Record Period, Huihao Hong Kong Group had, in the ordinary and usual course of business, sold pharmaceutical products to FHP Company, being one of the distributor customers and a connected person of our Company. Huihao Hong Kong Group's sales to FHP Company amounted to approximately HK$3.0 million, HK$1.8 million and HK$1.6 million for each of the three years ended 31 March 2013 respectively, representing approximately 0.4%, 0.2% and 0.2% of the total sales to all the distributor customers of Huihao Hong Kong Group during the respective year. The sales to FHP Company will continue after the Listing and will constitute continuing connected transactions for the Company under the Listing Rules. Further details of the transactions with FHP Company are disclosed in the section headed "Connected Transactions – Product Sales" in this listing document. Other than FHP Company, to the best of the knowledge, information and belief of our Directors, all our distributor customers are Independent Third Parties.

We recognise revenue for sales to our distributor customers when our products are delivered to our distributor customers and the significant risks and rewards of ownership have been transferred to them, and we no longer maintain managerial involvement to the degree usually associated with ownership or effective control over the goods sold. Our Group's sales of pharmaceutical products to our distributor customers for each of the three years ended 31 March 2013 were approximately HK$838.8 million, HK$1,036.3 million and HK$1,055.4 million, respectively, representing approximately 69.8%, 67.9% and 63.1%, respectively, of our revenue from our pharmaceutical wholesale and distribution business during the respective year.

End customers

We also make direct sales to end customers such as companies operating pharmaceutical retail chain stores, independent pharmacies, out-patient departments of community hospitals, healthcare service stations and clinics. The majority of our product sales to these customers are based on recurring customer purchase orders.

Sales of pharmaceutical products to our end customers for each of the three years ended 31 March 2013 were approximately HK$141.7 million, HK$160.6 million and HK$135.5 million, respectively, representing approximately 11.8%, 10.6% and 8.1%, respectively, of our revenue from our pharmaceutical wholesale and distribution business during the respective year.

Revenue recognition and pricing

We recognize revenue from the sales of goods to our customers when our products are delivered to our customers and the significant risks and rewards of ownership have been transferred to them and we no longer maintain managerial involvement to the degree usually associated with ownership or effective control over the goods sold.

It is customary and in line with industry practice that the price of our products is determined through the collective tendering process or the selling price specified or suggested by the pharmaceutical manufacturers or with reference to market prices, which is ultimately subject to price ceilings or other forms of price control set by the PRC government.

Receipt of customer payment

Our customers are generally invoiced at the time when products are delivered to them, with credit terms generally ranging from 60 to 90 days for hospital customers, 30 to 60 days for distributor customers and approximately 30 days for end customers. In general, the credit periods given to our hospital customers are longer than those given to our distributor customers and end customers for the reasons that (i) our hospital customers are public healthcare institutions which are managed and/or controlled by the PRC government and therefore the risks of default of outstanding account receivables are comparatively lower; and (ii) sales to our hospital customers is considered to be a relatively better quality business within our pharmaceutical wholesale and distribution segment as they generate a higher gross profit margin and are relatively stable as we have the exclusive right to distribute the pharmaceutical products that have won the bid under the collective tendering process within a prefectural-level district of Fujian Province in the PRC during the term of the respective tender. It is a normal industry practice for pharmaceutical distributors to grant a comparatively longer credit period to hospital customers than to distributor customers and end customers. Extension of credit terms depends, in part, on the creditworthiness of customers, the location of customers and the products being sold.

Sales Returns

We only accept sales return from our customers if the products sold have been recalled upon the request of the suppliers or they are found to have quality problems by the General Administration of Quality Supervision, Inspection and Quarantine of the PRC（中華人民共和國國家質量監督檢驗檢疫總局）. For returned goods that cannot be exchanged by the supplier or returned to the supplier for full credit, they will be discarded and will be written-off accordingly. During the Track Record Period, our monthly sales to our customers, including distributor customers, were generally stable and we did not have a material amount of sales returns from our customers. As confirmed by our Directors, all sales returns during the Track Record Period were due to products recall upon the request of the suppliers or quality problems are found by the

General Administration of Quality Supervision, Inspection and Quarantine of the PRC（中華人民共和國國家質量監督檢驗檢疫總局）. Our sales returns (including inventories written-offs) in relation to our pharmaceutical wholesale and distribution business were approximately HK$6.6 million, HK$8.2 million and HK$10.2 million for each of the three years ended 31 March 2013 respectively, representing approximately 0.6%, 0.5% and 0.6%, respectively, of our revenue from our pharmaceutical wholesale and distribution business during the respective year.

Product Portfolio

As at the Latest Practicable Date, we distributed different types of pharmaceutical products including approximately 1,100 Chinese pharmaceutical medicines, approximately 7,900 Western medicines, approximately 3,600 traditional Chinese medicines, approximately 700 healthcare products, approximately 1,200 medical supplies and medical devices and approximately 1,100 other products. Our pharmaceutical products are used in different treatment areas including, but not limited to, antibiotics medicines, medicines for respiratory systems, medicines for digestive systems, antipyretic medicines and analgesic medicines for cardiovascular system, medicines for endocrine system, medicines for central nervous system, medicines for urinary system, antitumor medicines, anti-heat and detoxication medicines, medicines for sensing system, medicines for children and pregnant women, orthopedic medicines and vitamins. The diversification of our product portfolio reduces the concentration risk of relying on a few products. Due to our diverse product portfolio, our pharmaceutical business, as a whole, is generally not affected by the seasonality of individual products. We examine and adjust our product portfolio and marketing resources from time to time to adapt to changing customer demand.

Other Services

We distinguish ourselves as a pharmaceutical distributor in part through other services we provide to our suppliers and customers. We attend products training or promotional activities conducted by our distributor customers for their customers. We also partner with our suppliers and invite doctors in Fujian Province in the PRC as specialist to provide training on pharmaceutical products to our hospital customers as well as training on product marketing to our customers. Our other services help customers increase their knowledge on our products and boost their sales which in turn enhance our ability to retain customers. In addition, our other services allow suppliers to more efficiently manage their businesses as well as to tailor their marketing activities to target customers. These services also help us strengthen the relationship with our existing suppliers and customers, differentiate us from our competitors and enable us to identify new suppliers and customers. We generally do not charge our customers or suppliers separate fees for provision of other services, and therefore we do not receive material revenues from these services.

Logistics Arrangement and Infrastructure

We manage our distribution logistics operations with the goal of facilitating the smooth and efficient movement of products and minimizing our inventory holding costs. The primary functions of our logistics centres are to store our products, transport and distribute them to our customers. We store our products in a temperature-controlled environment in our warehouses until the receipt of customer orders. Our inventories in the warehouses are managed using the ERP System that keeps track of the movement and storage location of products in the warehouses. After we confirm a customer's order, we will arrange logistics services and the delivery of the ordered products to our customers either by self-owned trucks or through engaging third party logistics services providers. In general, products are despatched from our warehouses within 24 to 48 hours upon receipt of customer orders. As at the Latest Practicable Date, we had 25 self-owned trucks used for logistics operations in our pharmaceutical wholesale and distribution business. We also use third party logistics services providers to deliver our products to remote areas in the Fujian Province in the PRC. For each of the three years ended 31 March 2013, the expenses paid to third party logistics services providers amounted to approximately HK$1.2 million, HK$2.2 million and HK$2.0 million respectively, representing approximately 0.09%. 0.12% and 0.11% of our total turnover for each of the three years ended 31 March 2013. During the Track Record Period, we did not encounter any material errors or delays in our logistics arrangements for our pharmaceutical wholesale and distribution business.

Inventory Management

We manage the inventory of pharmaceutical wholesale and distribution business with a focus on controlling our inventory holding costs, maintaining the variety of products available for our customers and ensuring the prompt delivery of products to our customers. We recorded the historical sales and the warehouse outward dispatch record for each product in the ERP System. Based on the historical moving average of our sales and the warehouse outward despatch record, our procurement staff make purchase orders for each product with reference to the minimum and maximum inventory levels set for each product and monitor our inventory levels through the ERP System to ensure that the inventory levels for each product in our warehouses are adequate. To ensure that there is no overstocking in our warehouses, purchase orders with quantity exceeding the maximum inventory levels set for each product have to be approved by our senior management in the ERP System before they are processed.

We manage our inventory levels in accordance with a pre-determined target by reviewing inventory analysis reports and analyzing inventory turnover days. We also analyze our inventory turnover days and aging analysis periodically and make appropriate adjustments in the inventory levels at our warehouses so as to maintain our products at certain inventory levels and to ensure that we are able to deliver products promptly to our customers. We perform monthly inventory counts in our warehouses and require our warehouse staff to follow up on any inventory discrepancies discovered during each inventory count and report such results. We monitor products monthly with valid dates that expire within one year's time at our warehouses and conduct a monthly check subsequently to ensure that the valid dates printed on the packaging materials of all products stored in our warehouses have not been expired.

Information System

We utilise centralised computerized system, the ERP System, in our pharmaceutical wholesale and distribution business. In particular, the ERP System helps us gather and analyse operational data, such as inventory levels, product price and sales information, which are valuable to us. In addition, our information system also provides a platform through which our suppliers can monitor the level and changes of the quantity of their products stored in our warehouses and make production and delivery plans accordingly. Our information system assists us in the procurement stage of pharmaceutical wholesale and distribution operations in which our procurement staff make purchase orders for each product by using the historical sales and warehouse outward despatch record as well as the existing inventory levels stored in our warehouses where all such information are stored in our information system. Furthermore, the inventory levels in our retail pharmacies are monitored in the information system from which replenishment plans will be automatically generated based on the historical sales information and our replenishment policies. Our information system also records the location of our products stored in our warehouses to facilitate our staff in locating them. The ERP System is also a fully integrated information system which combines different functions such as accounting, finance, procurement, marketing, warehousing and sales from which relevant information is stored in separate databases in the system. Our databases in the ERP System are password protected and can only be accessed by authorised personnel in the relevant departments.

In order to prevent any disruption of our information system as well as to respond to unforeseeable events or system failures and timely resume system operations, we have developed a disaster recovery plan for our information system. We have implemented a standby mechanism, through which we maintain primary and backup system servers. All data is mirrored to the backup server in real time so that both servers contain identical information and we also backup all data in our information system instantaneously to remote-site servers. Upon the loss of data due to system failures or other accidental events, we would be able to import the lost data from the remote-site servers. During the Track Record Period, we did not encounter any significant system failures or disruptions to our information system.

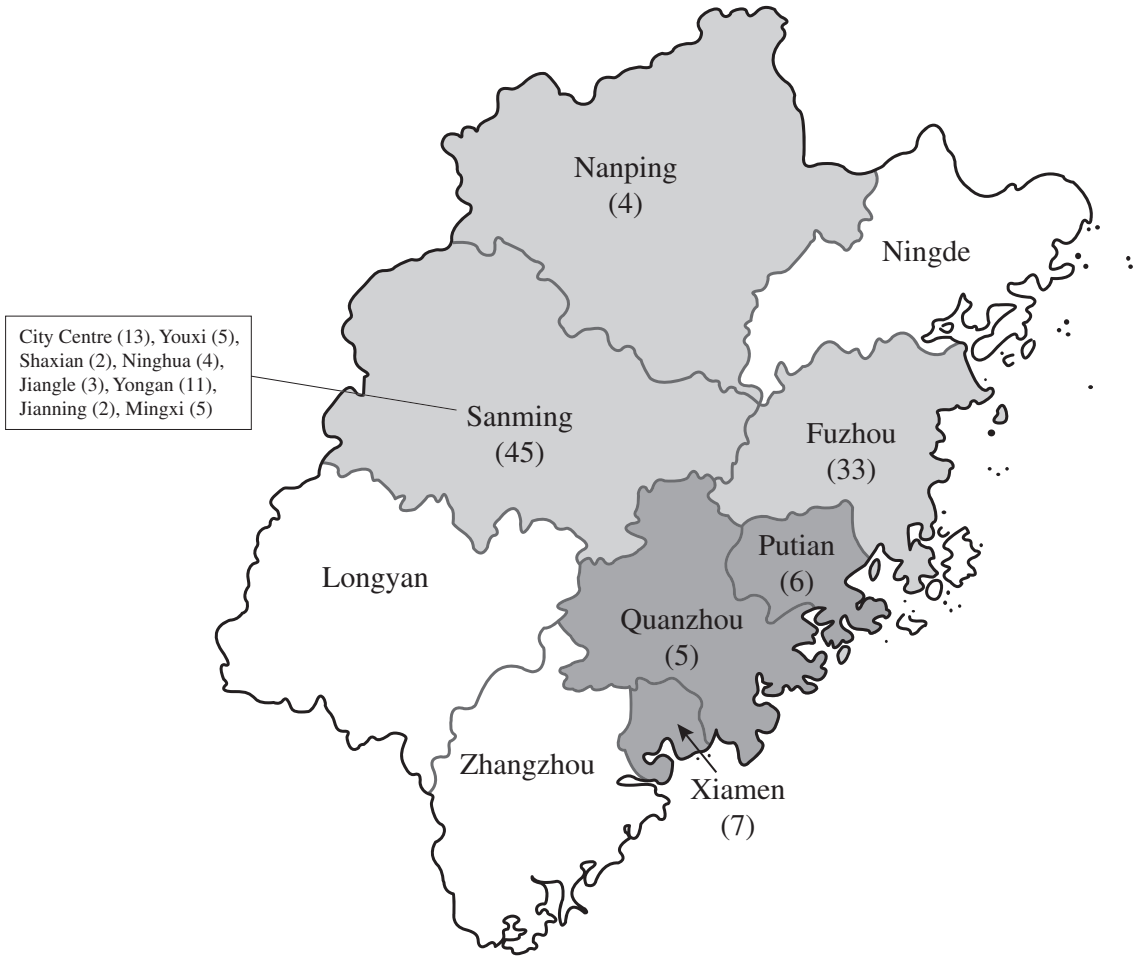
PHARMACEUTICAL RETAIL

We operate our pharmaceutical retail business through Huihao Sihai, a 99.29% owned subsidiary of the Company, which is principally engaged in the business of retail sales of pharmaceutical products, healthcare food products, medical supplies and medical devices and other products. We operate our retail pharmacies under the brand name "*Huihao Sihai*". For each of the three years ended 31 March 2013, our pharmaceutical retail business revenue amounted to approximately HK$157.4 million, HK$187.0 million and HK$212.5 million respectively, representing approximately 11.6%, 10.9% and 11.3% of our total turnover during the respective year.

Retail Network

We have an established retail network in the Fujian Province in the PRC. As at the Latest Practicable Date, we directly operated 100 retail pharmacies with an aggregate store area of approximately 14,284 sq.m. in six prefectural-level districts of the Fujian Province in the PRC, including Fuzhou, Xiamen, Quanzhou, Sanming, Putian and Nanping. Our retail pharmacies are mainly concentrated in Fuzhou and Sanming with 33 and 45 retail pharmacies respectively, representing approximately 33% and 45% respectively of the total number of our 100 retail pharmacies. All retail pharmacies have obtained all the necessary operating licenses and permits. The following diagram illustrates the geographical distribution of our retail pharmacies in the Fujian Province in the PRC as at the Latest Practicable Date.

Retail network and number of our retail pharmacies in the Fujian Province in the PRC



The following table sets forth the changes in the number of our retail pharmacies during the Track Record Period and the period from 1 April 2013 up to the Latest Practicable Date:

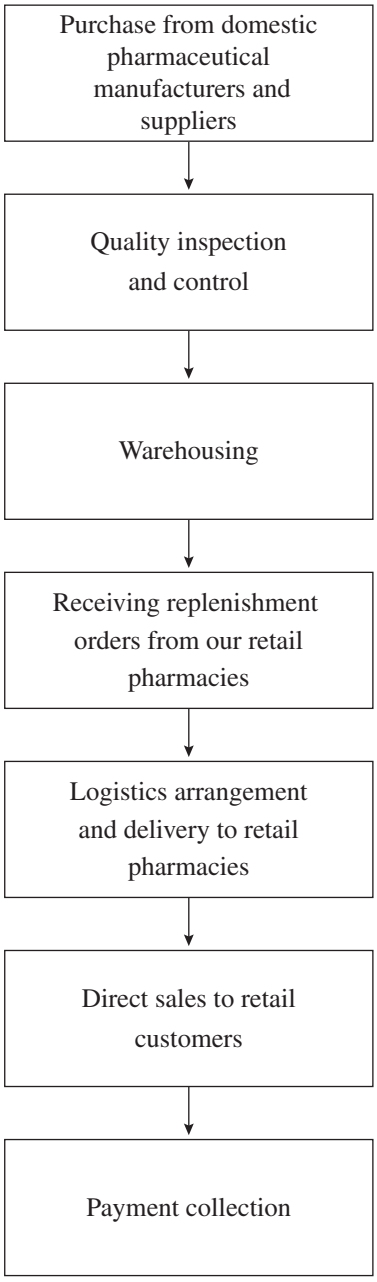
	Year ended 31 March			During the period from 1 April 2013 up to the Latest Practicable Date
	2011	2012	2013	
At the commencement of the year/period	90	97	97	97
Addition of new retail pharmacies	7	–	–	3
Termination of existing retail pharmacies	–	–	–	–
Net increase/(decrease) in retail pharmacies	7	–	–	3
At the end of the year/period	97	97	97	100

As at the Latest Practicable Date, 4 out of 100 store locations of our retail pharmacies are owned by Huihao Sihai (with GFA ranging from approximately 94.43 sq. m. to 246.75 sq. m.) while the remaining store sites of our retail pharmacies are leased properties (with GFA ranging from approximately 40 sq. m. to 1,060 sq. m.). We carefully select our store location based on the customer footfall, demographic factors, consumption level and convenience for our customers and we compile internal appraisal reports of the chosen location of stores for management's review before new stores are opened. Substantially all of our retail pharmacies are located in community areas or county towns in six prefectural-level districts of Fujian Province in the PRC. During the Track Record Period, the number of our retail pharmacies has been increased, primarily due to the openings of new retail pharmacies in Fuzhou, Quanzhou, Xiamen, Nanping and Sanming. Based on revenue generated from the pharmaceutical retail business of our Group of approximately HK$157.4 million, HK$187.0 million and HK$212.5 million for each of the three years ended 31 March 2013 respectively, the average revenue per retail pharmacy (based on total revenue divided by the average number of retail pharmacies during the year) was approximately HK$1.68 million, HK$1.93 million and HK$2.19 million for each of the three years ended 31 March 2013 respectively, representing a CAGR of approximately 14.2%.

Our Group plans to open 30 new retail pharmacies (with GFA ranging from approximately 60 sq.m. to 350 sq.m.) in Fujian Province in the PRC during the financial year ending 31 March 2014 – 9 in Fuzhou, 11 in Sanming, 4 in Xiamen, 3 in Nanping, 2 in Quanzhou and 1 in Putian. Further details of our future plans are disclosed in the paragraph headed "Our business strategies and future plans" in this section. We will conduct internal appraisal reports assessing various factors such as population structure, consumption level and convenience for each chosen location of the store for management's approval before new stores are opened. To mitigate the risk of potential competition among our Group's retail pharmacies, we will locate new retail pharmacies that are distant from our existing retail pharmacies in order to serve local retail customers in different regions. We estimated that the expected total investments in opening the 30 new retail pharmacies will be approximately RMB34.4 million which will be financed by our internal resources.

Operating process

The following diagram illustrates the operating process of our pharmaceutical retail operations by Huihao Sihai:



The operating process of our pharmaceutical retail operations by Huihao Sihai is fairly similar to our pharmaceutical wholesale and distribution operations by the Huihao Medicine Wholesale Group. Our purchasing staff place purchase orders with domestic pharmaceutical manufacturers and suppliers for pharmaceutical products. Depending on the location of our pharmaceutical manufacturers and suppliers, goods normally take within one week to arrive at our logistics centres after purchase orders are placed. After goods arrived at our logistics centres, the incoming goods are placed in the quality inspection area where they are inspected by our quality inspection staff on the same day in accordance with the GSP implementation guidelines such as inspecting the physical appearance, the inner and outer packaging and marking of the products. After the goods are inspected without quality problems, our warehouse staff will then store our products in a temperature-controlled environment. Upon the receipt of replenishment orders from each of our retail pharmacies, our warehouse and delivery staff will arrange for providing logistics services and the timely delivery of our products to our retail pharmacies within one day. After the products arrived at our retail pharmacies, our quality control staff in retail pharmacies will then check the physical appearance, packaging, description, marking and quantity of goods before the products are stacked on our store shelves until they are sold to our retail customers. The operating process concludes with the payment collection from our retail customers by our cashiers.

Store operations

We have developed a uniform and distinct layout, colour scheme and design specifications, which promotes the corporate image of our retail pharmacies. All our over-the-counter products in our retail pharmacies are grouped and stacked on shelves by similar product types and functions. Our stores are staffed with in-store pharmacists, who primarily assist with the dispensing of prescription drugs and attending to customers' consultation. In addition, we regularly carry out training programs on medicine information, nutritional information and selling skills and customer interaction skills for our store staff and pharmacists.

We managed our inventory movement and levels in our retail pharmacies through the information system at point of sales which is linked to the ERP System. All our inventory sales records at each retail pharmacy is uploaded to the ERP System at the close of each day so that we can continuously monitor the sales and inventory movements of our products located at each retail pharmacy. Further details of our inventory management for our retail pharmacies are disclosed in the paragraph headed "Inventory management" in this section.

Although we offer our retail customers the option to pay by cash, bank cards or medical insurance cards, with a majority of our retail sales being made by cash during the Track Record Period. As such, we have adopted strict cash control procedures in all of our retail pharmacies. At the start of the day, our cashiers receive petty cash which is stored in a controlled, on-premises safety-deposit box in each of our retail pharmacies from our shop managers or staff designated by the store manager. After recording the amount of petty cash, our cashiers put the petty cash to cash registers for daily operations. After the close of business each day, the cashiers print out all cash sales records that were made during the day from the cash registers. Our shop managers or supervisors then check and reconcile the cash sales amount with the cash actually received from customers. If the cash actually received is less than the cash sales amount, our cashiers have to reimburse the shortfall. Details of each sale are recorded in our information system located at our retail pharmacies, and the cash generated from our stores and the petty cash are deposited in the aforesaid safety-deposit box in each of our retail pharmacies at the close of business that day. Cash generated from our retail pharmacies is deposited in the designated bank account daily on the next day by the shop managers or supervisors when the banks are opened following its receipt. In the event that the designated bank is closed for public holiday, the cash generated from our retail pharmacies is then kept in the aforesaid safety-deposit box in each of our retail pharmacies until the first day when the bank is opened and our shop managers or supervisors then deposit the cash in the designated bank account. Our finance department in each district undertakes a daily reconciliation of sales data recorded in our information system against cash deposit transactions recorded in our designated bank accounts. During the Track Record Period, there was no incident of cash misappropriation by our retail cashiers or sales staff. We recognize revenue from the sale of goods to our retail customers in the retail pharmacies when the products are sold. We accept sales returns from our retail customers for products due to quality problems on the conditions that (i) sales receipt is kept by the customer showing that the product was purchased from our retail pharmacies; (ii) the product was sold not more than three days and there are problems found in the product sold which render it non-usable; (iii) the original packaging remains intact with product manual; and (iv) the product's item number, manufacturing date and expiry date is the same as the same product that is stacked on our store shelves. Moreover, we do not accept sales returns from our retail customers for certain categories of products such as drugs for external use, ginseng, dietary drugs, Chinese herbal medicines, powder and injection products, infusion solutions, products that are kept under low temperature, personal healthcare products and expendable products. Our sales returns from our customers in relation to our pharmaceutical retail business were approximately HK$1.5 million, HK$1.7 million and HK$1.9 million for each of the three years ended 31 March 2013 respectively.

Products and Services

We provide our customers with high quality, professional and convenient pharmacy services and offer a wide variety of products in our retail pharmacies. Due to our diverse product portfolio, our retail pharmacy business, as a whole, is not materially affected by the seasonality of individual products. Our products can be classified into the following categories:

Prescription medicines. We offer 19 different categories of prescription medicines with approximately 1,600 types of products. We accept prescriptions only from physicians and other licensed healthcare institutions. Our in-store pharmacists will verify the validity, accuracy and completeness of all prescription orders before sales are made to the customers. Our pharmacists also perform a drug utilization review in which they cross-check every prescription against the customer's submitted information and remind the customer the quantity and frequency of taking the drug.

Over-the-counter medicines. We offer 15 different categories of over-the-counter medicines, including Western medicines and Chinese medicines, with approximately 2,100 types of products for treatment of common diseases.

Healthcare food products. We offer approximately 1,100 different healthcare food products, including a variety of healthcare supplements, vitamins, minerals and dietary products.

Traditional Chinese medicine. We offer approximately 2,400 traditional Chinese medicines such as valuable Chinese medicines and traditional Chinese herbs.

Medical supplies and medical devices. We offer approximately 1,300 medical supplies and medical devices such as thermometers, blood pressure monitor devices and medical equipment for home use purpose.

Others. We offer approximately 400 other products including food and drink, daily household goods, personal care products and birth control products.

Our prescription and over-the-counter medicines are used in different treatment areas and can be classified under different categories including, but not limited to, antibiotics medicines, medicines for respiratory systems, medicines for digestive systems, antipyretic medicines and analgesic medicines for cardiovascular system, medicines for endocrine system, medicines for central nervous system, medicines for urinary system, antitumor medicines, anti-heat and detoxication medicines, medicines for sensing system, medicines for children and pregnant women, orthopedic medicines and vitamins. The diversification of our product portfolio reduces the concentration risk of relying on a few products.

Furthermore, our in-store pharmacists provide consultation services, without additional charge, to our customers in respect of medication, dosage, common side effects and other information deemed significant by our in-store pharmacists under applicable laws, rules and regulations. As advised by our PRC Legal Advisers, the provision of consultation services by our in-store pharmacists does not violate with the relevant laws and regulations in the PRC.

We seek to introduce new products and services to meet changing customer preferences and to differentiate us from our competitors. Huihao Sihai sources its merchandises from domestic pharmaceutical manufacturers, pharmaceutical companies or distributors. We believe that alternative suppliers or alternative products are readily available for substantially all of the products we carry, and the loss of any one supplier would not have any material effect on our operations. During the Track Record Period, we had not experienced any significant difficulty in maintaining reliable sources of supply, and we expect that we would be able to maintain adequate sources of supplies of pharmaceutical and other products sold in our retail pharmacies.

Pricing

We generally set the retail price of our products for our pharmaceutical retail operations by (i) the market demand and supply forces; and (ii) using the price suggested or set in the agreements with the pharmaceutical manufacturers. Nevertheless, the retail prices of all pharmaceutical products are subject to the price controls published and enforced by the PRC government in the form of price ceilings. The retail prices of pharmaceutical products will not be higher than the maximum price stipulated by the PRC government. We also make reference to the retail prices offered by our competitors in the region in order to maintain competitive pricing. Our product department is responsible for setting the retail price and overseeing the compliance with relevant price control enforcement from time to time.

Marketing and Promotion

Our corporate development department in Huihao Sihai is primarily responsible for developing marketing and promotional activities for our retail pharmacies, such as advertisements, promotional programs, membership discounts, posters and community promotions. We also have joint promotional programs with our product suppliers and manufacturers, which may include gift promotions and discounts. We believe that through marketing and promotional activities, we have increased public awareness of our retail brands and reputation, which in turn has a positive effect on our revenue and profitability.

Information Management

Each of our retail pharmacies is equipped with a computer terminal that is connected to our centralised computerized system, the ERP System, via internet. All merchandise offered by our retail pharmacies is affixed with a unique bar-coded item number for its identification in the point-of-sale system which, in turn, is linked to our information system. When a cashier scans the merchandise being sold, the relevant data is recorded instantly. Our information system generates a daily retail pharmacies sales report, which enables us to quickly collect sales information, track and analyze inventory levels and sales trends and optimize retail store stock levels. We also use this system to facilitate our category management and store replenishment decisions.

Inventory Management

We manage our inventory to minimize inventory holding costs, ensure timely delivery of merchandise and maintain the rationality of different merchandises in our retail pharmacies in accordance with market sales conditions. Our inventory level for each product at our retail pharmacies is automatically monitored through our information system, the ERP System. According to the historical sales information and our pre-determined replenishment policies, our information system will automatically generate replenishment plans for our retail pharmacies. Our store staff will review details of the replenishment plans and make appropriate adjustments, if necessary, before confirming the replenishment plans. Upon receipt of the replenishment orders, our warehouse staff will arrange logistics services and the timely delivery of our products to our retail pharmacies. Replenishment requests for each product from our store staff with quantity exceeding that in the replenishment orders automatically generated from our information systems have to be approved by our senior management in the ERP System before they are processed.

We manage our inventory levels in accordance with a pre-determined target by reviewing our inventory analysis reports and analyzing inventory turnover days. We also analyze our inventory turnover days and aging analysis and make appropriate adjustments in the inventory levels at our warehouses so as to maintain our products at certain inventory levels and to ensure that we are able to deliver products promptly to our retail pharmacies. We perform monthly inventory counts in our retail pharmacies and require that our store managers to follow up on any inventory discrepancies discovered during each inventory count and report such results to our head office. We start to monitor products with valid dates that expire within one year's time in our retail pharmacies and conduct a monthly check subsequently to ensure that the valid dates printed in the packaging materials of all products displayed in our retail pharmacies have not been expired. We use self-owned trucks or engage third parties logistics service providers to deliver our products from our warehouses to our retail pharmacies.

CUSTOMERS

For each of the three years ended 31 March 2013, our Group's sales to our five largest customers accounted for approximately 21.7%, 21.8% and 21.0% of our total revenue, respectively. The following tables set forth certain information in relation to our Group's five largest customers during the Track Record Period:

For the year ended 31 March 2011	**Approximate sales amount** *(HK$ million)*
Distributor customer A	78.84
Distributor customer B	59.59
Distributor customer C	59.20
Hospital customer A	50.16
Distributor customer D	46.84

For the year ended 31 March 2012	**Approximate sales amount** *(HK$ million)*
Distributor customer F	109.76
Distributor customer C	91.35
Distributor customer A	61.41
Hospital customer A	56.73
Distributor customer G	54.66

For the year ended 31 March 2013	**Approximate sales amount** *(HK$ million)*
Distributor customer F	106.06
Distributor customer I	104.39
Distributor customer A	84.95
Distributor customer E	52.16
Distributor customer G	48.20

Our Group's five largest customers during the Track Record Period comprised a hospital located at Sanming City in Fujian Province in the PRC and 8 different distributor customers located in Fujian Province in the PRC. All of our Group's five largest customers during the Track Record Period were recurring customers. The length of our business relationships with our major customers during the Track Record Period ranged from approximately four to five years since our Group commenced pharmaceutical wholesale and distribution business from July 2008. The pharmaceutical products that one sold to our five largest customers mainly consist of Chinese pharmaceutical medicines, Western medicines and traditional Chinese medicines. For each of the three years ended 31 March 2013, our Group's sales to our largest customer accounted for approximately 5.8%, 6.4% and 5.6% of our total revenue of the respective year.

None of our Directors, their respective associates, Easeglory or Marshal (which, to the knowledge of our Directors, directly or indirectly own more than 5% of our share capital) or their respective associates has any interest in any of the above mentioned customers.

Our trade receivables mainly represent the credit sales of our products to be paid by our customers and consist of accounts receivables and bills receivables. As at 31 March 2011, 2012 and 2013, our net trade receivables were approximately HK$198.6 million, HK$241.5 million and HK$345.8 million respectively. We monitor the recoverability of our overdue trade receivables on a regular basis and when appropriate, provide for impairment of such trade receivables. For each of the three years ended 31 March 2013, the provision for impairment loss of trade receivables of our Group were approximately HK$1.5 million, HK$1.0 million and HK$1.4 million respectively.

SUPPLIERS

For each of the three years ended 31 March 2013, our purchases from our five largest suppliers accounted for approximately 36.3%, 29.8% and 31.2% of our total purchases, respectively. The following tables set forth certain information in relation to our Group's five largest suppliers during the Track Record Period:

For the year ended 31 March 2011	**Approximate purchase amount** *(HK$ million)*
Supplier A	143.93
Supplier B	128.70
Supplier C	68.78
Supplier D	54.07
Supplier E	53.29

For the year ended 31 March 2012	**Approximate purchase amount** *(HK$ million)*
Supplier A	142.23
Supplier B	133.66
Supplier F	96.12
Supplier G	45.79
Supplier C	45.04

For the year ended 31 March 2013	**Approximate purchase amount** *(HK$ million)*
Supplier A	210.12
Supplier B	125.29
Supplier F	74.42
Supplier G	73.45
Supplier D	62.33

Our Group's five largest suppliers during the Track Record Period comprised 7 different pharmaceutical manufacturers/distributors located in Fujian Province and Jiangsu Province in the PRC. The length of our business relationships with our major suppliers during the Track Record Period ranged from approximately four to five years since our Group commenced pharmaceutical wholesale and distribution business from July 2008. In addition, purchases from our Group's single largest supplier accounted for approximately 11.6%, 9.1% and 12.0% respectively, of our total purchases in the respective year.

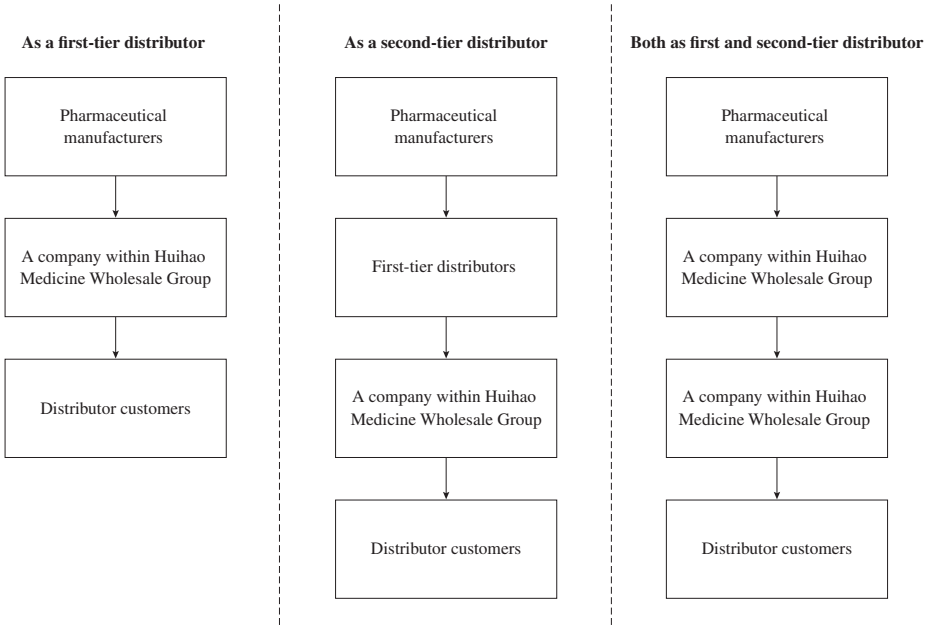
None of our Directors, their respective associates, Easeglory or Marshal (which, to the knowledge of our Directors, directly or indirectly own more than 5% of our share capital) or their respective associates has any interest in any of the above mentioned suppliers.

Supplier Arrangements

As at 31 March 2013, we distributed the products of approximately 1,900 suppliers. We have had business relationships with a majority of our suppliers for over 4 years and we work closely with our suppliers to strengthen our relationships. We generally enter into purchase agreements with our suppliers and these agreements are typically for a fixed term of one year which may be renewed from year to year. During the Track Record Period, we did not experience any difficulty in renewing our purchase agreements with suppliers. Since May 2012, we commenced our centralised procurement whereby the majority of purchases of our Group were conducted by our major subsidiary, Fuzhou Huihao, in the PRC. With the centralised procurement arrangement, the bulk purchase by Fuzhou Huihao gives our Group a competitive edge in attracting more pharmaceutical manufacturers to engage us as first-tier distributors to distribute their products to second-tier distributors.

We assume the role of a first-tier distributor or a second-tier distributor or both depending on whom we purchase pharmaceutical products from. When we purchase pharmaceutical products directly from pharmaceutical manufacturers and distribute such products to second-tier distributor customers, we assume the role of a first-tier distributor. On the other hand, when we purchase pharmaceutical products from first-tier distributors and distribute such products to our distributor customers, we assume the role of a second-tier distributor. In some other cases, we may assume both the roles of a first-tier distributor and a second-tier distributor when we purchase pharmaceutical products directly from pharmaceutical manufacturers and distribute such products to one of our subsidiaries before further distribute the same to our distributor customers.

The following diagrams illustrate our relationships with the pharmaceutical manufacturers and our distributor customers when we assume the role of a first-tier distributor or a second-tier distributor or both:



When we assume the role of a first-tier distributor, we enter into purchase agreements with pharmaceutical manufacturers in respect of certain pharmaceutical products. We will be informed of the identity of the second-tier distributors for the relevant pharmaceutical products after they have been identified by the pharmaceutical manufacturers. The pharmaceutical manufacturers will then require the second-tier distributor to purchase the relevant pharmaceutical products from us. Under these circumstances, it is typical that we will enter into tripartite distribution agreements with the pharmaceutical manufacturers and our distributor customers if the pharmaceutical manufacturers request so. It is not a mandatory requirement under the prevailing market practice in the PRC for the pharmaceutical manufacturers, first-tier distributors and distributor customers to enter into such tripartite distribution agreements.

When we assume the role of a second-tier distributor, we enter into purchase agreements with first-tier distributors or distribution agreements with pharmaceutical manufacturers or first-tier distributors or both. There are three scenarios in which such distribution agreements may be entered into. Firstly, we may enter into bipartite distribution agreements with pharmaceutical manufacturers such that we will become part of the distribution channel of the pharmaceutical manufacturers in distributing their products and receive support and services in relation to marketing and promotion of the products from these pharmaceutical manufacturers. Secondly, we may enter into bipartite distribution agreements with first-tier distributors for distributing pharmaceutical products of the pharmaceutical manufacturers. Thirdly, we may enter into tripartite distribution agreements with the pharmaceutical manufacturers and first-tier distributors if the pharmaceutical manufacturers request so.

The purchase agreements that we enter, whether as a first-tier distributor or a second-tier distributor with our suppliers (whether they are pharmaceutical manufacturers or first-tier distributors) usually have a fixed term of one year which is renewable upon expiration under normal circumstances and are in the suppliers' prescribed forms which typically set out the information of the products we purchase such as product name, specification and purchase price, method of placing purchase orders, payment and credit terms, place and time of delivery as well as guidelines and procedures for inspecting incoming products. In addition, it is typical that our suppliers are responsible for the delivery and the quality of their products. Furthermore, our suppliers shall bear all responsibilities in case where the products purchased from them are found to have quality or other defects which have caused damage to human beings or punishment by relevant regulatory departments and we have the right to terminate the purchase agreements and/or to claim our suppliers for any damages that we may suffer as a result of the breach of the purchase agreements by our suppliers. However, the purchase agreements do not allow us to terminate the purchase agreements before expiration voluntarily if the PRC government adjusts the price of pharmaceutical products. We are responsible for timely payments to our suppliers as well as compliance with guidelines set out by our suppliers. We may return products to our suppliers when the products are found to have quality problems or their specifications do not comply with relevant rules, or the products have become unlawful by relevant regulations or unsalable. In general, the purchase agreements with our suppliers do not restrict us from selling competing products. The price of products paid to our suppliers is determined either through written agreement with our suppliers or quotation of price by our suppliers through a specifically designated website maintained by us. Factors such as price stability, extensive distribution network, bargaining power, government policies, customer preference and other market considerations will be taken into account when we accept the price of products. When we assume the role of a first-tier distributor, we distribute the pharmaceutical products purchased from the pharmaceutical manufacturers to the second-tier distributors within the geographical area, which is usually in Fujian Province in the PRC, and at the suggested or minimum selling price stipulated in the distribution agreements.

The distribution agreements which are in the pharmaceutical manufacturers' or suppliers' prescribed forms typically stipulate the designated area where we can distribute the products, the name and type of pharmaceutical products, the suggested or minimum selling prices of the products, the sales target of the products, the percentage of rebates on sales amount to be given on achieving certain sales target and the payment method of rebates. The sales target and the percentage of rebates are usually fixed or determined by our suppliers subject to the acceptance of the parties to the distribution agreements and vary for different types of pharmaceutical products. When we assume the role of a first-tier distributor, we may receive rebates in the form of cash or purchase discounts from pharmaceutical manufacturers. When we assume the role of a second-tier distributor, we may receive rebates from pharmaceutical manufacturers or first-tier distributors and such rebates are paid to us either by cash or in the form of purchase discounts. No financial penalty will be incurred by us in the event that we fail to achieve the sales target stated in the distribution agreements. The total amount of rebates received from our suppliers and their sales representatives was approximately HK$42.8 million, HK$48.4 million and HK$45.0 million for each of the three years ended 31 March 2013 respectively. The increase in the amount of rebates was mainly due to our growth in total purchase of pharmaceutical wholesale and distribution business in order to meet the increasing demand of customers. The distribution agreements are generally for a fixed term of one year and may be renewed by mutual agreement among the parties from year to year. It is typical that the distribution agreements will either be terminated upon the expiry of its term or if there is a breach of the agreement by any of the parties. However, the distribution agreements do not allow us to terminate the distribution agreements before expiration voluntarily if the PRC government adjusts the price of pharmaceutical products.

Our Group has implemented the following control measures to monitor the receipt of rebates from suppliers and to prevent any illegal rebates or gains or benefits received from/given to suppliers and customers by any of our Group's directors, employees, shareholders and connected persons: (i) we perform audit checks to revalidate the qualifications of our suppliers periodically to ensure that they operate their business in compliance with applicable laws, rules and regulations. We also require qualified suppliers to submit price quotations to us so that we can compare the different price quotations and purchase products from the supplier with the lowest price quotes. The purpose of comparing different price quotations is to avoid our procurement staff from deciding by themselves which supplier to purchase from and therefore mitigate the possibility of exchange of benefits between our procurement staff and suppliers; (ii) an internal supervisory committee, comprising staff from the finance, legal and regulatory and human resources departments, periodically inspect purchase price quotation comparisons to ensure our Group purchases pharmaceutical products in accordance with prescribed procedures and the relevant rebates or purchase discounts are lawful and transparent; (iii) all purchase contracts are inputted into the ERP system by staff in our quality control department. All receipts of rebates from suppliers are audited by our staff in the finance department and all cash rebates received must be directly monitored and managed by the finance department; (iv) our legal and regulatory and human resources departments provide staff education and training to existing and new employees on knowledge about anti-

corruption law as well as guiding our staff to conduct business operation and management legally and in compliance with relevant regulations in order to enhance the legal awareness of our staff and to prevent the occurrence of bribery; and (v) our Group has promulgated crisis management and reporting system to encourage the reporting of any bribery incidents conducted by our staff.

We select our suppliers based on, among others things, the prices of their products, market reputation, production and/or distribution capacity, market potential of their products and whether the supplier has all necessary licenses, permits and certifications, including GSP and/or GMP certifications. We also revalidate the qualifications of our suppliers periodically to ensure that they operate their business in compliance with applicable laws, rules and regulations. Our Group's five largest suppliers during the Track Record Period comprised 7 different companies located in the PRC which include a national pharmaceutical manufacturing and distribution company as well as other pharmaceutical manufacturers and distributors located in Fujian Province and Jiangsu Province. Our business relationships with our major suppliers during the Track Record Period range from approximately four to five years since our Group commenced pharmaceutical wholesale and distribution business from July 2008. Our Directors believe that maintaining stable relationship with our major suppliers is crucial in our operation as this would enable us to have a stable source of pharmaceutical products. During the Track Record Period, our Group did not encounter any default by our top five suppliers.

The credit terms given to us by our suppliers generally 30 to 90 days. We settle outstanding payables with our suppliers through bank note and wire transfer. For purchase returns, we are able to return products that are either damaged or have incomplete packages/unclear labels or have missing contents or are close-to-expiry or have defective quality or do not otherwise satisfy our quality standards or do not meet our specifications provided that we have notified the supplier during the specified return period or are recalled at the request of pharmaceutical manufacturers. During each of the three years ended 31 March 2013, we had returned products to our suppliers due to the above reasons and the purchase returns to our suppliers were approximately HK$9.7 million, HK$12.4 million and HK$14.2 million respectively.

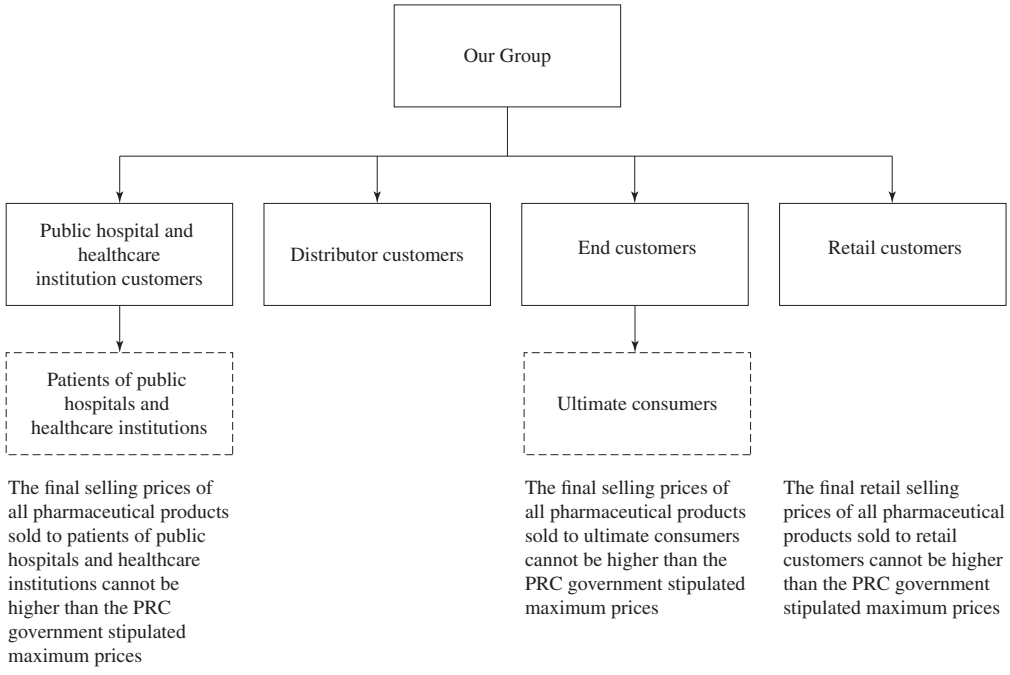
PRICE CONTROLS

According to the *Opinion on Reforming Drug Prices Management*# 《關於改革藥品價格管理的意見》published on 20 July 2000 by the then State Planning Commission of China#（國家計劃委員會）(now known as the NDRC, pharmaceutical retail units (including hospitals) cannot set their own retail prices of drugs above the maximum retail prices of drugs that are determined and stipulated by the PRC government. The price control imposed by the PRC government on pharmaceutical products only has a direct impact on the retail selling prices of pharmaceutical products sold to patients of hospitals, community clinics and other healthcare institutions and retail customers. In essence, the retail selling prices of all pharmaceutical products cannot be higher than the government stipulated maximum prices. The selling prices of pharmaceutical products sold by pharmaceutical distributors to non-ultimate final consumers (such as our distributor customers and end customers) are not directly affected by the price controls imposed by the PRC government.

The effect of price controls on the retail selling prices of pharmaceutical products in each of our business segments is shown below:

- *Pharmaceutical wholesale and distribution.* The final selling prices of all pharmaceutical products under the price controls that are sold to patients of hospital and healthcare institutions and final consumers cannot be higher than the PRC government stipulated maximum prices.

- *Pharmaceutical retail.* The final selling prices of all pharmaceutical products under the price controls that are sold to our retail customers at our retail pharmacies cannot be higher than the PRC government stipulated maximum prices.



The PRC government stipulated maximum retail prices of some pharmaceutical products may be adjusted upwards or downwards by the PRC government. When the PRC government stipulated maximum retail prices of some pharmaceutical products are adjusted, neither the selling prices nor our profit margins of the pharmaceutical products that are sold to our hospital and healthcare institution customers will be affected since the selling price of the pharmaceutical products that have won the bids in the collective tendering process in Fujian Province (also known as the bid price) have already been determined in accordance with the respective tender and our profit margins derived from distributing these products are generally fixed. In addition, the selling prices of pharmaceutical products that are sold to our distributor customers, whether we assume the role of either a first-tier distributor or a second-tier distributor, and to our end customers will not be directly affected by the maximum retail prices adjustments since the price control relates to retail

selling price of products sold to ultimate consumers rather than their wholesale selling prices. When we assume the role of either a first-tier distributor or a second-tier distributor, the selling prices of pharmaceutical products distributed by us are determined by pharmaceutical manufacturers which will adhere to the suggested or minimum selling price stipulated in the distribution agreements. To ensure the selling prices of our pharmaceutical products comply with the pricing policy laid down by pharmaceutical manufacturers, the pharmaceutical manufacturers set the terms of rebates in the distribution agreements such that we are not entitled to any rebates if we distribute our pharmaceutical products at selling prices which are not in compliance with the prices laid down by the pharmaceutical manufacturers. As regards our retail pharmacies business, the selling prices of pharmaceutical products that are sold to retail customers may or may not be affected by the downward adjustments in the government stipulated maximum retail prices. If the selling price of products is higher than the adjusted maximum retail prices, the selling price will be adjusted such that it will not be higher than the adjusted maximum retail prices. If the selling price of products is lower than the adjusted maximum retail prices, the selling price of those products will not be affected. As advised by our Directors, the NDRC announced six retail price adjustments in 2012 in relation to 3,102 items of pharmaceutical products, of which 297 items are sold by Huihao Sihai at that time. Out of those 297 items of pharmaceutical products, the retail selling prices of 53 items were adjusted downwards, 8 items were recalled by the pharmaceutical manufacturers due to reasonable profits could not be earned by the pharmaceutical manufacturers and their distribution intermediaries while the selling price of the remaining items were unaffected. When the retail price of pharmaceutical products sold by Huihao Sihai is adjusted downwards, our profit margins of those products will be affected. As a distributor of different types of pharmaceutical products, there are no major distinctions in terms of price and quality for those pharmaceutical products whose selling prices have been adjusted due to price control imposed by the PRC government and those which have not. Irrespective of whether the pharmaceutical products are subject to price control or not, the production of pharmaceutical products by pharmaceutical manufacturers must comply with the relevant GMP requirements to ensure the quality of products whereas we must comply with GSP requirements to implement quality control measures for the distribution of pharmaceutical products.

When the selling price of pharmaceutical products are adjusted downwards as a result of price controls imposed by the PRC government, it would be normal industry practice for the pharmaceutical manufacturers to adopt remedial actions to increase the distribution and sales of their pharmaceutical products such as by giving sales rebates for meeting sales targets, giving purchase discounts for pharmaceutical products to pharmaceutical distributors or reducing our purchase prices of the pharmaceutical products from them. If reasonable profit targets could not be materialized or even losses would be incurred from those pharmaceutical products as a result of the downward adjustment in the PRC government stipulated maximum retail prices, the pharmaceutical manufacturers may cease producing or recall those pharmaceutical products affected by the downward price adjustments or replace them with new types or specifications of products in order to mitigate the adverse effect of downward price adjustments for the benefit of both the

pharmaceutical manufacturers and distributors. Therefore, our Directors considered that the impact of downward adjustment in government stipulated maximum prices of pharmaceutical products on our Group is short-run and limited.

In relation to our pharmaceutical wholesale and distribution business, price control is not usually considered an important factor when we decide the type of pharmaceutical products that we distribute because, from our perspective as a pharmaceutical distributor, pharmaceutical products which are subject to price control may not be materially different in terms of price and quality from those pharmaceutical products which are not. Whether our Group would distribute any pharmaceutical products that are not subject to price control in the future or cease to purchase/sell any products that are subsequently not subject to price control depends on a number of factors, which are the same as in the consideration of any types of pharmaceutical products irrespective of whether they are subject to price control, such as our distribution network and capability, strategic co-operation relationship with our pharmaceutical manufacturers, the demand of pharmaceutical products from our customers and the profitability of the products. We are capable of distributing any pharmaceutical products that are not subject to price control in the future and we have implemented the following measures to mitigate the risk of price ceiling reduction: (i) we control our purchases to ensure a reasonable level of inventories is kept in our warehouses to meet unexpected changes in demand as a result of price adjustments; (ii) we also strengthen our co-operation relationship with pharmaceutical manufacturers for those products which account for high proportion of our sales as some pharmaceutical manufacturers adopt remedial actions which increase the distribution and sales of their products; and (iii) we optimise our product mix through more offerings of pharmaceutical products with higher margins and/or new products.

Since the *Opinion on Reforming Drug Prices Management*#《關於改革藥品價格管理的意見》does not require wholesale pharmaceutical distributors to monitor their wholesale selling prices of drugs, our Group does not and is not required to collect any information in relation to the maximum retail prices of drugs which are distributed to our hospital and healthcare institution customers, distributor customers and end customers who are responsible for monitoring the prices of the pharmaceutical products are sold to the ultimate final consumers do not exceed the government stipulated maximum retail prices. For sales to our hospital and healthcare institution customers, the selling prices of our products (also known as bid prices) are determined under the collective tendering process and the bid prices cannot be higher than the government stipulated maximum retail prices when such bid prices are determined. In addition, our distributor customers and end customers would not have purchased from us at prices exceeding the government stipulated maximum prices, as they could not sell to their downstream consumers at retail prices above the government stipulated maximum prices and would have made losses if they do so. Therefore, the ultimate responsibility of monitoring the selling prices of drugs rests on our distributor customers and end customers who must ensure that they do not purchase products at purchase prices above the government stipulated maximum retail prices.

In relation to our retail business, the retail prices of products sold to our retail customers are subject to price control by the PRC government. Our Group closely monitor the retail selling prices of products to ensure that they are not set above the government stipulated maximum prices. The distribution of the difference between the purchase costs or actual selling prices and the government stipulated maximum prices as a percentage of the PRC government stipulated maximum prices in relation to our pharmaceutical retail business is shown as below:

Difference between the purchase costs and the government stipulated maximum prices as a percentage of the PRC government stipulated maximum prices	**Approximate percentage of products that are within the range**	**Difference between the selling prices and the government stipulated maximum prices as a percentage of the PRC government stipulated maximum prices**	**Approximate percentage of products that are within the range**
0%	0%	0%	31%
>0% – 10%	4%	>0% – 10%	21%
>10% – 20%	20%	>10% – 20%	15%
>20% – 30%	20%	>20% – 30%	11%
>30% – 40%	13%	>30% – 40%	7%
>40% – 50%	9%	>40% – 50%	5%
>50% – 60%	11%	>50% – 60%	3%
>60% – 70%	11%	>60% – 70%	4%
>70% – 80%	7%	>70% – 80%	2%
>80%	5%	>80%	1%
Total	100%	Total	100%

As confirmed by our Directors and our PRC Legal Advisers, our Group has not sold any pharmaceutical products which violated the relevant rules and regulations in relation to price controls imposed by the PRC government during the Track Record Period.

In the PRC, eligible participants in the governmental basic medical insurance program who purchased drugs listed in the National Medical Insurance Drugs Catalog and/or the Provincial Medical Insurance Drugs Catalog are entitled to reimbursement from the social medical insurance fund. As the maximum reimbursement is up to the entire cost of medicines that are included in such catalogs, and for this reason, hospitals in the PRC frequently order medicines included in the catalog for their patients. As a result, a pharmaceutical product is generally more attractive to patients of hospitals and ultimate consumers if it is included in the National Medical Insurance Drug Catalog and/or the Provincial Medical Insurance Drug Catalog, and it is critical for a pharmaceutical manufacturer in the PRC to have its products included in these catalogs. Pharmaceutical products that are not included in the National Medical Insurance Drug Catalog and/or the Provincial Medical Insurance Drug Catalogs may not be as popular among patients of hospitals and ultimate consumers as those that are included in the National Medical Insurance Drug

Catalog and/or the Provincial Medical Insurance Drug Catalogs because they are not subject to reimbursement by the social medical insurance fund. Medical drugs listed in the National Medical Insurance Drugs Catalog and/or the Provincial Medical Insurance Drugs Catalog are subject to periodic retail price adjustments announced by the relevant department of the PRC government. We benefit from the upward adjustment in retail prices whereas downward adjustment in retail prices has negative impact on our profit margin as we are unable to increase the retail prices of products to our customers to maintain profit margin as the retail prices of those products are subject to price controls by the PRC government. When the selling price of pharmaceutical products are adjusted downwards as a result of price controls imposed by the PRC government, our pharmaceutical manufacturers would adopt remedial actions which include but not limited to giving purchase discounts or reducing their selling prices of products sold to us. Whether a pharmaceutical product is included in the National Medical Insurance Drugs Catalog and/or the Provincial Medical Insurance Drugs Catalog is a less important concern for pharmaceutical distributors than pharmaceutical manufacturers because pharmaceutical distributors purchase and distribute a pharmaceutical product no matter it is included in the National Medical Insurance Drugs Catalog and/or the Provincial Medical Insurance Drugs Catalog or not as long as they can make profits from doing so. Furthermore, pharmaceutical distributors are more concerned about the demand for the product which relates to its intended usage and market share of the product.

INTELLECTUAL PROPERTY

We recognize the importance of intellectual property rights to our business and are committed to their development and protection. We rely on our trademarks to safeguard our intellectual property.

We rely on trademarks to protect our "*Huihao（惠好）*" name and logos owned by Huihao Sihai we use in our pharmaceutical retail operation. We are committed to upgrade and enforce our trademark rights, which are critical to our overall branding strategy and reputation.

Pursuant to the Trademarks Transfer Agreement I, we have acquired the five trademarks conditional upon the following: (i) the continual use of the trademarks by FHP Company in its own capacity within the scope as mentioned under the Trademarks Transfer Agreement I; and (ii) no consideration for the use of trademarks by FHP Company. After obtaining the five trademarks, Huihao Sihai has to bear expenses (if any) in relation to the application of trademark transfer procedures. For details of the five trademarks, please refer to the Acquisitions Circular. Pursuant to the Trademarks Transfer Agreement I, FHP Company and Huihao Sihai can use the five trademarks simultaneously. On 10 September 2012, FHP Company and Huihao Sihai entered into the Trademarks Usage Termination Agreement I under which both parties agreed to terminate FHP Company's usage rights of the five trademarks granted under the Trademarks Transfer Agreement I and FHP Company must cease the usage of those five trademarks in its capacity within 10 days upon signing of the Trademarks Usage Termination Agreement I.

Pursuant to the Trademarks Transfer Agreement II, FHP Chain has transferred the title of the seven trademarks to us conditional upon following: (i) the continual use of the trademarks by FHP Chain in its own capacity within the scope as mentioned under the Trademarks Transfer Agreement II; (ii) the continual use of the trademarks by the 14 franchise stores (as disclosed under the 14 franchise agreements entered into between FHP Chain and the 14 individuals, who are Independent Third Parties, for the use of the trademarks in their 14 drug stores (the "**Franchise Agreements**"); and (iii) no consideration for the use of trademarks by FHP Chain and the 14 individuals under the Franchise Agreements. After obtaining the seven trademarks, Huihao Sihai has to bear expenses (if any) in relation to the application of trademark transfer procedures. For details of the seven trademarks, please refer to the Acquisitions Circular. Pursuant to the Trademarks Transfer Agreement II, FHP Chain and Huihao Sihai can use the seven trademarks simultaneously. On 10 September 2012, FHP Chain and Huihao Sihai entered into the Trademarks Usage Termination Agreement II under which both parties agreed to terminate FHP Chain's usage rights of the seven trademarks granted under the Trademarks Transfer Agreement II and FHP Chain must cease the usage of those seven trademarks in its capacity within 10 days upon signing of the Trademarks Usage Termination Agreement II and FHP Chain notified the 14 franchise stores to cease the usage of the seven trademarks and to terminate any agreement relating to the use of the relevant trademarks.

As at the Latest Practicable Date, we were the registered owners of 12 trademarks in the PRC. We have the exclusive right to use a trademark for products and services for which such trademark has been registered with the Trademark Office of the State Administration for Industry and Commerce. Trademark registration in the PRC is valid for 10 years, starting from the day of the registration is approved, and is renewable upon the expiry of the trademark registration. If we believe that a third party has infringed upon the exclusive right of our registered trademark, we may, through appropriate administrative and civil procedures, institute proceedings to request an injunction from the relevant authority or resolution of the infringement through consultation. If our trademarks are challenged, our brand name is damaged and there could be an adverse effect on our pharmaceutical retail business. We also consider that our trademarks to be important to our pharmaceutical wholesale and distribution business since they represent the corporate image of our Company. Our pharmaceutical wholesale and distribution operations do not require us to rely on our trademarks as material as our pharmaceutical retail business.

In addition to protect our own intellectual property, our success also depends on our ability to minimize the risk that any of our products or operations infringes on the intellectual property rights of others. We engage our external trademark agent or legal counsel for filing an application for the registration of a trademark and follow procedures to ensure that we do not engage in the sale of counterfeit pharmaceutical products. Our quality control department is responsible for checking the completeness of the certification and documentation provided by our suppliers before purchasing pharmaceutical products strictly in accordance with the GSP requirements. We believe that the risk of infringing third-party intellectual property rights can be effectively reduced by our vigorous adherence to these procedures.

Our Group became aware of the existence of the website "惠好藥尚網" (www.huihao.com) (the "**Website**"), which belonged to FHP Chain, in August 2013. After making enquiries with FHP Chain, our Directors were given to understand that FHP Chain launched the Website in June 2013. After reviewing the contents contained in the Website, our Group noticed that FHP Chain has infringed the legal rights of Fuzhou Huihao and Huihao Sihai (together, the "**Principal**") by (i) the use of the words "惠好" in the name of the Website which has infringed the Principal's trademark exclusive usage rights in relation to the relevant "惠好" words, pinyin and graphics; (ii) the publication of six photos containing the actual interior images of the warehouses of the Principal located at Fuzhou City in the Website claiming to be the interior images of FHP Chain's warehouse is misleading to consumers and has infringed the corporate image and reputation of the Principal; and (iii) the use of one of the Principal's retail store addresses claiming to be FHP Chain's address for collection and return of goods is misleading to consumers and has infringed the corporate image and reputation of the Principal (collectively, the "**Infringement Acts**"). As advised by our Directors, the six photos were reproduced in the marketing materials for distribution to the public two years ago and since the marketing materials were intended for distribution to the public, it is beyond our Group's control as to how such marketing materials would be used by the public with access to such materials. The Principal instructed our PRC Legal Advisers to issue a letter to FHP Chain on 5 August 2013 (the "**Letter**") in relation to the infringement of the Principal's trademark usage rights and corporate reputation.

As set out in the Letter, our PRC Legal Advisers asserted that the use of the words "惠好" on the Website by FHP Chain on its operation without the Principal's prior notice and consent has violated the relevant rules and regulations such as Civil Laws of the PRC# 《中華人民共和國民法通則》and Trademark Laws of the PRC# 《中華人民共和國商標法》 and has infringed the legal rights of the Principal which as a consequence may cause economic loss to the Principal. Our PRC Legal Advisers, acting on the instructions of the Principal, has requested FHP Chain to immediately and within no later than 7 days from the issue of the Letter (i) close all the valid measures under the Website and stop all infringement action; (ii) provide information in relation to the setting up of the website and financial information since commencement of the operation of the Website in order to assess the impact of the infringement to the Principal; and (iii) negotiate the relevant resolution with the Principal and to ensure that similar infringements would not occur in the future.

To avoid future infringements from occurring in the future, FHP Chain and the Principal entered into a settlement agreement dated 12 August 2013 (the "**Settlement Agreement**") under which: (a) FHP Chain made a formal apology to the Principal in relation to the Infringement Acts and voluntarily assumes all relevant legal responsibilities; (b) FHP Chain agreed to adopt remedial actions immediately to ensure the non-occurrence of acts similar to the Infringement Acts in future by irrevocably undertake (i) to cease operating the Website and any form of online pharmaceutical sales business immediately and never use the Website or other methods to conduct online pharmaceutical business before the expiry dates or lawful termination of the relevant online pharmaceutical sales qualification licences; (ii) not to renew licences in relation to online pharmaceutical trading services or online pharmaceutical sales upon the expiry dates or lawful termination of the relevant online pharmaceutical sales qualification licences; (iii) to transfer at nil consideration the domain name of the Website to the Principal under the ownership and

management of the Principal; (iv) during the valid period of the relevant online pharmaceutical sales qualification licences and upon the request of the Principal, FHP Chain will unconditionally transfer at nil consideration its relevant online pharmaceutical sales qualification licences to the Principal or transfer the licences at nil consideration for the Principal's own operation if permissible under the relevant PRC laws regulations; and (v) at the cost of FHP Chain, to execute, do and perform or procure to be executed, done and performed by other necessary parties all such further acts, agreements, assignments, assurances, deeds, undertakings and documents as the Principal may reasonably require to protect the legal rights, interests and benefits of the Principal. As advised by our PRC Legal Advisers, there are no legal restrictions in the transfer of the domain name "www.huihao.com" of the Website to the Principal under the ownership and management of the Principal; and (c) the Principal shall take legal action against FHP Chain in case FHP Chain fails to perform its undertakings and/ or duties under the Letter. FHP Chain has ceased operation of the Website in early August 2013.

As advised by our Directors, save as disclosed above, there were no other incidents in which any intellectual property rights of our Group has been infringed by third parties during the Track Record Period. Our Group considered that the above infringement incident by FHP Chain does not have material adverse effect to our Group as the Website had only been operated for approximately two months and the aggregate revenue generated by FHP Chain during the period since commencement of the operation of the Website in June 2013 until the end of July 2013 was only approximately RMB1,200 which was insignificant as compared to our Group's total revenue.

Our Group will adopt the following measures to prevent or minimise the risk of similar infringement incidents from occurring in the future: (i) our Group's legal staff will conduct thorough search on the internet each week to ensure the timely detection of any infringement incidents; (ii) our Group's sales and marketing staff will report to our Group's legal staff immediately once they discover any infringement incidents; (iii) our Group's legal staff will report to senior management of our Group once the infringement incidents have been identified and confirmed and contact outside legal advisers for appropriate legal actions to be taken including but not limited to publication of timely clarification information, issuance of legal letter to the infringer(s) and adoption of legal recourse measures; (iv) we will raise the awareness of information security by our Group's management and employees; (v) we will ensure that outside disclosure of corporate texts, images and other information is subject to more stringent approval so as to strictly control the publication and scope of use of the relevant information; and (vi) we will use valid encryption technology on disclosed information which has previously been approved to prevent misuse of relevant information by third parties. By adopting the above control measures, our Directors considered that our Group can avoid or minimize the risk of infringements of our intellectual property rights by third parties in the future.

COMPETITION

The pharmaceutical wholesale and distribution and retail industries are highly competitive. We compete with domestic competitors which vary widely by size of operations.

Pharmaceutical Wholesale and Distribution

We face a variety of competition in the wholesale and distribution of pharmaceutical and healthcare products in Fujian Province in the PRC. Our pharmaceutical wholesale and distribution business competes directly with other pharmaceutical distributors and indirectly with pharmaceutical manufacturers which sell their products directly to customers by-passing distributors. We face competition primarily from large national and regional pharmaceutical product distributors operating in Fujian Province in the PRC. We compete with our competitors on the basis of types of customer served, breadth of product portfolio, service and delivery, logistics and value-added services programs, geographic coverage, customer support and pricing and our Directors are of the view that we differentiate ourselves from our competitors of other provinces in terms of localized services, geographical coverage, strength of our supply chain services and logistics services and other services. On a provincial level, we differentiate ourselves from other local or regional competitors in terms of scale of operation, operation efficiency, geographical coverage, wide spectrum of products, services and delivery, logistics, other services and financial strength. We focus on attracting customers by offering our distribution network, product portfolio, stability and assurance brought by our scale and financial strength, as well as efficient and high-quality operation and service, which appeal to local customers.

Regardless of the degree or type of competition, to remain competitive we must continue to explore new customer relationships and business opportunities and further serve our existing customers by providing a comprehensive product portfolio, maintaining efficient inventory controls, offering flexible and reliable delivery services and providing competitive pricing.

Pharmaceutical Retail

Our retail pharmacies compete with certain regional and local retail pharmaceutical chains, independent pharmacies and internet pharmacies. We compete principally on the basis of store location and convenience, merchandise selection, customer service and satisfaction including offering customers the ability to pay by medical insurance card, favourable prices, professional trained staff and our brand name. We believe that consolidation of the pharmacy retail market and continued new store openings by chain store operators will further increase competitive pressures in this market. Although the geographical dispersion of our retail pharmacies enables us to offset the impact of competitive conditions, we believe that more new stores opening in other cities in Fujian Province in the PRC may intensify the competition.

QUALITY CONTROL

We maintain a stringent quality control system and devote significant attention to quality control for our pharmaceutical wholesale and distribution and pharmaceutical retail businesses. We have established a comprehensive quality control system that provides quality standards and operating procedures in accordance with the GSP requirements at different stages of our operations, from procurement to delivery. Our comprehensive quality control system is designed according to the GSP requirements. Our quality control system implements the procedures for periodic quality control audit, quality risk management and error correction and prevention. Our senior management is actively involved in setting quality policies and improving quality control standards.

Pharmaceutical Wholesale and Distribution

In our pharmaceutical wholesale and distribution business, our Directors have confirmed that we fully comply with all relevant PRC laws, rules and regulations to ensure the quality of our operations. Furthermore, we will maintain suppliers that have good credentials and product quality track records. Our quality control department at the head office sets out practical guidelines for different operating process according to the GSP requirements and other relevant PRC laws, rules and regulations. Our quality control team oversees quality control at each stage of the operating process, inspects and performs periodic check regularly to ensure that we are in compliance with all applicable regulations, standards and internal policies. Our quality inspectors at our warehouses are responsible for implementing quality control measures in our pharmaceutical distribution operations. They conduct quality inspection at incoming inventories and sampling checks on existing inventories in our warehouses and report findings in relation to poor quality, damaged, mismatch or unclear items. Those products that fail to pass our quality inspection will be either returned to our suppliers or discarded. Our warehouses also have different temperature-controlled areas to maintain suitable storage conditions for the quality and safety of pharmaceutical products. To ensure the quality of temperature-sensitive products, our warehouse staff check and record the temperature twice daily in the temperature-controlled areas to ensure that those products are constantly kept in a temperature-controlled environment. Our warehouse staff conduct physical inspection monthly and produce inspection and product quality reports. Any quality problems found are reported to the quality control department and appropriate actions are taken. We also conduct quality inspection for our products before they are despatched out of our warehouses to ensure that the products delivered to our customers are in good quality.

Pharmaceutical Retail

In our pharmaceutical retail business, our quality control procedures adopted at the procurement and warehousing stage of the operating process are identical to those in our pharmaceutical wholesale and distribution business as described above. Products are checked for quality by our warehouse staff before they are delivered to our retail pharmacies. We also have quality control procedures adopted at the retail pharmacies level such as conducting spot quality inspections of each batch of products received and physical inspection on products displayed on our retail pharmacy shelves. Each of our retail pharmacies has at least one in-store qualified registered pharmacist who is responsible for the sales of prescription drugs. We place strong emphasis on the quality of the services rendered by our employees at all levels, including in-store pharmacists and store staff who directly interact with our customers. We regularly dispatch quality control inspectors to our pharmacies to monitor the service quality of our staff. We also take into account the feedback received during these inspections when determining employee promotions or bonuses. During the Track Record Period, we had not experienced any claim, litigation or arbitration or material adverse findings in investigations or audits by government authorities with respect to product liability, personal injury, wrongful death or negligent advice by our in-store pharmacists of our pharmaceutical retail operations.

OCCUPATIONAL HEALTH AND SAFETY

The PRC government imposes a number of regulatory requirements on companies with regard to employee safety. We regard occupational health and safety as one of our important social responsibilities and have implemented safety measures at our logistics centres and retail pharmacies to ensure compliance with applicable regulatory requirements. We believe that safe practices are the only means to ensure employee safety.

We conduct periodic inspections of our warehouses and retail pharmacies to ensure that our operations comply with existing laws and regulations. We also conduct regular training sessions for employees on accident prevention and management. We have installed emergency spray equipment and fire extinguishers to minimize the risk of injury at our warehouses and retail pharmacies. We have installed a surveillance system in our warehouses and retail pharmacies to regularly monitor our employees' activities.

We have also adopted a safety working environment and accident prevention implementation policy, which provides comprehensive guidelines on occupational health and safety. Among other things, the policy identifies the personnel and department responsible for accident prevention and details of each employee's responsibility to prevent accidents and promote safety awareness.

INSURANCE

We maintain property insurance policies covering our inventories, equipment, delivery trucks, decorations and facilities in accordance with customary industry practice. We do not maintain business interruption insurance as we believe it is not the normal industry practice in the PRC to maintain such insurance. We carry occupational injury, medical, pension, maternity and unemployment insurance for our employees, in compliance with applicable regulations. We consider our current insurance coverage to be adequate. However, we will continue to review and assess our insurance portfolio and make necessary and appropriate adjustments to our insurance practices to align with our needs and with industry practice in the PRC.

PROPERTIES

We occupy certain landed properties in the PRC in connection with our business operations. These properties are used for non-property activities as defined under Rule 5.01(2) of the Listing Rules and they principally include the premises of our logistics centers, retail pharmacies and offices in Fujian Province. As at the Latest Practicable Date, we occupied a total of 108 properties with a total GFA of approximately 39,991 sq. m., each ranging from a GFA of approximately 40 sq. m. to 9,957 sq. m. and we leased out one of our owned properties with a GFA of approximately 747 sq. m..

According to section 6(2) of the Companies Ordinance (Exemptions of Companies and Prospectuses from Compliance with Provisions) Notice, this listing document is exempted from compliance with the requirements of section 342(1)(b) of the Companies Ordinance in relation to paragraph 34(2) of the Third Schedule to the Companies Ordinance, which require a valuation with respect to all our Group's interests in land or buildings, for the reason that as at 31 March 2013, each of our properties has a carrying amount below 15% of our consolidated total assets.

Owned Properties

As at the Latest Practicable Date, we owned a total of five properties with an aggregate GFA of approximately 1,369 sq.m. where four of the five properties with a total GFA of approximately 622 sq.m. were occupied by us.

We have obtained the building ownership certificates for all of these owned properties. Accordingly, our PRC Legal Advisers have advised us that we have legal and valid ownership interests in all of these properties.

Leased Properties

As at the Latest Practicable Date, we leased a total of 104 properties with an aggregate lettable GFA of approximately 39,368 sq. m., representing approximately 98.4% of the aggregate GFA of those properties occupied by us. Among these properties, four of them are used as our logistics centres for both the pharmaceutical wholesale and distribution business and pharmaceutical retail business during the Track Record Period. Such properties are located in Fujian Province in the PRC and their details are set out below:

No.	Location of property	GFA *(sq. m.)*	Lessee	Date of expiry of lease	Usage
1.	1/F, 2/F & 3/F, warehouse, 8 Huihao Road, Shangjie Zhen, Minghou Xian, Fuzhou, Fujian Province, the PRC	9,957	Fuzhou Huihao	31 March 2015	warehouse
	4/F, warehouse, 8 Huihao Road, Shangjie Zhen, Minghou Xian, Fuzhou, Fujian Province, the PRC	3,319	Huihao Sihai	31 March 2015	warehouse
2.	3 – 4/F, Block 3 and 2 – 4/F Block 4, No.7 Xin Lung Road, Sanyuan District, Sanming, Fujian Province, the PRC	4,500	Fujian Huiming	31 December 2014	warehouse
3.	2 – 3/F, Block 1 and 1/F & 3/F, Block 4, No. 50 Liuyi Xi Road, Han Jiang District, Putian, Fujian Province, the PRC	approx. 2,139	Putian Huihao	31 July 2015	warehouse
4.	4 floors of factory 1#, Xunmei industrial gathering area No. C-3, Feng Ze District, Quanzhou, Fujian Province, the PRC	approx. 2,736	Quanzhou Huihao	24 March 2016	office and warehouse

The expiry dates of our leased properties for use as logistics centres range from December 2014 to March 2016. During the Track Record Period, we had not experienced any difficulty in renewing our leases.

As at the Latest Practicable Date, our interests in 5 leased properties with an aggregate GFA of approximately 423.62 sq. m., which accounted for approximately 1.08% of the aggregate GFA of our leased properties, were leased from lessors who had not provided us with relevant documents showing building ownership titles in respect of these properties. In the event any of these lessors do not or fail to duly obtain property title, it may preclude us from enforcing our rights under the relevant lease agreement. We operate a retail pharmacy on each of these 5 properties.

For each of the two financial years ended 31 March 2012 and 2013, the total revenue generated from our pharmaceutical retail business on these 5 properties with defects was approximately HK$3.5 million and HK$3.4 million respectively, which accounted for only approximately 0.2% and 0.2% respectively of our total revenue.

As at the Latest Practicable Date, we had not been subject to any material claim arising from or in connection with the aforesaid defects in our leased properties.

Our Directors are of the view that these defects in our leased properties would not have any material adverse impact on our business and operations because (i) we could find suitable properties to relocate the relevant pharmacies in nearby location if necessary; (ii) we do not anticipate any material difficulties in relocating the relevant pharmacies; (iii) based on the current available information, the estimated total costs and expenses for relocating our businesses located on properties with defective titles or properties without formal lease agreements are not expected to exceed RMB675,000; and (iv) these shops represent small portion of our pharmacy operation in terms of both percentage of sales and shop area.

Our Group has not registered with the relevant authorities in the PRC in respect of 91 lease agreements entered between Putian Huihao, Fujian Huiming, Quanzhou Huihao and Huihao Sihai and the relevant lessors in respect of leased properties which our Group uses as office buildings, logistics centres and retail pharmacies. According to the Administrative Measures for Commodity House Leasing# (《商品房屋租賃管理辦法》) or the "Administrative Measures" announced by the Ministry of Housing and Urban-Rural Development of the PRC (中華人民共和國住房和城鄉建設部) on 1 December 2010 and effective from 1 February 2011, all lessees are required to register lease agreements with the relevant authorities in the PRC within 30 days after entering into the lease agreements. However, not all lease agreements have been registered with the relevant authorities in the PRC in practice due to the following reasons: (i) the Administrative Measures have not clearly stated the management department of lease agreement registration and has no specific implementation rules resulting in no specific government department is responsible for implementing the relevant management duties; (ii) most lease agreements are relatively short in tenure and lease agreement registration may require a long time period to be done resulting in many lessees not willing to register the lease agreements; (iii) lease agreement registration requires the co-operation of the lessors and some lessors are not willing to apply for registration of the leases, which is the principal reason of our Group not being able to register all our lease agreements with the relevant authorities in the PRC; (iv) the Administrative Measures are only applicable to commodity houses on state-owned land in urban planning area; and (v) the legality of the Administrative Measures are only administrative rules and non-registration of lease agreements will not affect the validity and enforceability of the lease agreements.

As advised by our PRC Legal Advisers, the validity of the lease agreements should not be affected by the non-registration thereof and that we remain legally entitled to occupy and use these properties. Therefore, our Directors are of the view that our business operations will not be adversely affected by the non-registration of the lease agreements and there are no risks of relocation of lease properties due to the non-registration of lease agreements. Moreover, both the lessor and lessee may be subject to penalties for not registering the lease agreements with the relevant authorities in the PRC within the stipulated time. The relevant authorities in the PRC may impose an order to the relevant parties to the lease agreements, including the lessors and the lessees, to rectify the non-registration. For individuals who fail to effect the rectification, a fine of not exceeding RMB1,000 may be imposed, for business units who fail to effect the rectification, a fine of exceeding RMB1,000 but not exceeding RMB10,000 may be imposed. Therefore, our Group's maximum exposure of penalty is RMB910,000 if we fail to rectify the non-registration of lease agreements. During the Track Record Period, our Group had not made provision for the non-registration of leases as we did not receive any order from the relevant authorities in the PRC to rectify the non-registration. During the Track Record Period and up to the Latest Practicable Date, we had not been subject to any fines or administrative penalties for non-registration of lease agreements.

EMPLOYEES

As at 31 March 2011, 2012 and 2013, we had 893, 1,043 and 1,010 full-time employees, respectively. The table below sets forth a breakdown of our employees by function as at 31 March 2013:

	Number of employees	% of total employees
Operations, warehousing and quality control	174	17.2
Sales and marketing	687	68.0
Management and administrative	38	3.8
Accounting and finance	75	7.4
Information system and technical support	9	0.9
Others[(1)]	27	2.7
Total	1,010	100.0

(1) Others include human resources staff, office support staff, legal and compliance staff, office security staff and drivers.

The remuneration package for our employees generally includes salary and allowance. Employees also receive other social insurance benefits as required by relevant PRC laws and regulations. Pursuant to applicable PRC regulations, we participate in various employee benefit plans that are organized by municipal and provincial governments, including housing funds, pension, medical, maternity and unemployment benefit plans. Furthermore, we are required under PRC law to make contributions to the employee benefit plans at specified percentages of the salaries and certain allowances of our employees, up to a maximum amount specified by the respective local government authorities where we operate our businesses from time to time.

The total amount of our employee benefit expenses for each of the three years ended 31 March 2013 were approximately HK$31.0 million, HK$45.1 million and HK$53.3 million, respectively.

As at the Latest Practicable Date, all members of our work force are employed under employment contracts which specify the employee's position, responsibilities, remuneration and grounds for termination. All employees who are unable to work due to illness or disability are entitled to receive certain benefits during their period of absence from the workplace. In addition, the PRC government requires us to provide work-related injury insurance for each of our employees. We have established labour unions that protect employees' rights, help fulfill our economic objectives, encourage employee participation in management decisions and assist in mediating disputes between us and union members. We believe that we have positive relations with our employees.

We provide regular training for employees. The training is designed to help our employees meet their job requirements, strengthen their commitment to quality and improve staff knowledge in a number of important areas relating to our products and services. For example, we provide training programs and courses covering various aspects of our business operations, such as medical knowledge, product registration processes, intellectual property protection, GSP requirements, quality control standards, safety, logistics operations management, sales and marketing techniques and customer services skills. We also provide training to our management team in areas including corporate culture, business process and planning, development of leadership and effective communication and management skills. We believe that these programs can enhance the efficiency and abilities of our employees and the overall performance of our Group.

PERMITS, LICENSES AND APPROVALS

As at the Latest Practicable Date, we had obtained all requisite permits, licenses and approvals for our business operations. Please refer to the section headed "Regulatory Framework" in this listing document for further information on permits, licenses and approvals applicable to our operations.

LEGAL PROCEEDINGS

As at the Latest Practicable Date, save for the following outstanding litigation, none of the members of our Group was involved in any legal or arbitration proceedings of material importance and no litigation or claim of material importance is known to our Directors to be pending or threatened by or against any member of our Group.

In September 2011, Fuzhou Huihao as plaintiff initiated legal proceedings against Jieyang City Daxuan Pharmaceutical Company Limited# (揭陽市達軒藥業有限公司) (formerly known as Jieyang City Shenda Pharmaceutical Company Limited# (揭陽市盛達藥業有限公司)) (the "**Supplier**") at the People's County of Minhou County# (閩候縣人民法院) for damages suffered by Fuzhou Huihao from the sale and purchase of 3,600 boxes of clopidogrel sulfate tablets (the "**Tablets**"). Our Group has started business relationship with the Supplier, which is a pharmaceutical distributor, since 2010. Before we decided to purchase the Tablets from the Supplier, we have compared the price quotations of the same type of products from another supplier and found that the purchase price of the Tablets is similar to the price of non-counterfeit tablets quoted by the other supplier. We chose to purchase the Tablets from the Supplier since their price was more competitive. However, after occurrence of incident of the Tablets, we had terminated our business relationship with the Supplier. Background information of the legal proceedings are set out below.

On 12 March 2010, a sale and purchase agreement (the "**Sale and Purchase Agreement**") was entered into between Fuzhou Huihao as purchaser and the Supplier as supplier for the sale and purchase of 3,600 boxes of the Tablets. The Supplier delivered 3,600 boxes of the Tablets to Fuzhou Huihao on 19 March 2010. Fuzhou Huihao onward sold 1,800 boxes of the Tablets to Wuhan Xinlong Pharmaceutical Group Company Limited# (武漢新龍藥業集團有限公司) (the "**Reseller**") on 22 March 2010. The payment for the Tablets was fully settled by Fuzhou Huihao to the Supplier in April 2010.

On 28 January 2011, Wuhan Food and Drug Administration# (武漢市食品藥品監督管理局) issued an administrative adjudication against the Reseller, and upheld that the Tablets together with other clopidogrel sulfate tablets procured by the Reseller from 3 other suppliers were counterfeit (the "**Counterfeits**"). The unsold 507 boxes of the Counterfeits as well as the proceeds in the amount of RMB21,340 arising from the sale of the Counterfeits were confiscated, and a penalty of RMB484,518 was charged against the Reseller.

On 17 May 2011, Minhou County Food and Drug Administration# (閩侯縣食品藥品監督局) issued an administrative adjudication against Fuzhou Huihao, upheld that (i) the procurement procedure of Fuzhou Huihao was legal and fully documented, (ii) the Tablets procured by Fuzhou Huihao from the Supplier on 12 March 2010 were counterfeit; and (iii) Fuzhou Huihao had no knowledge as to the fact that the Tablets were counterfeit. Nonetheless, Minhou Country Food and Drug Administration# (閩侯縣食品藥品監督局) ruled that the sale proceeds generated therefrom in the amount of RMB424,498.50 should be confiscated. Fuzhou Huihao was liable to pay the aforesaid amount by 4 instalments over a period of 3 years. During the year ended 31 March 2011, our Group had made a provision for the full amount of the penalty. Since full amount of the penalty had been provided, our Directors consider that the provision is adequate. As at the Latest Practicable Date, Fuzhou Huihao had paid RMB250,000.

In June 2011, the Reseller initiated legal proceedings against Fuzhou Huihao at the Wuhan City People's Court of Hanyang District# (武漢市漢陽區人民法院), the PRC for the supply of the Tablets. On 1 December 2011, the People's Court adjudged that Fuzhou Huihao should pay the damages in the amount of RMB323,885 to the Reseller. Such payment had been fully settled as at the Latest Practicable Date.

In September 2011, Fuzhou Huihao as plaintiff initiated legal proceedings against the Supplier at the People's Court of Minhou County# (閩侯縣人民法院) for damages suffered by Fuzhou Huihao from the sale and purchase of the Tablets. The monetary claim amount was RMB774,498.50. Our PRC Legal Advisers are of the opinion that, the Supplier, who supplied the Tablets to Fuzhou Huihao, apparently has contravened the state laws relating to the monitoring of quality of drug and is in breach of the terms of the Sale and Purchase Agreement by selling Tablets to Fuzhou Huihao and Fuzhou Huihao has reasonable ground to claim against the Supplier.

On 31 August 2012, the People's Court of Minhou County# (閩侯縣人民法院) issued a civil judgment (the "**Judgment**") and adjudged that (i) the Supplier has to indemnify Fuzhou Huihao an economic loss in the amount of RMB774,498.5 within 15 days upon the effective date of the Judgment; and (ii) the Supplier has to bear the litigation fee of RMB11,544 and publication fee of RMB400 which were paid by Fuzhou Huihao in advance.

On 29 September 2012, the People's Court of Minhou County# (閩侯縣人民法院) published an announcement in the People's Court Daily (人民法院報) that the Supplier has to collect the Judgment within 60 days after the date of publication of the announcement, i.e. 27 November 2012 and is deemed to have received the Judgment if not collected within the deadline. The Supplier has the right to appeal to Fujian Province Fuzhou City Intermediate People's Court# (福建省福州市中級人民法院) within 15 days after the end of publication of the announcement which is around mid-December 2012. If the Supplier does not appeal within the deadline, the Judgment will have legal effect. As the Supplier did not appeal against the Judgment within the stipulated deadline, the People's Court of Minhou County# (閩侯縣人民法院) issued a certificate to Fuzhou Huihao on

17 December 2012 confirming that the Judgment has legal effect commencing from 14 December 2012. Fuzhou Huihao has applied to the People's Court of Minhou County# (閩侯縣人民法院) for enforcing the Judgment and the People's Court of Minhou County# (閩侯縣人民法院) accepted to enforce the Judgment on 5 January 2013. After the People's Court of Minhou County# (閩侯縣人民法院) received the monetary amount of the indemnity of RMB774,498.5 from the Supplier, it will notify Fuzhou Huihao for payment collection. As at the Latest Practicable Date, Fuzhou Huihao had not received any amount of such indemnity.

According to the GSP requirements, the quality inspection of pharmaceutical products is only limited to inspecting the physical appearance, the inner and outer packaging and marking of the products. Our Group's quality control measures and system in compliance with the GSP requirements are implemented through managing each stage of our operating processes. We require all our pharmaceutical manufacturers and suppliers to provide us with valid pharmaceutical manufacturing or operation licenses such as GMP or GSP certificates and documents in relation to approval of registration of product type or trademarks from relevant authorities before we make purchases from them. We also request our pharmaceutical manufacturers and suppliers to provide us with their individual reports of passing inspection checks conducted by them before their pharmaceutical products are despatched to us. When the pharmaceutical products arrive at our warehouses, our quality inspection staff would check the exterior of all incoming pharmaceutical products such as their physical appearance, packaging and marking in accordance with the GSP requirements as well as supplier invoices and related documents to ensure that the correct item, description and quantity of pharmaceutical products are received before the pharmaceutical products are stored. Pharmaceutical products are stored under temperature-controlled environment to preserve their quality and our staff would periodically check the expiry dates of the pharmaceutical products. Our warehouse staff would also inspect the exterior of all outgoing pharmaceutical products such as physical appearance, packaging and marking of products as well as sales invoices and related documents to ensure the correct item, description, quantity of pharmaceutical products are despatched from our warehouses to our customers. In respect of the quality inspection of the substance or inner quality of the pharmaceutical products or whether the pharmaceutical products are counterfeit, only qualified specialised inspection institutions stipulated by the CFDA can conduct the inspection. The food and drug administration department will periodically take samples of pharmaceutical products from pharmaceutical companies to check for the inner quality of the products. To the best of our Directors' knowledge, information and belief, the food and drug administration department will not issue any certificates to pharmaceutical companies who pass the quality check but will request those who fail the quality check to conduct further inspection. As a pharmaceutical distributor company, we are not required by the GSP to inspect the inner quality of products or checking whether the products are counterfeit and we do not possess the qualifications or equipment for checking the inner quality of products. Although we do not check the interior of products nor whether the products are counterfeit, we would liaise with the food and drug administration department to check if some pharmaceutical products are found to be

counterfeit or fail the interior check conducted by the food and drug administration department and if so discovered, would cease purchasing these products from the pharmaceutical manufacturers and suppliers. Furthermore, the Minhou County Food and Drug Administration# (閩侯縣食品藥品監督局) upheld in May 2011 that the procurement procedure of Fuzhou Huihao was legal and fully documented and Fuzhou Huihao had no knowledge as to the fact that the Tablets were counterfeit. Apart from this incident, our Directors confirm that our Group did not have any other incidents of selling counterfeit pharmaceutical products during the Track Record Period. According to the Law of the PRC on Product Quality# (《中華人民共和國產品質量法》), customers suffering human damage or third party financial losses as a result of product defects can claim compensation from pharmaceutical manufacturers or distributors who sell the product. Our purchase agreements with suppliers state that in case where the products purchased from our suppliers are found to have quality or other defects which have caused damage to human beings or punishment by relevant regulatory departments, our suppliers shall bear all responsibilities. If the above circumstances lead to damages by us, we have the right to claim our suppliers (pharmaceutical manufacturers or first-tier distributors) for such damages. After the incident involving the Tablets, our Group has stepped up its quality control system by appointing Mr. Chen Kaiping (陳開平) ("**Mr. K. Chen**") as the Group Commissioner for drug quality control in August 2011, who is responsible for overseeing the quality of our Group's purchases and sales of pharmaceutical products. Mr. K. Chen is currently the assistant to General Manager of Fuzhou Huihao and has many years of experiences in quality control of pharmaceutical products. For further details of Mr. K. Chen, please refer to the section headed "Directors, Senior Management and Staff" in this listing document. Based on the legal opinion by our PRC Legal Advisers, our Group has complied with all applicable laws and regulations in material aspects and obtained all material permits/licenses in jurisdiction where it operates during the Track Record Period and up to the Latest Practicable Date. Based on the above, our Directors consider that the purchase of the Tablets does not violate the GSP requirements and this incident does not imply a deficiency of our internal control systems.

REGULATORY COMPLIANCE

During the Track Record Period and up to the Latest Practicable Date, there were the following incidents of non-compliance with the laws and regulations of the PRC relevant to the operation of our Group:

- Our Group has not been provided with relevant documents showing building ownership titles from lessors in respect of 5 leased properties which our Group operates as retail pharmacies. Please refer to the paragraph headed "Properties – Leased Properties" in this section for further details. Therefore, our PRC Legal Advisers, cannot form opinion on the legal validity of the lease agreements in respect of the 5 leased properties.

- Our Group has not registered with the relevant authorities in the PRC in respect of 91 lease agreements entered between Putian Huihao, Fujian Huiming, Quanzhou Huihao and Huihao Sihai and the relevant lessors in respect of the leased properties which our Group uses as office buildings, logistics centres and retail pharmacies. Please refer to the paragraph headed "Properties – Leased Properties" in this section for further details.

Although the number of properties involved in the above non-compliance incidents are significant, our Directors are of the view that the non-compliance incidents would not have any material adverse effect on our Group's business operations due to the following reasons:

- in relation to the 5 leased properties which we have not been provided with relevant building ownership titles from the lessors, (i) we could find suitable properties to relocate relevant pharmacies in nearby location to capture the original market if necessary; (ii) we do not anticipate any material difficulties in relocating the relevant pharmacies; (iii) based on the current available information, the estimated total costs and expenses for relocating our businesses located on properties with defective titles or properties without formal lease agreements are expected not to exceed RMB675,000; and (iv) these shops represent small portion of our pharmacy operation in terms of both percentage of sales and shop area; and

- in relation to the 91 lease agreements which have not been registered with the relevant authorities in the PRC, as advised by our PRC Legal Advisers, although the validity of the lease agreements should not be affected by the non-registration thereof and that we remain legally entitled to occupy and use these properties, both the lessor and lessee may be subject to penalties for not registering the lease agreements with the relevant authorities in the PRC within the stipulated time. The relevant authorities in the PRC may impose an order to the relevant parties to the lease agreements, including the lessors and the lessees, to rectify the non-registration. For individuals who fail to effect the rectification, a fine of not exceeding RMB1,000 may be imposed, for business units who fail to effect the rectification, a fine of not less than RMB1,000 but not exceeding RMB10,000 may be imposed. Therefore, our Group's maximum exposure of penalty is RMB910,000 if we fail to rectify the non-registration. During the Track Record Period, our Group had not made any provision for the non-registration of leases as we did not receive any order from the relevant authorities in the PRC to rectify the non-registration.

To prevent the occurrence of any non-compliance of laws, rules and regulations in future, our Group has taken and will take the following steps and measures to further enhance our Group's corporate governance practices and internal control procedures:

(a) in July 2012, the Directors attended training sessions conducted by our legal advisers as to Hong Kong laws on the on-going obligations and duties of Directors under the Listing Rules and the Takeovers Code;

(b) in July 2012, our Directors received and reviewed a detailed memorandum prepared by our legal advisers as to Hong Kong laws, setting out the ongoing regulatory requirements and obligations of the Directors after the Listing;

(c) in May 2012, Timely Hero has engaged BMS Risk Advisory Services Limited ("**BMS Risk Advisory**") to review the internal control systems and procedures of Timely Hero and its subsidiaries during the period from May to June 2012. A summary of the major findings and recommendations of BMS Risk Advisory:

  (i) Our Group did not set up any internal audit department to perform on-going monitoring of its operating activities. BMS Risk Advisory recommended that our Company should establish an internal audit department or engage an independent professional party to perform the on-going monitoring of its internal control system and ensure proper compliance of the established controls and a regular assessment and review procedure should be implemented on each operation cycles at least annually ensure that the risk area in operation can be found and perform remedial action;

  (ii) There was no proper documentation during the meetings held between our Directors, management and head of department for discussing issue arising from financial reporting risk and fraud risk. BMS Risk Advisory recommended that our Group should keep the proper document during the meeting;

  (iii) Our Group did not prepare forecast for budget process. BMS Risk Advisory recommended that our Group should formalise and document the business planning and cash budgeting process by each quarter;

  (iv) There was no periodic review performed for the customer master file to ensure its validity and accuracy and changes in customer master file are not periodically reviewed. BMS Risk Advisory recommended that proper documentation and review to be performed for customer master files;

(v) No guidelines and descriptions about the conditions for addition or removal of any supplier in the supplier master file and no periodic update the information contained in the supplier master file. BMS Risk Advisory recommended that supplier master files should be properly maintained; and

(vi) There was no record of location, depreciation rate, characteristic of the fixed assets in the fixed asset register so increase the difficulty to perform physical fixed assets count. BMS Risk Advisory recommended that our Group should document properly the characteristic, location of fixed assets for ease of tracing the location of fixed assets.

Our Group has reviewed the findings and recommendations of BMS Risk Advisory and has commenced to take remedial steps to improve our internal control systems and procedures since 1 October 2012. BMS Risk Advisory has commenced conducting follow up review with our Group since 1 October 2012 and found that our Group has rectified all of the internal control deficiencies and recommendations provided by BMS Risk Advisory listed above, and the results of the follow up review conducted by BMS Risk Advisory are summarised as follows:

- In relation to point (i) above, up to 30 September 2013, being the date of the report on internal control review conducted by BMS Risk Advisory (the "**BMS Report Date**"),

  – our Company will outsource the internal audit by engaging BMS Risk Advisory to carry out annual internal control review instead of establishing its own internal audit department; and

  – BMS Risk Advisory noted that our Company had established an audit committee with written term of reference in compliance with the Code on Corporate Governance Practices as at out in Appendix 14 to the Listing Rules;

- In relation to point (ii) above, up to the BMS Report Date, our Group had set up a comprehensive risk management policies and procedures to facilitate communication and provided guidance to reduce the financial reporting risk. BMS Risk Advisory noted that the documents of meetings were filed by our Group properly;

- In relation to point (iii) above, up to the BMS Report Date, profit forecast has been prepared and budget meeting has been held each month by head of department, senior management and our Directors. According to the meeting record, the significant variation had been raised out and discussed by the senior management;

- In relation to point (iv) above, up to the BMS Report Date, our Group had established procedures for additional and modification of customer master file. Our Group also reviews the customer master files periodically, in which all not updated information had been updated or removed;

- In relation to point (v) above, up to the BMS Report Date, BMS Risk Advisory noted that our Group had established procedure for additional and modification of suppliers master file. Our Group also reviews the suppliers master files periodically, all not updated information had been updated or removed; and

- In relation to point (vi) above, up to the BMS Report Date, BMS Risk Advisory noted that the location, depreciation rate and characteristic of the fixed assets had been recorded in the fixed asset register properly.

As at the Latest Practicable Date, our Directors confirmed that our Group has rectified all internal control deficiencies and recommendations provided by BMS Risk Advisory.

(d) in November 2012, our Company appointed Ms. Liu Haiyan（劉海燕）("**Ms. Liu**") to be the designated officer responsible for overseeing our Company's compliance with relevant laws and regulations in the PRC and to liaise with our PRC Legal Advisers regarding laws and regulation matters. Ms. Liu obtained the legal profession qualification（法律職業資格）granted by the Ministry of Justice of the PRC in September 2002. She has been a PRC qualified lawyer since 2004 and has approximately 10 years of experience in regulatory compliance and management;

(e) in September 2013, our Company has appointed Messis Capital as our compliance adviser to ensure all future compliance of our Company with relevant rules and regulations and disclosure obligations (including any undertaking given by our Directors). Hua Xia has already appointed a legal adviser prior to listing of the Shares on the Stock Exchange to ensure all future compliance with relevant rules and regulations and disclosure obligations (including any undertaking given by directors of Hua Xia);

(f) in September 2012, our Company appointed Ms. Tsang Pui Yee as the company secretary, who is responsible for ensuring our Group's compliance with the Listing Rules and other statutory requirements, and implementing corporate governance and practices. For further details of Ms. Tsang's qualification, please refer to the paragraph headed "Company Secretary" in the section headed "Directors, senior management and staff" in this listing document; and

(g) our Company has established an audit committee, which consists of 3 members who are the independent non-executive Directors, namely Mr. Wong Hon Kit, Mr. Liang Yichi and Mr. Zhu Donghai, in compliance with Rule 3.21 of the Listing Rules and the Corporate Governance Code and Corporate Governance Report as set out in Appendix 14 to the Listing Rules. The primary duties of the audit committee include, but are not limited to: (i) reviewing and monitoring the external auditors' independence and objectivity and the effectiveness of the audit process in accordance with applicable standard; (ii) monitoring integrity of financial statements of our Company and our Company's annual report and accounts, half-year report and, if prepared for publication, quarterly reports; (iii) reviewing our Company's financial controls, internal control and risk management systems; and (iv) reporting to the Board on the matters set out in the code provisions as stated in Appendix 14 to the Listing Rules.

Our Directors consider that the above steps and measures will effectively help strengthen our Group's abilities to undertake and monitor various internal control and corporate governance practices and to prevent future occurrence of those non-compliance incidents as mentioned above. Our Directors are of the view that implementation of these measures will not only enable our Company to more effectively identify and handle various compliance matters but also monitor compliance of our Group with applicable laws, rules and regulations in a timely manner.

Our Group has provided and will continue to provide anti-corruption compliance training periodically to our senior management and employees to enhance their knowledge and compliance with applicable laws and regulations. Our Directors confirm that our Group (including its directors, employees and affiliates) has not involved in any corruption practice which is identified by our Group and/or relevant authorities, such as receipt of kickbacks and bribes or other illegal gains or benefits by hospitals or pharmacies during the Track Record Period. Our Directors confirm that our Group was not involved in any monetary and non-monetary bribery activities during the Track Record Period and up to the Latest Practicable Date.

Taken into account (i) the view of our PRC Legal Advisers that validity of the lease agreements should not be affected by the non-registration with the relevant authorities in the PRC; and (ii) the total revenue for the two years ended 31 March 2012 and 2013 generated from our pharmaceutical retail business on the 5 leased properties with defects mentioned under the section headed "Properties – Leased Properties" above accounted for only approximately 0.2% and 0.2% respectively of our total revenue, the Sponsor is of the view that the steps and measures mentioned above will effectively help strengthen our Group's abilities to undertake and monitor various internal control and corporate governance practices and to prevent future occurrence of those non-compliance incidents as mentioned above.

THE HUA XIA DISTRIBUTION

The board of directors of Hua Xia proposed and the Hua Xia Shareholders have subsequently approved at the extraordinary general meeting of Hua Xia held on 4 September 2013 a conditional special dividend to the Qualifying Hua Xia Shareholders, being registered holders of Hua Xia Shares whose names appear on the register of members of Hua Xia on the Record Date. The Hua Xia Distribution will be satisfied wholly by way of a distribution in specie to the Qualifying Hua Xia Shareholders of an aggregate of 236,487,652 Shares, representing approximately 36.47% of our issued share capital, in proportion to their respective shareholdings in Hua Xia on the Record Date. Pursuant to the Hua Xia Distribution, the Qualifying Hua Xia Shareholders will be entitled to one Share for every five Hua Xia Shares held on the Record Date, and in such case and for the avoidance of doubt, registered holders of less than five Hua Xia Shares on the Record Date will not be entitled to any Shares. All entitlements will be rounded down to a whole number of Shares, and fractional entitlements will be disregarded.

The Hua Xia Distribution is conditional on, among other things, the Listing Committee granting listing of, and permission to deal in, the Shares (including the Shares to be issued upon the exercise of the share options which may be granted under the Share Option Scheme) in issue on the Main Board on or prior to the Long Stop Date. If such condition is not satisfied, the Hua Xia Distribution will not be made and the Spin-off will not take place and an announcement will be made to inform the Hua Xia Shareholders of the same.

Share certificates are expected to be despatched to Qualifying Hua Xia Shareholders on Thursday, 10 October 2013 by post at their own risks. Share certificates will only become valid if the Hua Xia Distribution becomes unconditional.

If there exists any Overseas Hua Xia Shareholder(s) on the Record Date, Hua Xia will make enquiries regarding the feasibility of extending the Hua Xia Distribution to the Overseas Hua Xia Shareholder(s). If based on legal opinions provided by Hua Xia's legal advisers, the directors of Hua Xia consider that it is necessary or expedient not to extend the Hua Xia Distribution to particular Overseas Hua Xia Shareholder(s) on account either of the legal restrictions under the laws of the place(s) of its/his/her/their registered addresses or the requirements of the relevant regulatory bodies or stock exchanges in those places outside Hong Kong, the assured entitlement to Shares will not be available to such Overseas Hua Xia Shareholder(s). Instead, the Overseas Hua Xia Shareholder(s) will receive a cash amount representing the net proceeds of the sale by Hua Xia on their behalf of the Shares to which it/he/she/they would otherwise be entitled pursuant to the Hua Xia Distribution after dealings in the Shares commence on the Stock Exchange at the prevailing market price. Hua Xia will ensure that the purchaser(s) of such Shares is/are Independent Third Party(ies). The proceeds of such sale, net of expenses, of more than HK$100 will be paid to the relevant Overseas Hua Xia Shareholder(s) in Hong Kong dollars. Hua Xia will retain individual amounts of HK$100 or less for its own benefit. According to the register of members of Hua Xia as at the Latest Practicable Date, there were 20 Overseas Hua Xia Shareholders with their addresses in the PRC, and such Overseas Hua Xia Shareholders will also be entitled to the Hua Xia Distribution.

REASONS FOR AND BENEFITS OF THE SPIN-OFF

The separate listing of our Company will be beneficial to our Group and Hua Xia Group for the following reasons:

- the Remaining Business is mainly conducted and confined principally in Chongqing City and Zhejiang Province in the PRC while majority of the Spun-off Business is conducted in Fujian Province in the PRC and the expected synergy effect in the business operation between the two groups in terms of minimisation of logistics costs and revenue growth, etc. are not prominently demonstrated. On the other hand, there is a clear delineation between the Spun-off Business and the Remaining Business in terms of their respective operation, management, client base, as well as geographical market. Further, our Group and Hua Xia Group are believed to have different growth paths and different business strategies and the Spin-off allows separate platforms for the businesses of the two groups;

- the Spin-off could unlock the value of Hua Xia's investment in our Group (the unaudited adjusted net asset value of our Group was approximately HK$1,022.7 million as at 31 March 2013 based on the audited net asset value of our Group of approximately HK$133.2 million as at 31 March 2013 plus current account with Hua Xia of approximately HK$889.4 million and the amount due to a fellow subsidiary of approximately HK$59,000 less amounts due from a fellow subsidiary of approximately HK$5,000 as at 31 March 2013, the amount due is non-trading in nature) while the market capitalisation of Hua Xia was approximately HK$352 million as at the Latest Practicable Date), and the Spin-off can unlock our Group from the GEM listing umbrella of Hua Xia so that investors would be able to appraise and assess the performance and potential of our Group separately and distinct from that of Hua Xia Group;

- the Spin-off will enable future funds raised by Hua Xia to be focused on the development of the Remaining Business;

- the Spin-off will streamline the operation of both Hua Xia Group and our Group and increase the transparency of business performance and the financial status of both Hua Xia Group and our Group, which in turn will strengthen support from business partners, banks and financial institutions and enable investors to better assess the respective performance and potential of Hua Xia Group and our Group;

- the separation of the two distinct businesses will allow each of Hua Xia Group and our Group to attract focused strategic investors who can produce synergy for each of such businesses to invest in or form strategic partnerships with each of such businesses;

- our Group will have greater flexibility to grow and expand its business free of actual or perceived constraints as a non-listed subsidiary, as well as an increased ability to make acquisitions, where appropriate, by using its shares as an acquisition currency; and

- it allows our Group to position itself as an independent listed group with direct access to the debt and equity capital markets to finance its future growth and development without relying on Hua Xia Group's financial support.

Our Directors believe that the Spin-off would better reflect the value of the Spun-off Business for the reasons as stated above, and that the Listing would give a clearer corporate identity to our Group and would enhance the image of our Group for its future growth, while Hua Xia Group can focus on the operation of the Remaining Business with its resources, and therefore our Directors believe that the Spin-off will be beneficial to both Hua Xia Group and our Group and their respective existing and future shareholders.

BACKGROUND

Timely Hero, a wholly-owned subsidiary of Hua Xia prior to the completion of the Hua Xia Distribution, acquired the Spun-off Business from Mr. Yung, the single largest substantial shareholder of Hua Xia and the vendor to the Acquisitions pursuant to the Acquisitions Agreement. Details of the Acquisitions were disclosed in the Acquisitions Circular and completion of the Acquisitions took place on 8 March 2010.

Pursuant to the Acquisitions Agreement, Mr. Yung has irrevocably guaranteed and warranted to Timely Hero (the "**Profit Guarantee**") that the audited consolidated net profit after taxation and extraordinary or exceptional items and minority interests of Nurture Fit Group for the year ended 31 March 2011 (the "**Net Profit**") shall not be less than the guaranteed profit of HK$50,000,000 (the "**Guaranteed Profit**").

In the Acquisitions Circular, Hua Xia stated that the independent non-executive directors of Hua Xia would provide an opinion in the Hua Xia's next annual report after the Net Profit has been determined as to whether the Profit Guarantee is fulfilled. If the Profit Guarantee has not been achieved, Hua Xia would also make announcement to inform the shareholders about the same. The audited consolidated net profit after taxation and extraordinary or exceptional items and minority interest of the Nurture Fit Group for the year ended 31 March 2011 was more than the Guaranteed Profit. As such, Mr. Yung had fulfilled his obligations in relation to the Profit Guarantee. The independent non-executive directors of Hua Xia inadvertently omitted to provide their opinion as to the fulfilment of the Profit Guarantee in the annual report of Hua Xia for the year ended 31 March 2011 as undertaken in the Acquisitions Circular. According to a legal opinion provided by Dr. William M.F. Wong, S.C., barrister-at-law, to Hua Xia, Hua Xia and the directors (including the independent non-executive directors) of Hua Xia are not in breach of their obligations and fiduciary duties by failing to honour the undertaking in relation to the disclosure of the opinion of the independent non-executive directors of Hua Xia on the Profit Guarantee. Hua Xia had taken the remedial action by making a disclosure of the opinion of the independent non-executive directors of Hua Xia on the fulfilment of the Profit Guarantee in the annual report of Hua Xia for the year ended 31 March 2013.

Our Company was incorporated in the Cayman Islands under the Companies Law as an exempted company with limited liability on 9 July 2012. After completion of the Reorganisation but before the Hua Xia Distribution, details of which are described under the section headed "History, Development and Reorganisation – Corporate Development" in this listing document, Timely Hero has become a wholly-owned subsidiary of Luxuriant Expand, which is in turn wholly-owned by our Company. Hua Xia, through Greatly Wealth, holds the entire issued share capital of our Company immediately before the Hua Xia Distribution.

On 16 July 2012, Hua Xia submitted a proposal for the Spin-off to the Stock Exchange pursuant to Practice Note 3 of the GEM Listing Rules. Following completion of the Spin-off, Hua Xia Group is principally engaged in the operation of two hospitals in Chongqing City and Zhejiang Province in the PRC and hospital management services in the PRC, whereas our Group will focus on the provision of pharmaceutical wholesale and distribution and pharmaceutical retail chain business in the PRC. The Spin-off is aiming to allow separate platforms for the two businesses of Hua Xia Group and our Group. Our Directors believe that the Spin-off will bring benefits to both Hua Xia Group and our Group, details of which are described under the paragraph headed "Reasons for and benefits of the Spin-off" in the section headed "The Hua Xia Distribution and the Spin-off" in this listing document.

Hua Xia was incorporated in the Cayman Islands with limited liability, the shares of which have been listed on the GEM since 10 May 2002 (stock code: 8143). Immediately upon completion of the Reorganisation and the Hua Xia Distribution, Hua Xia, through its wholly-owned subsidiary Greatly Wealth, will hold approximately 63.5% interest in our Company and will be a Controlling Shareholder of our Company.

CONTROLLING SHAREHOLDERS

So far as our Directors are aware, immediately following completion of the Spin-off, without taking into account any Shares which may be issued pursuant to the exercises of options which may be granted under the Share Option Scheme, the following entities/persons are entitled to exercise or control the exercise of 30% or more of the voting power at the general meetings of our Company and are able, as a practical matter, to control the composition of a majority of the Board and therefore regarded as our Controlling Shareholders under the Listing Rules:

Name	Nature of Interest	Position	Number of Shares held after the Spin-off	Approximate percentage of shareholding after the Spin-off
Hua Xia *(Note)*	Interest in controlled corporation	Long	411,917,648	63.5%
Greatly Wealth *(Note)*	Beneficial owner	Long	411,917,648	63.5%

Note: Greatly Wealth is a company incorporated in the BVI with limited liability which is wholly and beneficially owned by Hua Xia. By virtue of the SFO, Hua Xia is deemed to be interested in the entire 411,917,648 Shares held by Greatly Wealth.

As at the Latest Practicable Date, the single largest shareholder of Hua Xia is Mr. Yung who is interested in 257,507,375 Hua Xia Shares (representing approximately 23.76% of the entire issued share capital of Hua Xia as at the Latest Practicable Date) through his personal and controlled corporation's interests. By virtue of her being the spouse of Mr. Yung, Mrs. Yung is also deemed to be interested in the 257,507,375 Hua Xia Shares beneficially held by Mr. Yung under the SFO. As at the Latest Practicable Date, Mr. Yung was also beneficially interested in 98,500,000 Hua Xia CP Shares. Pursuant to the terms of the Hua Xia CP Shares, holder(s) of the Hua Xia CP Shares shall have the same entitlement to dividends as the Hua Xia Shareholders into which the Hua Xia CP Shares may be converted upon exercise of the conversion rights attached thereto and therefore, the Hua Xia CP Shares are entitled to the Hua Xia Distribution. Accordingly, a total of 71,201,475 Shares, representing approximately 10.98% of the entire issued share capital of our Company, will be distributed to Mr. Yung and his controlled corporation under the Hua Xia Distribution. Given that Mr. Yung and Mrs. Yung hold less than one-third interests in Hua Xia, they are not deemed to be interested in all the Shares held by Hua Xia. As a result, Mr. Yung and Mrs. Yung shall not be regarded as our Controlling Shareholders.

Save and except for their interest in our Company and its subsidiaries, none of our Controlling Shareholders nor any of their associates had interests in any other companies as at the Latest Practicable Date which held interests in the business of our Company during the Track Record Period and ceased to hold such interests after the Reorganisation.

Our Directors and our Controlling Shareholders confirm that each of them does not have interest in any business which is competing with that of our Group.

UNDERTAKINGS BY OUR CONTROLLING SHAREHOLDERS, MARSHAL, EASEGLORY AND MR. YUNG

Pursuant to Rule 10.07(1) of the Listing Rules, our Controlling Shareholders have jointly undertaken to our Company and the Stock Exchange that they will not at any time during:

(a) the period commencing on the date by reference to which disclosure of the shareholding of their shareholding is made in this listing document and ending on the date which is six months from the Listing Date ("**First Six-Month Period**") dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of the Shares in respect of which they are shown by this listing document to be the beneficial owners; and

(b) the period of six months from the date on which the First Six-Month Period expires, dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of the Shares referred to in (a) above if, immediately following such disposal or upon the exercise or enforcement of such options, rights, interests or encumbrances, either of them or together would cease to be a Controlling Shareholder (as defined in the Listing Rules) of our Company.

Pursuant to Note 3 to Rule 10.07(2) of the Listing Rules our Controlling Shareholders, have also jointly undertaken to our Company and the Stock Exchange that during the First Six-Month Period and the six-month period immediately following the expiry of the First Six-Month Period:

(a) if they pledge or charge any securities or interests in the securities of our Company beneficially owned or controlled by them, they shall forthwith thereafter give written notice to our Company of such pledge or charge together with the number and class of securities so pledged or charged and the purpose for which the pledge or charge is made; and

(b) when they are aware of or receive indications, either verbal or written, from the pledgee or chargee that any of such pledged or charged securities or interests in the securities of our Company will be disposed of, they will immediately thereafter give written notice to our Company of such indications and details of such disposal.

In addition, Marshal, Easeglory and Mr. Yung have given undertakings to our Company and the Stock Exchange in the same terms as those given by our Controlling Shareholders described above.

SUBSTANTIAL SHAREHOLDERS

So far as the Directors are aware, immediately following completion of the Spin-off, but without taking into account of the Shares which may be issued pursuant to the exercise of any options which may be granted under the Share Option Scheme, the following persons/entities have interest or short positions in the Shares or underlying Shares which would fall to be disclosed to our Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or be directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances of any member of our Group and are therefore regarded as substantial Shareholders under the Listing Rules:

(i) Our Company

Name	Nature of Interest	Position	Number of Shares held after the Spin-off	Approximate percentage of shareholding after the Spin-off
Mr. Yung *(Note 1)*	Interest in controlled corporation	Long	24,192,100	3.73%
	Beneficial owner		47,009,375	7.25%
Marshal *(Note 1)*	Interest in controlled corporation	Long	24,192,100	3.73%
Easeglory *(Note 1)*	Beneficial owner	Long	24,192,100	3.73%
Mrs. Yung *(Note 2)*	Interest of spouse	Long	71,201,475	10.98%

Notes:

1. Easeglory is a company incorporated in the BVI with limited liability which is wholly and beneficially owned by Marshal, a company incorporated in the BVI with limited liability and is wholly and beneficially owned by Mr. Yung. By virtue of the SFO, both Marshal and Mr. Yung are deemed to be interested in the entire 24,192,100 Shares held by Easeglory.

2. Mrs. Yung, the spouse of Mr. Yung, is deemed to be interested in the 71,201,475 Shares held by Mr. Yung in person or through his controlled corporations under the SFO.

So far as our Directors are aware and save for the entities/persons disclosed in the paragraph headed "Controlling Shareholders" in this section and above, there is no other entities/persons who will, immediately following completion of the Spin-off, without taking into account of the Shares which may be issued pursuant to the exercise of any options which may be granted under the Share Option Scheme, have interests or short positions in the Shares or underlying Shares which would fall to be disclosed to our Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or be directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of our Group.

(ii) Associated Corporation

Name of associated corporation	Name of registered owner	Capacity	Position	Number of shares in the associated corporation	Approximate percentage of shareholding in the associated corporation
Greatly Wealth	Hua Xia	Beneficial owner	Long	200 shares of US$1 each	100%

INDEPENDENCE FROM HUA XIA GROUP

Our Directors believe that our Group can operate independently of and does not place undue reliance on Hua Xia Group after the Listing, taking into consideration the following factors:

(a) Financial independence

Our Group has an independent financial system and finance team which is responsible for its own finance functions despite members of our Group were subsidiaries of Hua Xia and the financials of such members of our Group were consolidated at the group level during the Track Record Period.

During the Track Record Period, amounts due from Hua Xia Group to our Group amounted to approximately HK$3.1 million, HK$3.4 million and HK$0.4 million as at 31 March 2011, 2012 and 2013 respectively which are trading in nature. All of the inter-group transaction(s) between our Group and Hua Xia Group of a non-trading nature had been settled before the Listing by way of a loan capitalization agreement entered into among Timely Hero, Luxuriant Expand and Hua Xia on 3 September 2013. During the Track Record Period, the amounts due from our Group to its ultimate holding company were approximately HK$895.1 million, HK$881.0 million and HK$889.4 million as at 31 March 2011, 2012 and 2013 respectively.

As at the Latest Practicable Date, our Group had the following outstanding bank loan and financial assistances given by connected persons of our Group, details of which are as follows:–

Lender	Borrower	Nature	Amount utilized *(RMB million)*	Term	Guarantor(s)	Type of guarantee
Industrial and Commercial Bank of China (Taijiang Branch)	Fuzhou Huihao	General banking facilities in the maximum amount of RMB29.8 million *(Note 1)*	10 *(Note 2)*	3 years (from Nov 2010 to Oct 2013)	Fujian Sanming Medical Company Limited (福建三明醫藥股份有限公司#) ("**Sanming Medical**") *(Note 1)*	Cross corporate guarantee
					Mr. Weng *(Note 2)*	Personal guarantee

Notes:

1. The general banking facilities of RMB29.8 million was guaranteed by Sanming Medical, a company established in the PRC and an Independent Third Party.

2. The RMB10 million loan (which is included as part of RMB29.8 million general banking facilities) was personally guaranteed by Mr. Weng, who is a Director and therefore a connected person of our Company as defined under the Listing Rules.

3. As at the Latest Practicable Date, Hua Xia Group did not provide any guarantee (including cross-corporate guarantee) to our Group.

The RMB10 million loan was guaranteed by Mr. Weng as (i) the loan was not secured by any landed properties; (ii) it is a customary practice for the PRC banks to request for personal guarantees to be provided by the legal representative and/or controlling shareholder of the borrower, and/or corporate guarantees to be given by other corporations outside our Group; (iii) it is a widely adopted PRC bank policy that a third party corporate guarantee or security is required in order for the bank to grant loans. Hence, the guarantees between our Group and its connected persons and/or the Independent Third Party(ies) are commercial decisions that facilitate our Group to obtain bank financing without incurring substantial costs. Furthermore, in the prevailing economic climate where financial institutions might be more likely to impose stricter or less favourable terms for banking facilities, the premature release of the personal guarantee provided by Mr. Weng under the loan before the Listing may not be commercially sound or practical. The RMB10 million loan will expire in October 2013 and it is expected that our Group will fully repay the loan and will not renew the loan upon its expiry and therefore the personal guarantee given by Mr. Weng would be released upon repayment of the loan.

Our Group is able to operate financially independently of Hua Xia Group, as well as the Controlling/substantial Shareholders (including any of their associates), after the completion of the Spin-off on the following grounds:

(i) as advised by our Directors, our Group had cash and bank balances of approximately HK$39.3 million as compared to the bank borrowings of approximately HK$51.5 million as at 31 July 2013. Although the outstanding loan amount of our Group as at 31 July 2013 was higher than its available cash and bank balances, our Directors are of the view that our Group will be able to repay the outstanding loans by funds generated from its operating activities and by extending existing bank loans and/or new bank borrowings;

(ii) our Group had a record of fund raising on a stand-alone basis without any credit support from Hua Xia or its controlling/substantial shareholder which demonstrates that our Group has a strong credit profile to enable it to borrow, if necessary, to replace the loan. Our Group had obtained a bank loan of RMB20 million in June 2012 which was guaranteed by two guarantee companies in the PRC, both are Independent Third Parties, providing guarantee service in return for an aggregate guarantee fee of approximately RMB0.4 million and such loan was fully repaid in June 2013. Our Group also has obtained banking facilities in the aggregate amount of RMB118 million which are guaranteed by members of our Group since September 2012. In the past, Huihao Sihai also obtained short-term loans in the aggregate amount of RMB17.5 million on a stand-alone basis without any credit support from Hua Xia or its controlling/substantial shareholder; and

(iii) as at the Latest Practicable Date, our Group had banking facilities amounting in aggregate to approximately RMB147.8 million, of which RMB118 million was guaranteed by members of our Group and RMB29.8 million was guaranteed by Sanming Medical. Out of the RMB118 million banking facilities guaranteed by members of our Group, RMB74.4 million was utilized and RMB43.6 million was unutilized as at the Latest Practicable Date. The RMB43.6 million unutilised unrestricted banking facilities guaranteed by members of our Group is sufficient to cover the RMB10 million loan which will fall due in October 2013 and is personally guaranteed by Mr. Weng.

Based on the above and in particular, (i) the financial system of our Group is independent from Hua Xia Group; (ii) all of the inter-group balances of a non-trading nature between our Group and Hua Xia Group had been settled before the Spin-off by the entering into of the loan capitalisation agreement dated 3 September 2013 and entered into among Timely Hero, Luxuriant Expand and Hua Xia; and (iii) our Group can obtain banking facilities on a stand-alone basis without any credit support from Hua Xia Group or its controlling/substantial shareholders (including any associate), our Directors are of the view that our Group is able to operate financially independently of Hua Xia Group.

(b) Management independence

Hua Xia and we have boards of directors that function independently of each other. The following table shows the details of the directorships of us upon the Listing and that of Hua Xia as at the Latest Practicable Date:

Directors of our Company	**Directors of Hua Xia as at the Latest Practicable Date**
Executive Directors	*Executive directors*
Mr. Weng *(notes 1 and 2)*	Mr. Yung
Mr. Chen Yong *(note 1)*	Dr. Jiang Tao
	Mr. Zheng Gang
	Dr. Huang Jiaqing
	Mr. Chen Jin Shan
	Non-executive director
	Dr. Wong Yu Man, James
Independent non-executive Directors	*Independent non-executive directors*
Mr. Wong Hon Kit	Ms. Wong Ka Wai, Jeanne
Mr. Zhu Donghai	Prof. Hu Shanlian
Mr. Liang Yichi	Prof. Lu Chuanzhen

Notes:

1. Mr. Weng and Mr. Chen Yong have been serving our Group prior to the Track Record Period.

2. Mr. Weng had been an executive director of Hua Xia during the period from 25 April 2006 to 1 August 2007 and from 26 March 2010 to 28 December 2012.

Apart from the above, our Directors submit that the senior management and employees of our Group has been employed by our Group separately from Hua Xia Group so that the senior management of our Group are distinct from the senior management of Hua Xia Group.

In addition, to resolve any potential conflict of interests between Hua Xia Group and our Group, the following procedures have been adopted:

(i) our Company has a team of full-time senior management and employees who operate independently from Hua Xia Group;

(ii) the management structure of our Company includes an audit, remuneration and nomination committee to promote a high level of corporate governance and address any potential conflict of interests; and

(iii) connected transactions and continuing connected transactions, if any, between Hua Xia Group and our Group shall be conducted in compliance with the Listing Rules and/or the GEM Listing Rules (as the case may be).

On the basis of the above, our Directors consider that our Group (i) maintains sufficient level of independence of directorship and management from Hua Xia Group; and (ii) operates independently and in the interests of our Shareholders as a body in general and not in the interests of Hua Xia Group only, in case where the interests of our Group and Hua Xia Group are actually or potentially in conflict.

(c) Operation independence

The core businesses of Hua Xia Group and our Group, by their very nature, are separate and distinct businesses which are independently operated in distinct markets. Our Directors expect that, immediately following completion of the Spin-off, Hua Xia Group is principally engaged in the provision of general hospital services in the PRC, whereas our Group focuses on the provision of pharmaceutical wholesale and distribution and pharmaceutical retail chain business in the PRC. By the nature of the products and services provided by Hua Xia Group and our Group, there is a clear delineation between the business retained by Hua Xia Group and our Group and there will not be any overlapping of businesses.

In addition, there will not be any overlapping of businesses nor will there be any direct competition of business among Hua Xia Group and our Group. Each of Hua Xia Group and our Group has its own management team and operation team in their respective business operation and sales activities, demonstrating that each of them can operate independently.

Hua Xia Group has provided hospital management services to Zhuhai Jiulong Hospital Limited# (珠海九龍醫院有限公司) (details of which were disclosed in the announcement of Hua Xia dated 14 October 2009). The hospital management service contributed small portion of the total revenue to Hua Xia Group for each of the three years ended 31 March 2013 and it is expected to contribute insignificant percentage in the near future. We had sold pharmaceutical products to Zhuhai Jiulong Hospital Limited for the three years ended 31 March 2013 and therefore Zhuhai Jiulong Hospital Limited was one of our hospital and healthcare institution customers. For information purposes only, (i) the revenue generated from this customer to Hua Xia Group (representing hospital management services) amounted to approximately HK$0.4 million, HK$0.6 million and HK$0.6 million for the three years ended 31 March 2013 respectively, representing approximately 0.4%, 0.4% and 0.4% of the total revenue of Hua Xia Group from the Remaining Business for the respective years; and (ii) the revenue (sale of pharmaceutical products) generated from this customer to our Group amounted to approximately HK$2.2 million, HK$4.1 million and HK$2.0 million for the three years ended 31 March 2013 respectively, representing approximately 0.2%, 0.2% and 0.1% of the total revenue of our Group for the respective years. This shows that the revenue generated from this customer represented an insignificant portion of the revenue to both Hua Xia Group and our Group. In addition, as the respective principal products/services of Hua Xia Group and our Group are different or can be clearly delineated, and that the services and products are provided independently from Hua Xia Group and our Group respectively with each of them under different contracts/agreements, our Directors are of the view that there will not be any actual or potential competition between the respective businesses of Hua Xia Group and our Group.

A summary of the financial performance of Hua Xia Group's businesses which are engaged in the provision of general hospital services during the Track Record Period is as follows:

	For the year ended 31 March		
	2011	**2012**	**2013**
	HK$'000	*HK$'000*	*HK$'000*
Turnover	115,429	134,504	141,525
Cost of sales	(59,153)	(59,643)	(66,822)
Gross profit	56,276	74,861	74,703
Other revenue and income	2,219	4,106	2,723
Selling and distribution expenses	(21,402)	(23,601)	(18,280)
Administrative expenses	(21,284)	(33,903)	(38,081)
Impairment loss on goodwill	–	–	–
Segment result of provision of general hospital services	15,809	21,463	21,065
Gain on disposal of subsidiaries	955	611	–
Profit before operations	16,764	22,074	21,065
Finance costs	–	–	–
Profit before taxation	16,764	22,074	21,065
Taxation	(2,158)	(3,220)	(3,426)
Profit for the year	14,606	18,854	17,639

Hua Xia Group has invested in the healthcare sector since 2006. When the PRC government planned to open up the healthcare industry in the PRC, the then directors of Hua Xia believed that driven by (i) the fast economic growth in the PRC, (ii) the increase in the awareness of the importance of healthcare by the general public; and (iii) the opening up of the healthcare market in the PRC, the acquisition of interest in hospitals and other healthcare related services would provide abundant business opportunities for and would generate stable income source to Hua Xia Group. In light of general increase in the health concern of individuals and the large and aged population in the PRC, the then directors of Hua Xia also considered that the PRC healthcare sector would have good prospect in the long run.

In 2007 and 2008, Hua Xia Group acquired five hospitals in the PRC. Subsequent to the acquisition of the hospitals, in late 2008, due to the introduction of medical reform policy and downturn of the global economy, the performance of the healthcare sector of Hua Xia had been adversely affected. Hua Xia had recorded loss which was attributable to the provision for impairment of goodwill arising from the acquisition of the hospitals in 2007 and 2008. As such, Hua Xia Group had disposed of three non-performing hospitals and other subsidiaries which were engaged in provision of healthcare management. As at the Latest Practicable Date, the Remaining Business operated by Hua Xia Group consisted of two hospitals, namely Edward Hospital Company Limited# (重慶愛德華醫院有限公司) ("**Edward Hospital**") and Jiaxing City Shuguang Western and Chinese Composite Hospital Company Limited# (嘉興市曙光中西醫結合醫院有限公司) ("**Jiaxing Shuguang Hospital**"). Set out below is the information of acquisitions and disposals of hospitals by Hua Xia Group:

Name of hospital	**Date of acquisition and amount of interest acquired**	**Acquisition consideration** *HK$'000*	**Total amount of goodwill written off** *(note 1)* *HK$'000*	**Reasons for provision for impairment of goodwill**	**Date of disposal**	**Gain/(loss) on disposals (percentage of losses compared to the consideration when acquired)** *(note 2)* *HK$'000* *%*
Edward Hospital	Acquisition of 55% equity interest in May 2007	157,300	194,820	Increase in cost for restructuring and marketing activities	N/A	N/A
Jiaxing Shuguang Hospital	Acquisition of 55% equity interest in October 2007	80,850	61,199	Global economic decline in 2008 resulted in reduction of working population in nearby location	N/A	N/A
Foshan Qide Hospital Limited# (佛山市啟德醫院有限公司)	Acquisition of 70% equity interest in February 2008	49,580	38,158	Global economic decline in 2008 resulted in reduction of working population in nearby location	Disposed of 70% equity interest in January 2010	(11,583) (90.92%)

Name of hospital	Date of acquisition and amount of interest acquired	Acquisition consideration *HK$'000*	Total amount of goodwill written off *(note 1)* *HK$'000*	Reasons for provision for impairment of goodwill	Date of disposal	Gain/(loss) on disposals (percentage of losses compared to the consideration when acquired) *(note 2)* *HK$'000* *%*
Bengbu City Aomeijia Female Hospital Limited# (蚌埠市澳美佳女子醫院有限公司)	Acquisition of 100% equity interest in July 2008	49,000	25,824	Failure to convert the hospital from specialised hospital into general hospital as originally planned due to change in medical rules and regulations after promulgation of General Hospital Construction Standards# (《綜合醫院建設標準》) (as amended in 2008) which was issued in September 2008	Disposed of 100% equity interest in January 2010	(11,602) (95.92%)
Shangrao Shi Xiehe Hospital Limited# (上饒市協和醫院有限公司)	Acquisition of 70% equity interest in May 2008	68,600	65,492	Downturn in local economy and the reduction in income due to change in promotion of reimbursement under the medical insurance	Disposed of 70% equity interest in September 2010	955 (90.23%)

Notes:

1. The total amount of goodwill written off is the aggregate total amount of goodwill impairment after their respective acquisitions. The amount of impairment was made by Hua Xia Group after taking into account the business valuations conducted by an independent valuer in the course of preparing the financial result of Hua Xia Group.

2. The percentage of loss was calculated by comparing the consideration payable for the acquisition and consideration receivable from the disposal as stipulated under the respective agreements.

The consideration for the acquisitions of equity interest in each of those companies, which were engaged in hospitals business, was determined after arm's length negotiation. Depending on each transaction, most of the considerations were determined with reference to profit guarantees provided by the respective vendors and price-earnings multiples of other comparable companies. Having considered the price-earnings multiples valuation approach was a simple and widely adopted method for assessing fair value of business and most of the price-earnings multiples for these acquisitions fell within that of the comparables identified, the then board of directors of Hua Xia considered that the valuation by means of price-earnings multiples approach was appropriate and did not engage an independent valuer to perform a separate valuation.

Notwithstanding losses were recognised on disposal of subsidiaries which were engaged in hospital business, the directors of Hua Xia are of the view that (i) the recognition of losses on disposal was only one-off in nature; and (ii) disposal of the non-performing hospitals would allow better resources allocation for alternative use and reduce the loss contributions of those non-performing hospitals to Hua Xia. The directors of Hua Xia are of the view that the past disposals of the non-performing hospitals were in the interest of the shareholders of Hua Xia as a whole.

In relation to the Remaining Business operated by Hua Xia Group, the results of Edward Hospital and Jiaxing Shuguang Hospital both showed improvements during the Track Record Period. As a result of the restructuring, our Group's sales to the remaining hospitals are expected to increase, benefitting from the growth potential of these two hospitals.

To ensure the independence of the operation and business of our Group from Hua Xia Group, our Group has its own merchandising and marketing, logistics, procurement and administration, finance and human resources teams which have been operated and is expected to continue to operate separately and independently of Hua Xia Group.

(d) Administrative independence

Our Directors confirm that, all key administrative functions of our Group are carried out by the employees of our Group without reliance on the support of Hua Xia Group. Our Company have a full time management team and administration staff to handle its administrative functions.

In addition, the principal place of business of our Company in the PRC is situated at a location different and separate from Hua Xia Group, and back-office support services comprising accounting, administration, corporate secretarial, compliance, human resource management and information technology services will also be handled by a team of experienced staff employed directly by our Group so that they are separate and independent from Hua Xia Group.

On 8 April 2013, our Company, as licensee, entered into a licence agreement (the "**Licence Agreement**") with Hua Xia, as licensor, pursuant to which Hua Xia granted a licence to our Company for using the designated area of the head office of Hua Xia in Hong Kong, i.e. Room 1902, 19th Floor, 101 King's Road, Hong Kong (the "**Premises**") as the principal place of business of our Company in Hong Kong and the correspondence address at a licence fee of HK$34,300 per month for the period from 11 April 2013 to 10 April 2015 (both date inclusive) or the termination of the tenancy agreement dated 8 April 2013 entered into between Sing Pao Investment Limited, as landlord of the Premises, and Hua Xia, as tenant, (the "**Principal Tenancy Agreement**") by Sing Pao Investment Limited in accordance with the terms and conditions of the Principal Tenancy Agreement, whichever is earlier.

RELATIONSHIPS WITH CONNECTED PERSONS

FHP Company

FHP Company is a company established in the PRC on 6 April 2005 and is principally engaged in the wholesale and distribution of pharmaceutical products produced by pharmaceutical manufacturers that have won the competitive tendering process to public hospitals in Fuzhou City, Fujian Province in the PRC. The types of pharmaceutical products that FHP Company distributes to public hospitals are the pharmaceutical products that have won the bids of the Seventh and Eighth Provincial Centralised Purchasing# (福建省第七、八批藥品集中採購) in Fujian Province, the PRC which was organised by the Fujian Province Drugs Centralised Purchasing Leading Group Office# (福建省藥品集中採購領導小組辦公室) and FHP Company is the exclusive distributor for those products under the respective bids. As advised by our Directors, the major difference between the principal business activities of FHP Company and those of our Group is that the FHP Company focuses on the distribution of pharmaceutical products to public hospitals while our Group distributes our pharmaceutical products not only to hospitals and healthcare institutions but also to distributor customers, end customers as well as retail customers through our distribution network and retail pharmacies and sales to distributor customers account for the majority of our revenue.

The following table summarises major differences between FHP Company and our Group in terms of principal business activities, major products and major customers:

	FHP Company	Our Group
Major principal business activities	Pharmaceutical distribution to hospitals in Fuzhou City, Fujian Province in the PRC	Pharmaceutical distribution to hospitals and healthcare institutions, distributor customers and end customers and pharmaceutical retail
Major products	Certain types of pharmaceutical products that won the bids of the provincial centralised purchasing in Fujian Province, the PRC	Certain types of pharmaceutical products that won the bids of the provincial centralised purchasing in Fujian Province, the PRC and other common pharmaceutical products available for sale in the market. The types of pharmaceutical products are broader and more complete and will adjust continuously in response to changes in demand
Major customers	Hospitals	Distributor customers which accounted for over 60% of revenue from our pharmaceutical wholesale and distribution business during the Track Record Period

As the pharmaceutical products which our Group distributes are different from those of FHP Company, FHP Company and our Group are business partners in the sense that FHP Company purchases pharmaceutical products which are not in its product portfolio but such products are demanded by its customers and vice versa. Therefore, the pharmaceutical products which our Group distributes can complement those of FHP Company and vice versa. The goods purchased from our Group by FHP Company are not goods that have won the bids of the collective tendering process in Fujian Province and hence are not distributed to public hospitals in Fuzhou by FHP Company. The goods purchased by FHP Company are sold mainly to its end customers such as independent pharmacies, healthcare service stations and clinics. FHP Company is only one of our Group's distributor customers and sales to FHP Company accounted for only approximately 0.4%, 0.2% and 0.2% of the total sales to all distributor customers of our Group during each of the three years ended 31 March 2013 respectively. The extent of our Group's reliance on the types of pharmaceutical products distributed by FHP Company is very limited as the aggregate amount of total purchase of pharmaceutical products from FHP Company for each of the three years ended 31 March 2013 were approximately HK$4.22 million, HK$9.63 million and HK$1.75 million respectively, representing only approximately 0.3%, 0.6% and 0.1% respectively of total purchases of our Group for the corresponding period.

The major customers of FHP Company are hospital customers whereas our Group's major customers are distributor customers. Our Group's sales to hospitals and healthcare institutions accounted for approximately 13.8%, 17.3% and 24.2% of our Group's total revenue for the year ended 31 March 2011, 2012 and 2013 respectively. The only overlapping business between FHP Company and our Group is the distribution of pharmaceutical products to hospital customers. Nevertheless, the public hospitals where FHP Company distributes its pharmaceutical products are located in Fuzhou in Fujian Province only whereas our Group distributes pharmaceutical products to public hospitals located not just in Fuzhou but also in other cities such as Putian, Quanzhou and Sanming. Although both FHP Company and our Group distributes pharmaceutical products to public hospitals located in Fuzhou in the Fujian Province, the requirement in the collective tendering process in Fujian Province that each pharmaceutical product manufacturer can only assign one distributor to deliver one particular type of medicine to the hospitals within a prefectural – level district of Fujian Province in the PRC on an exclusive basis means that the types of pharmaceutical products that FHP Company can distribute to public hospitals in Fuzhou are very specific and different from those distributed by our Group to our hospital customers in Fuzhou. Accordingly, our Directors consider that the level of competition between FHP Company and our Group is very minimal. Furthermore, having considered that (i) the extent of future competition between FHP Company and our Group largely depends on the selection choice of pharmaceutical

manufacturers as both FHP Company and our Group are passive in the sense that either and only one of them is chosen by each pharmaceutical manufacturer to deliver a particular type of medicine to the hospitals located in Fuzhou in Fujian Province based on the bid price determined under the respective tender under the collective tendering process; (ii) since our Group provides a more comprehensive range of principal activities and have a wider distribution network covering many different locations in Fujian Province than FHP Company, our Group is confident that we can team up with pharmaceutical manufacturers to deliver more types of pharmaceutical products in future tendering process; and (iii) our Group will continue to expand our businesses in the pharmaceutical distribution to our distributor customers and in particular those located outside Fujian Province, our Directors are of the view that the level of competition between FHP Company and our Group may decrease gradually in future.

As advised by our Directors, FHP Company's business operation is independent from our Group as it has its own management, office, warehousing and administrative staff. None of our Directors and/or our Group's senior management had been involved in the operations and management of FHP Company during the Track Record Period and up to the Latest Practicable Date. According to the information provided by FHP Company to our Directors, FHP Company recorded revenue of approximately RMB2,286.8 million, RMB2,516.1 million and RMB310.7 million for the three years ended 31 December 2011 respectively and profits after tax of approximately RMB90.8 million, RMB98.0 million and RMB9.7 million for the three years ended 31 December 2011 respectively.

FHP Company was held as to 55% of its registered capital by Mr. Weng Jiale（翁加樂）, who is a brother of Mr. Weng, an executive Director, and a nephew of Mr. Yung, a substantial shareholder and an executive director of Hua Xia and as to 45% of its registered capital by Mr. Weng Qingjie（翁清杰）, an Independent Third Party as at the Latest Practicable Date. Therefore, FHP Company is an associate of Mr. Weng and Mr. Yung and is therefore a connected person of our Company under Rule 14A.11(4) of the Listing Rules. The registered capital of FHP Company was RMB110.5 million and was contributed by its shareholders, namely Mr. Weng Jiale（翁加樂）and Mr. Weng Qingjie（翁清杰）, in the same proportion of their respective equity interests in FHP Company. FHP Company funds its daily operations by using internal resources and bank borrowings.

On 30 November 2009, Huihao Sihai as transferee entered into the Trademarks Transfer Agreement I with FHP Company, as transferor, to acquire five trademarks at nil consideration for an unspecified term conditional upon the following: (i) the continual use of the trademarks by FHP Company in its own capacity within the scope as mentioned under the Trademarks Transfer Agreement I; and (ii) no consideration for the use of trademarks by FHP Company. For details of the five trademarks, please refer to the Acquisitions Circular. Pursuant to the Trademarks Transfer Agreement I, FHP Company and Huihao Sihai can use the five trademarks simultaneously.

On 10 September 2012, FHP Company and Huihao Sihai entered into the Trademarks Usage Termination Agreement I under which both parties agreed to terminate FHP Company's usage rights of the five trademarks granted under the Trademarks Transfer Agreement I and FHP Company must cease the usage of those five trademarks in its capacity within 10 days upon signing of the Trademarks Usage Termination Agreement I. As a result of the Trademark Usage Termination Agreement I, FHP Company no longer has the right to use "Huihao" trademarks in its own capacity.

FHP Chain

FHP Chain is a company established in the PRC on 29 July 2003 and is principally engaged in leasing of owned properties and granting of franchise rights to operate franchise stores. FHP Chain had entered into 14 franchise agreements with 14 individuals, who are Independent Third Parties (the "**Franchise Agreements**"), for the use of the "Huihao" trademarks in their 14 franchise stores which are all located in Fujian Province in the PRC. On 30 November 2009, Huihao Sihai (as transferee) entered into the Trademarks Transfer Agreement II with FHP Chain (as transferor), pursuant to which FHP Chain has agreed to transfer the title of seven trademarks at nil consideration for an unspecified term conditional upon following: (i) the continual use of the trademarks by FHP Chain in its own capacity within the scope as mentioned under the Trademarks Transfer Agreement II; (ii) the continual use of the trademarks by the 14 franchise stores (as disclosed under Franchise Agreements); and (iii) no consideration for the use of trademarks by FHP Chain and the 14 individuals under the Franchise Agreements, details of the Franchise Agreement and the seven trademarks, please refer to the Acquisitions Circular. Pursuant to the Trademarks Transfer Agreement II, FHP Chain and Huihao Sihai can use the seven trademarks simultaneously.

On 10 September 2012, FHP Chain and Huihao Sihai entered into the Trademarks Usage Termination Agreement II under which both parties agreed to (i) terminate FHP Chain's usage rights of the seven trademarks granted under the Trademarks Transfer Agreement II and FHP Chain must cease the usage of those seven trademarks in its capacity within 10 days upon signing of the Trademarks Usage Termination Agreement II; and (ii) FHP Chain shall, within 30 days from the date of the Trademarks Usage Termination Agreement II, procure the 14 franchise stores to cease the usage of the seven trademarks and to terminate any agreements relating to the use of those relevant trademarks. As a result of the Trademark Usage Termination Agreement II, FHP Chain no longer has the right to use "Huihao" trademarks in its 14 franchise stores.

Our Directors considered that the business model and principal activities of FHP Chain are completely different from the pharmaceutical retail business of Huihao Sihai. FHP Chain grants franchise rights to individuals to operate franchise stores in return for receiving franchise fees and it does not need to have its own logistic centres for storing and distributing the pharmaceutical products as this is the responsibility of the franchisees to manage the daily operations of the franchise stores. On the other hand, Huihao Sihai directly operates its retail pharmacies and has its own logistic centres for storing and distributing the pharmaceutical products. In addition, the total size and geographical coverage of the franchise stores of FHP Chain are relatively smaller than that of Huihao Sihai. FHP Chain previously had 14 franchise stores which are located in different parts within Fuzhou but Huihao Sihai directly operates 100 retail pharmacies in six prefectural-level districts of Fujian Province in the PRC, including Fuzhou, Xiamen, Quanzhou, Sanming, Putian and Nanping. Subsequent to the Track Record Period, FHP Chain had entered into 14 termination agreements with 14 individuals to terminate the franchise relationship between FHP Chain and each of them. As a result, the 14 franchise stores were no longer franchise stores of FHP Chain. In addition, the 14 franchise stores have ceased to use the "Huihao" trademarks in their 14 franchise stores since September 2012. The owners of 14 franchise stores have to apply new business licenses for their respective stores. As advised by our Directors, 10 franchise stores had completed the change in names in their business licenses and 4 franchise stores had obtained the pre-approval of the new names by the relevant government authorities and were still in progress in changing their names in their business licenses as at the Latest Practicable Date. The 14 franchise stores did not use Huihao names in their stores as at the Latest Practicable Date.

As advised by our Directors, FHP Chain's business operation is independent from our Group and it has its own management, office, warehousing and administrative staff. None of our Directors and/or our Group's senior management had been involved in the operations and management of FHP Chain during the Track Record Period and up to the Latest Practicable Date. According to the information provided by FHP Chain to our Directors, FHP Chain recorded revenue of approximately RMB1.3 million, RMB0.08 million and RMB0.8 million for the three years ended 31 December 2011 respectively and losses after tax of approximately RMB14.4 million, RMB13.5 million and RMB10.1 million for the three years ended 31 December 2011 respectively.

As FHP Chain was held as to 50% of its registered capital by Mr. Weng Jiale（翁加樂）, who is a brother of Mr. Weng, an executive Director, and a nephew of Mr. Yung, a substantial shareholder and an executive director of Hua Xia; as to 30% of its registered capital by Mr. Weng Qingjie（翁清杰）and as to 20% of its registered capital by Mr. Tang Guixiong（唐貴雄）, both are Independent Third Parties as at the Latest Practicable Date. Therefore, FHP Chain is an associate of Mr. Weng and Mr. Yung and a connected person of our Company under Rule 14A.11(4) of the Listing Rules. The registered capital of FHP Chain was RMB95 million and was contributed by Mr. Weng Jiale（翁加樂）, Mr. Weng Qingjie（翁清杰）and Mr. Tang Guixiong（唐貴雄）in the same proportion of their respective equity interests in FHP Chain. FHP Chain funds its daily operations by using internal resources and bank borrowings.

NON-COMPETITION DEED

Hua Xia and Greatly Wealth (together, the "**Covenantors**") have entered into the Non-competition Deed dated 30 September 2013 with our Company pursuant to which the Covenantors have unconditionally and irrevocably undertaken to our Company (for itself and on behalf of our subsidiaries) that:

(1) they shall not, except through any member of our Group, directly or indirectly (whether as principal or agent, through any body corporate, partnership, joint venture or other contractual arrangement and whether for profit or otherwise) carry on, engage, invest or be interested or otherwise involved in any business that is similar to or in competition with or is likely to be in competition with any Spun-off Business from time to time carried on by any member of our Group or in which any member of our Group is engaged or has invested or is otherwise involved in ("**Restricted Business**");

(2) they shall not, directly or indirectly (whether as principal or agent, through any body corporate, partnership, joint venture or other contractual arrangement and whether for profit or otherwise) take any action which constitutes an interference with or a disruption of any of our Group's business activities including, without limitation, solicitation of our Group's customers, or persons listed on the personnel lists of our Group. At no time during the term of the Non-competition Deed or thereafter shall they directly or indirectly disparage the commercial, business or financial reputation of our Group. For the purposes of clarification, but not of limitation, they acknowledge and agree that the provisions of points (1) and (2) shall serve as a prohibition against them, directly or indirectly, hiring, offering to hire, enticing, soliciting or in any other manner persuading or attempting to persuade any officer, employee, agent, lessor, lessee, licensor, licensee who has been contacted by a representative of our Group, within a period of twelve months prior to the date of the Non-competition Deed, or any customer of our Group (whether past or present) to discontinue or alter his, her or its relationship with our Group provided that this shall not prohibit them from soliciting the customer of any person in respect of a business which is not in competition with that of our Group;

(3) when they and/or any of their associates (save and except our Group) is offered or becomes aware of any new project or business opportunity directly or indirectly to engage or become interested in a Restricted Business, they (i) shall promptly notify our Company in writing, refer such project or business opportunity to our Company for consideration first and provide such information as may be reasonably required by our Company to make an informed assessment of such project or business opportunity; and (ii) shall not, and procure that their associates (save and except our

Group) shall not, invest or participate in any such project or business opportunity unless such project or business opportunity shall have been rejected by our Company and the principal terms of which they and/or their associates (save and except our Group) invest or participate are no more favourable than those made available to our Company; and

(4) they shall procure that no entity which directly or indirectly controls, is controlled by or is under common control with them or any of their associates (save and except our Group) will do anything which if done by them would constitute a breach thereof.

The Non-competition Deed is effective from the date when the Shares are listed on the Stock Exchange until the earlier of: (i) the day when the Shares cease to be listed on the Stock Exchange; or (ii) the day when Hua Xia and Greatly Wealth cease to be a Controlling Shareholder of our Company.

As a matter of good corporate governance practices and to improve transparency, our Company will adopt the following measures for the purpose of monitoring the due compliance by the Covenantors with the Non-competition Deed:

(1) Our independent non-executive Directors will review, on an annual basis, the compliance with the undertaking by the Covenantors under the Non-competition Deed including the right of first refusal for any new project or business opportunity.

(2) The Covenantors shall undertake to provide all information requested by our Company which is necessary for the annual review by our independent non-executive Directors and the enforcement of the Non-competition Deed.

(3) The Covenantors will make an annual declaration on compliance with the undertaking under the Non-competition Deed in the annual report of our Company.

The Covenantors shall abstain from voting at any general meeting of our Company if there is any actual or potential conflict of interests.

In addition, Marshal, Easeglory and Mr. Yung have given non-compete and other undertakings to our Company (for itself and on behalf of our subsidiaries) in the same terms as those given by the Covenantors described above.

CONNECTED TRANSACTIONS

As at the Latest Practicable Date, the following connected transactions had been entered into between our Group and the relevant connected persons of our Company:

- Product purchases;
- Product sales;
- Property leases; and
- Financial assistances from a connected person

RELEVANT CONNECTED PERSONS OF OUR COMPANY

- **Hua Xia** – As Hua Xia is a Controlling Shareholder of our Company, Hua Xia is a connected person of our Company under Rule 14A.11(1) of the Listing Rules;
- **FHP Company** – FHP Company was held as to 55% of its issued share capital by Mr. Weng Jiale（翁加樂）, who is a brother of Mr. Weng, an executive Director, and a nephew of Mr. Yung, a substantial shareholder and an executive director of Hua Xia. Therefore, as at the Latest Practicable Date, FHP Company is an associate of Mr. Weng and Mr. Yung, and is therefore a connected person of our Company under Rule 14A.11(4) of the Listing Rules;
- **FHP Chain** – FHP Chain was held as to 50% of its issued share capital by Mr. Weng Jiale（翁加樂）, who is a brother of Mr. Weng, an executive Director, and a nephew of Mr. Yung, a substantial shareholder and an executive director of Hua Xia. Therefore, as at the Latest Practicable Date, FHP Chain is an associate of Mr. Weng and Mr. Yung, and is therefore a connected person of our Company under Rule 14A.11(4) of the Listing Rules;
- **Mrs. Yung** – As Mrs. Yung is the spouse of Mr. Yung which is a substantial shareholder of Hua Xia, which in turn is a Controlling Shareholder of our Company, Mrs. Yung is an associate of Hua Xia and therefore a connected person of our Company under Rule 14A.11(4) of the Listing Rules;

- **Mr. Weng** – As Mr. Weng is an executive Director, Mr. Weng is a connected person of our Company under Rule 14A.11(1) of the Listing Rules;

- **Edward Hospital Company Limited**# (重慶愛德華醫院有限公司) ("**Edward Hospital**") – Edward Hospital is a subsidiary of Hua Xia, which is a Controlling Shareholder of our Company, had an indirect equity interest of 55% in Edward Hospital as at the Latest Practicable Date. Accordingly, Edward Hospital is an associate of Hua Xia and is therefore a connected person of our Company under Rule 14A.11(4) of the Listing Rules;

- **Jiaxing City Shuguang Western and Chinese Composite Hospital Company Limited**# (嘉興曙光中西醫結合醫院有限公司) ("**Jiaxing Shuguang Hospital**") – Jiaxing Shuguang Hospital is a subsidiary of Hua Xia, which is a Controlling Shareholder of our Company, had an indirect equity interest of 55% in Jiaxing Shuguang Hospital as at the Latest Practicable Date. Accordingly, Jiaxing Shuguang Hospital is an associate of Hua Xia and is therefore a connected person of our Company under Rule 14A.11(4) of the Listing Rules; and

- **Ally Health International Limited** ("**Ally Health**") – Ally Health is (i) a wholly-owned subsidiary of Hua Xia, which is a Controlling Shareholder of our Company, which will be interested in approximately 63.5% of the equity interest of the Company upon Listing; and (ii) the holding company of Edward Hospital and Jiaxing Shuguang Hospital. Accordingly, Ally Health is an associate of Hua Xia and is therefore a connected person of our Company under Rule 14A.11(4) of the Listing Rules.

NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS SUBJECT TO REPORTING AND ANNOUNCEMENT REQUIREMENTS BUT EXEMPT FROM INDEPENDENT SHAREHOLDERS' APPROVAL REQUIREMENT

Tenancy Agreement 1 and Tenancy Agreement 2

As at the Latest Practicable Date, members of our Group, as lessees, have entered into two rental agreements with FHP Chain.

Background

As disclosed in the Acquisitions Circular, (i) Fuzhou Huihao entered into two tenancy agreements both dated 28 December 2009 with FHP Chain for the rental of certain premises in the office and warehouse buildings, where the Property 1 and the Property 2 (both are defined below) form part, and which is used as office and warehouse of Fuzhou Huihao. Both of such two rental agreements had a term of five years commencing from 1 January 2010 to 31 December 2014 with an aggregate rental fee of RMB146,634 per quarter; (ii) Huihao Sihai entered into a tenancy agreement with FHP Chain dated 28 December 2009 for the rental of certain premises in the office and warehouse buildings, where the Property 3 and the Property 4 (both are defined below) form part, which is used as office and warehouse of Huihao Sihai. Such tenancy agreement had a term of five years commencing from 1 January 2010 to 31 December 2014 with a rental fee of RMB64,188 per quarter. As disclosed in the announcement of Hua Xia dated 10 September 2012, the Group and the FHP Chain entered into two new tenancy agreements and terminated all the above previous tenancy agreements between Hua Xia Group and FHP Chain, further details of which are disclosed below.

Tenancy Agreement 1

Fuzhou Huihao, as lessee, entered into a tenancy agreement dated 10 September 2012 (the "**Tenancy Agreement 1**") with FHP Chain, as lessor, for the rental of (i) Level 1 and Level 4 of the office building located at No.8 Huihao Road, Shangjie Town, Minhou Xian, Fujian Province, the PRC# (中國福建省閩侯縣上街鎮惠好路8號的辦公樓第1層、第4層) (the "**Property 1**") with a GFA of approximately 1,336 sq. m.; and (ii) Levels 1 to 3 of the warehouse building located on No.8 Huihao Road, Shangjie Town, Minhou Xian, Fujian Province, the PRC# (閩侯縣上街鎮惠好路8號的倉庫第1-3層) (the "**Property 2**") with a GFA of approximately 9,957 sq. m.. The term of the lease is from 10 September 2012 to 31 March 2015 with a rental of RMB10,688 per month for the Property 1 and RMB49,785 per month for the Property 2 and is renewable upon the signing of a new rental agreement.

Tenancy Agreement 2

Huihao Sihai, as lessee, entered into a tenancy agreement dated 10 September 2012 (the "**Tenancy Agreement 2**") with FHP Chain, as lessor, for the rental of (i) Level 3 of the office building located at No.8 Huihao Road, Shangjie Town, Minhou Xian, Fujian Province, the PRC# (中國福建省閩侯縣上街鎮惠好路8號的辦公樓第3層) (the "**Property 3**") with a GFA of approximately 600 sq. m.; and (ii) Level 4 of the warehouse building located on No.8 Huihao Road, Shangjie Town, Minhou Xian, Fujian Province, the PRC# (閩侯縣上街鎮惠好路8號的倉庫第4層) (the "**Property 4**") with a GFA of approximately 3,319 sq. m.. The term of the lease is from 10 September 2012 to 31 March 2015 with a rental of RMB4,800 per month for the Property 3 and RMB16,595 per month for the Property 4 and is renewable upon the signing of a new rental agreement.

Historical transaction amounts

During each of the three financial years ended 31 March 2013, the annual rental paid by (i) Fuzhou Huihao to FHP Chain for the lease of certain premises (with an aggregate GFA 8,974 sq. m.) in the office and warehouse buildings, where the Property 1 and the Property 2 form part, were RMB468,936, RMB485,518 and RMB597,306 respectively; and (ii) Huihao Sihai to FHP Chain for the lease of certain premises in the office and warehouse buildings, where the Property 3 and the Property 4 form part, were RMB256,944, RMB257,520 and RMB257,130 respectively.

Proposed annual caps and basis of determination

We expect the annual cap for the rental payable by (i) Fuzhou Huihao to FHP Chain under the terms of the Tenancy Agreement 1 will be RMB725,676; and (ii) Huihao Sihai to FHP Chain under the terms of the Tenancy Agreement 2 will be RMB256,740 for each of the two years ending 31 March 2015. Therefore, the annual caps under the Tenancy Agreement 1 and the Tenancy Agreement 2 when aggregated will be RMB982,416 which is equivalent to approximately HK$1,198,548. In arriving at the above annual caps, our Directors have considered (i) the historical rentals paid by Fuzhou Huihao to FHP Chain for the lease of the Property 1 and the Property 2 and by Huihao Sihai to FHP Chain for the lease of the Property 3 and the Property 4; and (ii) the comparable rental transactions for properties of similar locations and sizes as available in the market as at 6 September 2012. Asset Appraisal Limited, an independent valuer, has reviewed the annual rental payable in respect of the Property 1, the Property 2, the Property 3 and the Property 4 and confirmed that the annual rental payable thereunder reflects the prevailing market rates of properties with similar locations and sizes to the two properties as at 6 September 2012.

Listing Rules Implications

As the landlord under each of the Tenancy Agreement 1 and Tenancy Agreement 2 is the same person, namely FHP Chain and the leased properties are on the same building, the transactions contemplated under the Tenancy Agreement 1 and the Tenancy Agreement 2 shall be aggregated and the aggregated annual consideration exceeds HK$1,000,000.

As each of the percentage ratios (other than the profits ratio) for the aggregated annual consideration payable under the Tenancy Agreement 1 and the Tenancy Agreement 2 is less than 5%, the aggregate transaction under the Tenancy Agreement 1 and the Tenancy Agreement 2 constitute continuing connected transaction for our Company under Chapter 14A of the Listing Rules and are subject to reporting and announcement requirements but are exempt from the independent Shareholders' approval requirement under Rule 14A.34 of Listing Rules.

Product Purchases

During the Track Record Period, our Group has, in the ordinary course of business, purchased certain pharmaceutical products from FHP Company. We expect that our Group will continue to purchase certain pharmaceutical products from FHP Company on an ongoing basis after the Listing.

Historical transaction amounts

The aggregate purchase transaction amounts between Huihao Hong Kong Group and FHP Company for each of the three years ended 31 March 2013 were approximately HK$4.22 million, HK$9.63 million and HK$1.75 million respectively.

Purchase Agreement

Huihao Hong Kong entered into a purchase agreement with FHP Company on 26 April 2012 for a term of three years ending 31 March 2015 (details of which has been disclosed in the announcement dated 26 April 2012 made by Hua Xia). Upon reviewing the latest trading pattern and the actual purchase amount of the pharmaceutical products, Huihao Hong Kong and FHP Company entered into a new purchase agreement on 19 September 2013 (the "**Purchase Agreement**"), which superseded the remaining term of the previous purchase agreement. Pursuant to the Purchase Agreement, Huihao Hong Kong Group have agreed to purchase certain pharmaceutical products from FHP Company for a term of two years ending 31 March 2015.

Price determination

The purchase prices of the relevant pharmaceutical products will be determined based on normal commercial terms with reference to the purchase prices of similar products by Huihao Hong Kong Group from the Independent Third Parties and such purchase prices will be no less favourable to Huihao Hong Kong Group than that offered by other suppliers who are Independent Third Parties. The relevant purchase prices will be reviewed and agreed between the parties every year.

Term

The Purchase Agreement is for a term of 2 years ending 31 March 2015.

Annual caps

The annual cap proposed under the previous purchase agreement dated 26 April 2012 for the year ended 31 March 2013 was approximately HK$9.26 million. The annual purchase caps for Huihao Hong Kong Group's total transaction amount with FHP Company contemplated under the Purchase Agreement for each of the two years ending 31 March 2015 will be approximately HK$1.93 million and HK$2.03 million respectively. The annual purchase caps are determined based on (i) the historical amount of purchase of the pharmaceutical products from FHP Company by Huihao Hong Kong Group; and (ii) the volume of certain pharmaceutical products that would need to be purchased by Huihao Hong Kong Group in each of the two years ending 31 March 2015 in order to meet the projected demand for the relevant pharmaceutical products after taking into account the expected market conditions. Our Company takes into account the specialisation in certain pharmaceutical products of FHP Company, which are exclusively supplied by FHP Company in the Fuzhou City in Fujian Province, and our Company assumes that demand for such products from our customers will remain stable in the coming two years. Furthermore, our Company assumes that there will be an annual increase of 5% in the exchange rate of RMB against Hong Kong dollars and there will be no drastic change to the existing healthcare policy and the mode of operation of the market for the two years ending 31 March 2015.

Listing Rules Implications

Based upon the above annual purchase caps, as each of the percentage ratios (as defined in the Listing Rules) for the annual purchase cap is less than 5%, the transactions contemplated under the Purchase Agreement constitute continuing connected transactions for our Company under Chapter 14A of the Listing Rules and are subject to reporting and announcement requirements but are exempt from the independent Shareholders' approval requirement under Rule 14A.34 of the Listing Rules.

Product Sales

During the Track Record Period, our Group has, in the ordinary course of business, sold pharmaceutical products to the following entities, which are connected persons of our Company:

(i) Edward Hospital;

(ii) Jiaxing Shuguang Hospital; and

(iii) FHP Company.

We expect that our Group will continue to sell pharmaceutical products to the above connected persons of our Company on an ongoing basis after the Listing.

Historical transaction amounts

The aggregate sales transaction amounts between Huihao Hong Kong Group and each of the connected persons of our Company for each of the three years ended 31 March 2013 were as follows:

	For the year ended 31 March 2011	**For the year ended 31 March 2012**	**For the year ended 31 March 2013**
	HK$'000	*HK$'000*	*HK$'000*
Edward Hospital	9,317	10,320	5,335
Jiaxing Shuguang Hospital	79	555	970
FHP Company	3,050	1,801	1,644

Sales Agreements

Huihao Hong Kong entered into a sales agreement with FHP Company on 26 April 2012 for a term of three years ending 31 March 2015 (details of which has been disclosed in the announcement dated 26 April 2012 made by Hua Xia). Upon reviewing the latest trading pattern and the actual purchase amount of the pharmaceutical products, Huihao Hong Kong and FHP Company entered into a new sales agreement on 19 September 2013 (the "**FHP Sales Agreement**"), which superseded the remaining term of the previous sales agreement. Pursuant to the FHP Sales Agreement, Huihao Hong Kong Group has agreed to sell and deliver certain pharmaceutical products to FHP Company for a term of two years ending 31 March 2015. As advised by our Directors, our Group will not purchase pharmaceutical products from FHP Company and then subsequently re-sell the same products to FHP Company and therefore there are no overlapping products between those stated under the Purchase Agreement and those stated under the FHP Sales Agreement.

To rationalise the continuing business relationship between us on one side and Edward Hospital and Jiaxing Shuguang Hospital on the other side after the Listing, Huihao Hong Kong, in the ordinary course of our business and on normal commercial terms, entered into a sales agreement with Ally Health, a wholly-owned subsidiary of Hua Xia and the holding company of Edward Hospital and Jiaxing Shuguang Hospital on 17 September 2012 (the "**Hospital Sales Agreement**") pursuant to which Huihao Hong Kong Group agreed to sell and deliver certain pharmaceutical products to Ally Health and its subsidiaries. Our Directors consider it beneficial to enter into the Hospital Sales Agreement, as in doing so will allow our Group to develop a long term business relationship with Edward Hospital and Jiaxing Shuguang Hospital for the sale of certain pharmaceutical products from our Group to each of them.

Price determination

Under the FHP Sales Agreement and the Hospital Sales Agreement, the selling prices of the relevant pharmaceutical products will be determined based on normal commercial terms with reference to the selling prices of similar products by Huihao Hong Kong Group to other customers who are Independent Third Parties and such selling prices will be no less favourable to Huihao Hong Kong Group than that to the Independent Third Parties. The selling prices will be reviewed and agreed between the parties every year.

Term

The Hospital Sales Agreement has a term of 3 years ending 31 March 2015 and the FHP Sales Agreement has a term of 2 years ending 31 March 2015.

Annual caps

The annual sales caps for Huihao Hong Kong Group's total transaction amount with each of the connected persons of our Company under the FHP Sales Agreement and the Hospital Sales Agreement for each of the two years ending 31 March 2015 are as follows:

	For the year ending 31 March	
	2014	**2015**
	(HK$'000)	*(HK$'000)*
Hospital Sales Agreement	9,080	9,530
FHP Sales Agreement	2,320	2,923

The annual sales caps for Huihao Hong Kong Group's total transaction amount with Ally Health contemplated under the Hospital Sales Agreement are determined based on (i) the historical amount of sale of the pharmaceutical products by Huihao Hong Kong Group to Edward Hospital and Jiaxing Shuguang Hospital; and (ii) the estimated increased volume of pharmaceutical products that would need to be purchased by Edward Hospital and Jiaxing Shuguang Hospital in each of the two years ending 31 March 2015 in order to meet its projected demand of the relevant pharmaceutical products after taking into account the expected market conditions. In arriving at the annual sales cap, our Company assumes that the demand for healthcare products or relevant expenditure is relatively stable with the expected annual appreciation of 5% of RMB in the coming two years ending 31 March 2015 and takes into account the expected steady turnover of and hence the demand of pharmaceutical products by Edward Hospital and Jiaxing Shuguang Hospital.

During the Track Record Period, the actual sales amount of the pharmaceutical products by Huihao Hong Kong Group to FHP Company were fluctuated. As advised by the board of directors of FHP Company, since mid 2012, there has been a change in the pattern of purchase of FHP Company, and the profile of pharmaceutical products demanded, comparing with that during the three years ended 31 March 2013. Our Board foresees that the demand of pharmaceutical products by FHP Company will be relatively stable in both volume and profile for the two years ending 31 March 2015.

In order to cope with the above situation, on 19 September 2013, Huihao Hong Kong and FHP Company entered into the FHP Sales Agreement. In arriving at the annual caps under the FHP Sales Agreement, our Group based on (i) the historical sales amounts of the pharmaceutical products by Huihao Hong Kong Group to FHP Company during the 12 months ended 31 March 2013, i.e. approximately HK$1,600,000, adding approximately 12% annual increment determined in line with the estimated growth in turnover of approximately 10-14% of our Group based on the turnover growth of our Group of approximately 10% for the year ended 31 March 2013; (ii) an expected annual appreciation in the selling price of one particular pharmaceutical product, the selling price of which has been increased by approximately 30% on average in the last three financial years ended 31 March 2013 and the sale of which contributed to approximately 65% of the total sales by Huihao Hong Kong Group to FHP Company, and is thus adjusted to a weighted annual increase of approximately 20% in the total annual sale amount to FHP Company, in each of two years ending 31 March 2015; and (iii) the expected annual appreciation of 5% of RMB against the Hong Kong dollar in the coming two years ending 31 March 2015.

Listing Rules Implications

As each of the percentage ratios (other than the profit ratio), where applicable, calculated by reference to Rule 14.07 of the Listing Rules in respect of the annual caps under the Hospital Sales Agreement is less than 5%, the transactions contemplated under the Hospital Sales Agreement constitute continuing connected transactions under Chapter 14A of the Listing Rules and are subject to reporting and announcement requirements but are exempt from the independent Shareholders' approval requirement under Rule 14A.34 of the Listing Rules.

Based upon the above annual sales caps, as each of the percentage ratios (other than the profit ratio), where applicable, calculated by reference to Rule 14.07 of the Listing Rules in respect of the annual cap under the FHP Sales Agreement is less than 5%, the transactions contemplated under the FHP Sales Agreement constitute continuing connected transactions under Chapter 14A of the Listing Rules and are subject to reporting and announcement requirements but is exempt from the independent Shareholders' approval requirement under Rule 14A.34 of the Listing Rules.

EXEMPTED CONTINUING CONNECTED TRANSACTIONS

Licence Agreement

On 8 April 2013, our Company, as licensee, entered into a licence agreement (the "**Licence Agreement**") with Hua Xia, as licensor, pursuant to which Hua Xia granted a licence to the Company for using the designated area of the head office of Hua Xia in Hong Kong, i.e. Room 1902, 19th Floor, 101 King's Road, Hong Kong (the "**Premises**") as the principal place of business of our Company in Hong Kong and the correspondence address at a licence fee of HK$34,300 per month for the period from 11 April 2013 to 10 April 2015 (both dates inclusive) or the termination of the tenancy agreement dated 8 April 2013 entered into between Sing Pao Investment Limited, as landlord of the Premises, and Hua Xia, as tenant, (the "**Principal Tenancy Agreement**") by Sing Pao Investment Limited in accordance with the Principal Tenancy Agreement, whichever is earlier.

Since each of the percentage ratios (other than the profit ratio), where applicable, calculated by reference to Rule 14.07 of the Listing Rules in respect of the annual licence fee under the Licence Agreement payable by the Company to Hua Xia is less than 5% and the annual consideration is less than HK$1,000,000, the transactions contemplated under the Licence Agreement are qualified under Rule 14A.33(3)(c) of the Listing Rules as de minimis transactions that are exempt from reporting, announcement and independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

Tenancy Agreement 3

Putian Huihao, as lessee, entered into a tenancy agreement dated 31 May 2013 (the "**Tenancy Agreement 3**") with Mrs. Yung, as lessor, for the rental of 1/F and 2/F of the building located at No. 1466, 1470 and 1476 Gongchen Street Xiadian Road, Licheng District, Putian City, Fujian Province, the PRC# (中國福建省莆田市荔城區拱辰街道下店路1466號、1470號及1476號一樓及二樓) with an aggregate GFA of approximately 518.71 sq. m. and used as office. The term of the lease is from 1 June 2013 to 31 March 2015 with a rental of RMB7,726.7 per month payable in a lump sum quarterly and is renewable upon the signing of a new rental agreement.

Since each of the percentage ratios (other than the profits ratio), where applicable, calculated by reference to Rule 14.07 of the Listing Rules in respect of the annual consideration payable under the Tenancy Agreement 3 is less than 5% and the annual consideration is less than HK$1,000,000, the transactions contemplated under the Tenancy Agreement 3 are qualified under Rule 14A.33(3)(c) of the Listing Rules as de minimis transactions that are exempt from reporting, announcement and independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

Financial assistances from a connected person

As at the Latest Practicable Date, Mr. Weng provided personal guarantee in favour of Industrial and Commercial Bank of China ("**ICBC Bank**"), Taijiang Branch to secure the obligations, indebtedness and liabilities of Fuzhou Huihao under 2 revolving credit facilities in the aggregate amount of RMB10 million, which will expire in October 2013, which constitute a financial assistance to our Group by our connected person.

Our Directors are of the view that the above financial assistance by way of a personal guarantee provided by the connected person to our Group were entered into on normal commercial terms.

Our Directors anticipate that our Group will not renew the loans upon expiry and therefore the personal guarantee given by Mr. Weng in favour of ICBC Bank, subject to the terms and conditions, will be released upon repayment of the loans.

Listing Rules Implications

Since the above financial assistances provided by the connected persons of our Company are on normal commercial terms where no security over our assets was granted in respect of the financial assistances, the above financial assistances are exempt from the reporting, announcement and independent Shareholders' approval requirements under Rule 14A.65(4) of the Listing Rules.

APPLICATION FOR WAIVER

Following completion of the Spin-off, the transactions set out in the sub-section headed "Non-exempt continuing connected transactions subject to reporting and announcement requirements but exempt from independent Shareholders' approval requirement" above (the "**Non-Exempt Continuing Connected Transactions**") will constitute continuing connected transactions for our Company which are subject to the reporting and announcement requirements under Rule 14A.34 of the Listing Rules.

Accordingly, we have applied to the Stock Exchange, and the Stock Exchange has granted to us a waiver from strict compliance with the announcement requirements pursuant to Rule 14A.42(3) of the Listing Rules in relation to the Non-Exempt Continuing Connected Transactions on the condition that our Company will comply with the relevant requirements under Chapter 14A of the Listing Rules as amended from time to time.

We will comply with the applicable requirements under the Listing Rules, and will immediately inform the Stock Exchange if there are any changes to the Non-Exempt Continuing Connected Transactions.

CONFIRMATION FROM OUR DIRECTORS

Our Directors (including our independent non-executive Directors) are of the view that the Non-Exempt Continuing Connected Transactions described above have been entered into in the ordinary and usual course of our business, are on normal commercial terms, fair and reasonable and in the interests of our Shareholders as a whole, and the proposed annual caps for each of the Non-Exempt Continuing Connected Transactions are fair and reasonable and in the interests of our Shareholders as a whole.

CONFIRMATION FROM THE SPONSOR

The Sponsor is of the view that (i) the Non-Exempt Continuing Connected Transactions described above for which waivers are sought have been entered into in the ordinary and usual course of our business, on normal commercial terms, and are fair and reasonable and in the interests of our Shareholders as a whole; and (ii) the proposed annual caps for each of the Non-Exempt Continuing Connected Transactions are fair and reasonable and in the interests of our Company and Shareholders as a whole.

DIRECTORS

Our Board consists of five Directors, including two executive Directors and three independent non-executive Directors. The information of our Directors is set out as follows:

Name	Age	Position/Title	Date of appointment as Director
Mr. Weng Jiaxing (翁加興)	37	Chairman, chief executive officer and executive Director	9 July 2012
Mr. Chen Yong (陳勇)	42	Vice Chairman and executive Director	4 September 2012
Mr. Liang Yichi (梁一池)	61	Independent non-executive Director	4 September 2012
Mr. Zhu Donghai (朱東海)	69	Independent non-executive Director	4 September 2012
Mr. Wong Hon Kit (黃漢傑)	46	Independent non-executive Director	11 April 2013

Executive Directors

Mr. Weng Jiaxing (翁加興) ("**Mr. Weng**"), aged 37, joined our Group in 2004 as the Chairman of Huihao Hong Kong and was appointed as an executive Director on 9 July 2012. He was responsible for exploring investment opportunities in the PRC, formulating business strategies and overseeing the entire business operation of our Group. Mr. Weng was admitted to the 2008 Executive Master of Business Administration (EMBA) course administered by Xiamen University in December 2007. Mr. Weng has not less than 8 years of managerial experience in pharmaceutical businesses. Prior to joining our Group, Mr. Weng was the General Manager of FHP Chain from 2003 to 2004 where he was responsible for the entire business operation of FHP Chain. Mr. Weng had been an executive director of Hua Xia during the period from 25 April 2006 to 1 August 2007 and from 26 March 2010 to 28 December 2012. Save that Mr. Weng is a nephew of Mr. Yung, a substantial shareholder and an executive director of Hua Xia, being a Controlling Shareholder, and a brother of Mr. Weng Jiale (翁加樂), the controlling shareholder of FHP Company and FHP Chain, both being landlords of certain premises leased by our Group, Mr. Weng is not related to other Shareholders and our Directors.

Mr. Chen Yong（**陳勇**）("**Mr. Chen**"), aged 42, joined our Group as the Director of President's Office of Huihao Hong Kong in July 2006 and was appointed as an executive Director on 4 September 2012. In May 2008, Mr. Chen became the Managing Director of Huihao Sihai and was responsible for the overall operation and management of the Company. He became Vice Chairman of our Group in June 2011. He has a master of Business Administration degree in Fudan University（上海復旦大學）. Prior to joining our Group, Mr. Chen was the Assistant to Managing Director and the manager of the investment development department of Shanghai Cheung Kong New Hope Enterprise Company Limited#（上海張江新希望企業有限公司）from 8 October 2002 to 5 December 2005 and he was responsible for assisting the managing director in setting direction and goals of business operation as well as managing investment projects.

Independent non-executive Directors

Mr. Liang Yichi（**梁一池**）("**Mr. Liang**"), aged 61, joined our Group as an independent non-executive Director on 4 September 2012. Mr. Liang is the vice-president and a tutor to master students of Chinese Medicines and a tutor of the integration of traditional and western medicine (first-tier subject) doctor's degree of the Fujian University of Traditional Chinese Medicine. Mr. Liang was recognized by the Ministry of Personnel of the PRC#（中華人民共和國人事部）as an young and middle-aged expert in outstanding contribution#（中青年有突出貢獻專家）.

Mr. Zhu Donghai（**朱東海**）("**Mr. Zhu**"), aged 69, joined our Group as an independent non-executive Director on 4 September 2012. Mr. Zhu served as the Deputy Chief of the Administration for Industry and Commerce of Fujian and as the Chief of Fujian Food and Drug Administration since March 2000. Mr. Zhu was appointed as a member of the Ninth Chinese People's Political Consultative Conference of Fujian Province#（福建省第九屆人民政治協商會議委員會）in 2003.

Mr. Wong Hon Kit（**黃漢傑**）("**Mr. Wong**"), aged 46, joined our Group as an independent non-executive Director on 11 April 2013. Mr. Wong obtained a Diploma in Accounting from Hong Kong Shue Yan College in July 1991 and is currently a Certified Public Accountant in Hong Kong. He was admitted as an associate member of the Hong Kong Society of Accountant (now known as Hong Kong Institute of Certified Public Accountants) and the Association of International Accountants in the United Kingdom in March 2000 and October 1999, respectively. Mr. Wong is currently a Licensed Representative of Type 6 (advising on corporate finance) regulated activity under the SFO and has been a Responsible Officer of Chanceton Capital Partners Limited since 1 April 2010. He has over 10 years' experience in working as chief financial officer, company secretary and/or director in listed companies in Hong Kong where he was involved in the finance and company secretarial matters and has handled a number of corporate finance transactions such as mergers and acquisitions, capital fund raising activities, corporate restructuring and corporate transactions. Mr. Wong was an executive director of Chanceton Financial Group Limited (stock code: 8020) during the period from 21 September 2011 to 1 December 2011, which is listed on GEM. Mr. Wong has also been appointed as a non-executive director of the Shaanxi Northwest New Technology Industry Company Limited (stock code: 8258) since 14 September 2012.

Save for Mr. Weng and Mr. Wong as disclosed above, none of our Directors has been a director of any listed company during the 3 years preceding the date of this listing document.

Save as disclosed above, to the best of the knowledge, information and belief of our Directors having made reasonable enquiries, there were no other matters with respect to the appointment of our Directors that needs to be brought to the attention to our Shareholders and there was no information relating to our Directors that is required to be disclosed under Rule 13.51(2)(h) to (x) of the Listing Rules as at the Latest Practicable Date.

Please refer to the paragraph headed "Particulars of service contracts" in Appendix VI to this listing document for information regarding particulars of our Directors' service contracts and emoluments and information regarding their respective interest (if any) in the Shares within the meaning of Part XV of the SFO.

SENIOR MANAGEMENT

Ms. Xiang Zheng (項征) ("**Ms. Xiang**"), aged 51, is the General Manager of Fuzhou Huihao. Ms. Xiang was graduated from The Open University of Fujian# (福建廣播電視大學) majoring in Business Administration, and has more than 20 years of operational management experience in the pharmaceutical industry. Ms. Xiang joined our Group in December 2008. Prior to joining our Group, Ms. Xiang worked in Fujian Sanming Medicine Shareholding Co., Ltd.# (福建三明醫藥股份有限公司), a state-owned pharmaceutical enterprise in Sanming from 1992 to 2008, where she served as salesperson, manager of pharmaceutical department, manager of medical devices department and vice general manager, and was mainly responsible for managing the sales business.

Mr. Luo Xintian (羅新天) ("**Mr. Luo**"), aged 46, is the General Manager of Fujian Huiming. Mr. Luo was graduated from Fujian Pharmaceutical School Adult Technical College# (福建醫藥學校成人中專) majoring in Chinese Medicine, and has more than 25 years of managerial experience in the sales of pharmaceutical products. Mr. Luo joined our Group in November 2008, and has been the general manager of Fujian Huiming since April 2012. Prior to joining our Group, Mr. Luo worked in several state-owned pharmaceutical enterprises in Ninghua County, Jianning County and Sanming City in Fujian Province since 1987 as salesman, deputy manager in procurement department, deputy manager in sales department, assistant to general manager. and he was mainly responsible for the management of the procurement and sales of pharmaceutical products.

Mr. Chen Bing (陳兵) ("**Mr. B. Chen**"), aged 42, is the General Manager of Putian Huihao. Mr. B. Chen was graduated from Northwest College for Nationalities# (西北民族學院) majoring in Business Enterprise Marketing, and has extensive operational management experience in the pharmaceutical industry. Mr. B. Chen joined our Group in December 2008. Prior to joining our Group, Mr. B. Chen worked in Zhangzhou Biochemistry Pharmaceutical Group Co. Ltd.# (漳州生物化學製藥集團有限公司) as the sales director from 2006 to 2007, responsible for managing the national sales business in the PRC.

Mr. Xu Jiwang (許基望) ("**Mr. Xu**"), aged 39, is the General Manager of Quanzhou Huihao. Mr. Xu was graduated from Southwest Jiaotong University# (西南交通大學) specialising in Business Administration and has extensive operational management experience in the pharmaceutical industry. Mr. Xu joined our Group in January 2011. Prior to joining our Group, Mr. Xu worked in Fujian Province Pharmaceutical Limited Liability Company# (福建省醫藥有限責任公司) from August 1994 to November 2010, and served as the sales manager of the company, responsible for managing the sales of pharmaceutical products.

Mr. Chen Kaiping (陳開平) ("**Mr. K. Chen**"), aged 51, is the assistant to General Manager of Fuzhou Huihao and he is responsible for the quality control of the company. Mr. K. Chen was graduated from Fujian Province Pharmaceutical School# (福建省醫藥學校), and is a qualified pharmacist. Prior to joining our Group, Mr. K. Chen worked as manager of the quality control department in FHP Chain and as deputy director of the quality control department in FHP Company during the period from September 2003 to April 2008 and he was responsible for supervising the quality control of pharmaceutical products.

COMPANY SECRETARY

Ms. Tsang Pui Yee（曾沛宜）("**Ms. Tsang**"), aged 38, is appointed as the Company Secretary of our Company on 4 September 2012. Ms. Tsang has worked in various international accounting firms from December 2000 to June 2008. Later in July 2008, Ms. Tsang joined a private company as Accounting Manager before she joined Hua Xia in July 2011. Ms. Tsang has over 8 years of experience in finance, accounting and auditing. Ms. Tsang holds a master's degree in corporate finance from The Hong Kong Polytechnic University and she is a member of the Hong Kong Institute of Certified Public Accountants.

BOARD COMMITTEES

Audit Committee

Our Company established the audit committee pursuant to a resolution of our Directors passed on 24 September 2013 with written terms of reference in compliance with Rule 3.21 of the Listing Rules. The primary duties of the audit committee include, but are not limited to: (i) to review and monitor the external auditors' independence and objectivity and the effectiveness of the audit process in accordance with applicable standard; (ii) monitoring integrity of financial statements of our Company and our Company's annual report and accounts, half-year report and, if prepared for publication, quarterly reports; (iii) reviewing our Company's financial controls, internal control and risk management systems; and (iv) reporting to our Board on the matters set out in the code provisions as stated in Appendix 14 to the Listing Rules. The initial members of the audit committee consists of 3 members who are the Independent Non-executive Directors, namely Mr. Wong Hon Kit, Mr. Liang Yichi and Mr. Zhu Donghai. The first chairman of the audit committee is Mr. Wong Hon Kit.

Remuneration Committee

Our Company established the remuneration committee pursuant to a resolution of our Directors passed on 24 September 2013 with written terms of reference in compliance with Rule 3.25 of the Listing Rules. The primary duties of the remuneration committee include, but are

not limited to: (i) making recommendations to our Board on our Company's policy and structure for all remuneration of Directors and senior management and on the establishment of a formal and transparent procedure for developing policy on such remuneration; (ii) having the delegated responsibility to determine the specific remuneration packages of all executive Directors and senior management, including benefits in kind, pension rights and compensation payments, including any compensation payable for loss or termination of their office or appointment, and making recommendations to our Board of the remuneration of non-executive Directors; and (iii) reviewing and approving performance-based remuneration and discretionary bonus by reference to corporate goals and objectives resolved by our Board from time to time. The initial members of the remuneration committee consists of 3 members, namely Mr. Wong Hon Kit, Mr. Chen Yong and Mr. Zhu Donghai. The first chairman of the remuneration committee is Mr. Wong Hon Kit.

Nomination and Corporate Governance Committee

Our Company established the nomination and corporate governance committee pursuant to a resolution of our Directors passed on 24 September 2013 with written terms of reference in compliance with paragraphs A.5.1 and D.3.1 of Appendix 14 to the Listing Rules. The primary duties of the nomination and corporate governance committee include, but are not limited to: (i) reviewing the structure, size and composition (including the skills, knowledge and experience) of our Board on a regular basis and making recommendations to our Board regarding any proposed changes; (ii) identifying individuals suitably qualified to become members of the Board and selecting or making recommendations to our Board on the selection of, individuals nominated for directorships; (iii) making recommendations to our Board on relevant matters relating to the appointment or re-appointment of Directors and succession planning for Directors in particular the chairman of our Board and the chief executive officer of our Company; and (iv) keeping the effectiveness of the corporate governance and system of internal controls of our Group. The initial members of the nomination and corporate governance committee consists of 4 members, namely Mr. Weng, Mr. Liang Yichi, Mr. Zhu Donghai and Mr. Wong Hon Kit. The first chairman of the nomination and corporate governance committee is Mr. Weng.

CORPORATE GOVERNANCE

We are committed to achieving high standards of corporate governance with a view to safeguarding the interests of our Shareholders. To accomplish this, we will comply with the code provisions set out in the Corporate Governance Code in Appendix 14 to the Listing Rules after the Listing.

COMPLIANCE ADVISER

In accordance with Rule 3A.19 of the Listing Rules, our Company has appointed Messis Capital as the compliance adviser, who will have access to our Company's authorized representatives, Directors and other officers at all times. The compliance adviser will advise our Company on on-going compliance requirements and other issues under the Listing Rules. The compliance adviser's appointment shall commence on the Listing Date and end on the date of our financial results for the first full financial year commencing after the Listing Date, or until the agreement is terminated, whichever is earlier.

Pursuant to Rule 3A.23 of the Listing Rules, the compliance adviser will advise our Company in the following circumstances:

(a) before the publication by our Company of any regulatory announcement (whether required by the Listing Rules or requested by the Stock Exchange or otherwise), circular or financial report;

(b) where a transaction, which might be a notifiable or connected transaction under Chapters 14 and/or 14A of the Listing Rules, is contemplated by our Company including share issues and share repurchases; and

(c) where the Stock Exchange makes an inquiry of our Company under Rule 13.10 of the Listing Rules.

DIRECTORS' REMUNERATION

The remuneration our Directors have received (including fees, salaries, discretionary bonuses, contributions to defined contribution benefit plans (including pension), housing and other allowances, and other benefits in kind) for each of the financial year ended 31 March 2011, 2012 and 2013 were approximately HK$96,000, HK$96,000 and HK$355,000 respectively.

The aggregate amount of fees, salaries, discretionary bonuses, defined contribution benefit plans (including pension), housing and other allowances, and other benefits in kind paid to the five highest paid individuals of our Company, including Directors, during each of the financial year ended 31 March 2011, 2012 and 2013 were approximately HK$517,000, HK$628,000 and HK$1,087,000 respectively.

We have not paid any remuneration to our Directors or the five highest paid individuals as an inducement to join, or upon joining our Group or as compensation for loss of office during each of the financial year ended 31 March 2011, 2012 and 2013. Furthermore, none of our Directors had waived any remuneration during the same period.

Save as disclosed above, no other payments have been paid or are payable in each of the financial year ended 31 March 2011, 2012 and 2013 by us or any of our subsidiaries to our Directors. Under the arrangement currently in force, the aggregate amount of remuneration of our Directors for the year ending 31 March 2014 (excluding discretionary bonuses for our Directors who are also members of the senior management) is estimated to be approximately HK$795,000.

STAFF

We maintain good working relations with our staff. We have not experienced any significant problems with the recruitment and retention of experienced employees. In addition, we have not suffered from any material disruption of our normal business operations as a result of labour disputes or strikes.

Benefits

As required by the employment laws in Hong Kong, our Group participates in the mandatory provident fund scheme to provide retirement benefits for our Hong Kong staff. Our Hong Kong staff is also entitled to medical welfare and discretionary bonus provided by our Group.

As required by the PRC regulations on social insurance, Fuzhou Huihao, Fujian Huiming, Putian Huihao, Quanzhou Huihao and Huihao Sihai participate in the social insurance schemes operated by the relevant local government authorities which include retirement pension, medical insurance, unemployment insurance, industrial injuries insurance and maternity insurance.

Relationship with staff

Our Directors consider that our Group maintains good working relationship with its staff. Our Group has not encountered any difficulty in recruitment and retention of staff for its operation or experienced any material disruption of its operation as a result of labour disputes since the establishment of its business.

Staff training

We arrange training for our staff in Hong Kong office to ensure that they are updated with the latest changes to the Companies Ordinance, the Listing Rules and other relevant regulatory requirements. Such technical training is expected to be conducted at staff meetings held at regular intervals. A separate training programme is in place for new professional recruits to ensure that they are in line with the high standard of technical competency. In addition, our employees are encouraged to attend relevant external courses or seminars every year and to take relevant professional examinations.

SHARE CAPITAL

The following is a description of the share capital of our Company in issue:

		HK$
Authorised share capital:		
2,000,000,000	Shares of HK$0.01 each	20,000,000.00
Issued share capital:		
648,405,300	Shares of HK$0.01 each	6,484,053.00

Assumptions

The above table takes no account of any Shares which may be allotted and issued upon the exercise of the options which may be granted under the Share Option Scheme or of any Shares which may be allotted and issued or repurchased by our Company under the general mandates for the allotment and issue or repurchase of Shares granted to our Directors as referred to below or otherwise.

RANKING

The Shares are ordinary shares in the share capital of our Company and rank equally in all respects with each other, and in particular, for all dividends and other distributions hereafter declared, paid or made on the Shares after the date of this listing document.

SHARE OPTION SCHEME

Our Company has conditionally adopted the Share Option Scheme whereby certain selected class of participants may be granted options to subscribe for Shares. The principal terms of the Share Option Scheme are summarised in paragraph headed "Share Option Scheme" under section headed "(D) Share Option Scheme" in Appendix VI to this listing document.

GENERAL MANDATE TO ISSUE SHARES

Subject to the Spin-off becomes unconditional, our Directors have been granted a general unconditional mandate to allot, issue and deal with Shares and to make or grant offers, agreements or options which might require such Shares to be allotted and issued or dealt with subject to the requirement that the aggregate nominal value of the Shares so allotted and issued or agreed conditionally or unconditionally to be allotted and issued (otherwise than pursuant to a rights issue, or scrip dividend scheme or similar arrangements, or a specific authority granted by the Shareholders) shall not exceed:

(a) 20% of the aggregate nominal value of the share capital of our Company in issue on the Listing Date; and

(b) the aggregate nominal value of the share capital of our Company repurchased pursuant to the authority granted to our Directors as referred to in the paragraph headed "General Mandate to Repurchase Shares" below.

This general mandate does not cover Shares to be allotted, issued, or dealt with under a rights issue or upon the exercise of the options which may be granted under the Share Option Scheme. This general mandate to issue Shares will remain in effect until:

(a) the conclusion of our Company's next annual general meeting;

(b) the expiration of the period within which our Company's next annual general meeting is required to be held by any applicable laws of the Cayman Islands or the Articles; or

(c) the time when such mandate is varied or revoked by an ordinary resolution of the Shareholders in general meeting, whichever is the earliest.

For further details of this general mandate, please refer to paragraph headed "Written resolutions of our sole Shareholder dated 24 September 2013" under the section headed "(A) Further information about our Company and our Subsidiaries" in Appendix VI to this listing document.

GENERAL MANDATE TO REPURCHASE SHARES

Subject to the Spin-off becomes unconditional, our Directors have been granted a general unconditional mandate to exercise all the powers to repurchase Shares (Shares which may be listed on the Stock Exchange or on any other stock exchange which is recognised by the SFC and the Stock Exchange for this purpose) with an aggregate nominal value of not more than 10% of the aggregate nominal value of our Company's share capital in issue on the Listing Date.

This mandate only relates to repurchases made on the Stock Exchange, or on any other stock exchange on which the Shares may be listed (and which is recognised by the SFC and the Stock Exchange for this purpose), and made in connection with all applicable laws and regulations and the requirements of the Listing Rules. A summary of the relevant Listing Rules is set out in paragraph headed "Repurchase by our Company of its own securities" under section headed "(A) Further information about our Company and our Subsidiaries" in Appendix VI to this listing document.

The general mandate to repurchase Shares will remain in effect until:

(a) the conclusion of our Company's next annual general meeting;

(b) the expiration of the period within which our Company's next annual general meeting is required to be held by any applicable laws of the Cayman Islands or the Articles; or

(c) the time when such mandate is varied or revoked by an ordinary resolution of our Shareholders in general meeting,

whichever is the earliest.

For further details of this general mandate, please refer to paragraph headed "Written resolutions of our sole Shareholder dated 24 September 2013" under the section headed "(A) Further information about our Company and our subsidiaries" in Appendix VI to this listing document.

UNDERTAKINGS TO THE STOCK EXCHANGE UNDER THE LISTING RULES

(A) Undertaking by us

Pursuant to Rule 10.08 of the Listing Rules, we have undertaken to the Stock Exchange that no further shares of our Company or securities convertible into equity securities (whether or not of a class already listed) of our Company will be issued or form the subject of any agreement to such an issue within six months from the Listing Date (whether or not such issue of shares or securities of our Company will be completed within six months from the Listing Date), except for the issue of shares of our Company, the listing of which has been approved by the Stock Exchange, pursuant to the Share Option Scheme or similar arrangement under Chapter 17 of the Listing Rules, or any capitalization issue, capital reduction or consolidation or sub-division of shares of our Company, or the issue of shares of our Company on securities pursuant to an agreement entered into before the commencement of dealing, the material terms of which have been disclosed in this listing document.

(B) Undertaking by our Directors

Pursuant to Rule 10.06(1)(b)(vi) of the Listing Rules, our Directors have undertaken to the Stock Exchange that they shall exercise the power of our Company to make purchase of Shares pursuant to the written resolutions of our sole Shareholder dated 24 September 2013 (details of which are contained in paragraph headed "Written resolutions of our sole Shareholder dated 24 September 2013" under the section headed "(A) Further information about our Company and our Subsidiaries" in Appendix VI to this listing document) in relation to the granting of a share repurchase mandate by our sole Shareholder in accordance with the Listing Rules, the applicable laws of Cayman Islands, where our Company is incorporated and the regulations set out in the Memorandum and the Articles.

You should read the following discussion and analysis in conjunction with our audited combined financial information set forth in the accountants' report of our Group included in Appendix I to this listing document and the notes thereto. The following discussion and analysis contains forward looking statements that involve risks and uncertainties. Our actual results could differ materially from those anticipated in these forward-looking statements due to various factors, including those set forth in the sections headed "Forward-Looking Statements" and "Risk Factors."

OVERVIEW

The following tables set forth the turnover, gross profit, profit attributable to owners of our Company, gross profit margin and net profit margin of our Group for each of the three financial years ended 31 March 2011 and 2012 and 2013 respectively:

	For the year ended 31 March		
	2011	**2012**	**2013**
	HK$'000	*HK$'000*	*HK$'000*
Selected combined income statement data:			
Turnover	1,357,679	1,712,147	1,885,369
Gross profit	133,314	160,352	164,159
Profit attributable to owners of our Company	32,765	45,228	41,763
Selected operating data:			
Gross profit margin	9.8%	9.4%	8.7%
Net profit margin	2.4%	2.7%	2.2%

FACTORS AFFECTING OUR RESULTS OF OPERATIONS AND FINANCIAL CONDITION

We believe that the most significant factors that have affected or are expected to affect our results of operations and financial condition include, among others:

- global economic conditions;
- the growth of the pharmaceutical market in the PRC;
- product offering;
- PRC government policies and pharmaceutical regulations;
- cost of purchasing merchandise

Global economic conditions

The business of our Group depends, to a certain extent, on the demand of our customers. The demand for our products from our customers is related to the global economic situation, which affects the spending power of individuals or corporations on consumer goods including pharmaceutical and healthcare products. Any fluctuation in the economic conditions of the global economy may have impacts on the economy environment in the PRC which may affect our revenue and hence profit of our Group.

The growth of the pharmaceutical market in the PRC

Our business expansion and revenue growth depend on the growth of the pharmaceutical market, in particular, the pharmaceutical distribution and retail markets, in the PRC. The growth of the pharmaceutical market in the PRC has been, and is expected to continue to be, driven by a number of favourable socioeconomic factors, such as the rapid growth of the PRC's GDP and the disposable income of its population, the increase in average life expectancy, the continuing aging of its population, the increased rate of urbanization, the rise in healthcare awareness, the adoption of the healthcare reform plan and other types of policy incentives and support provided by the PRC government.

Product offering

We have a diversified product portfolio. The revenue from and gross margin of each product we distribute vary significantly. As a result, our ability to optimize our product portfolio is critical to the revenue and gross margin of our pharmaceutical business. Accordingly, our strategy is to focus our marketing resources on major products, which are selected based on a comprehensive evaluation of market demand, growth potential and government policy, while reducing the purchase volume of products with low or decreasing market demand and gross margin. Going forward, we will continue to evaluate and adjust our product portfolio from time to time to focus on products with higher profit margins, greater market demand and potential.

PRC government policies and pharmaceutical regulations

Our business is subject to extensive government regulations and supervision. Government policies and regulations and their implementation and enforcement have historically had, and are expected to continue to have, a significant impact on the supply, demand and pricing of pharmaceutical products and distribution services in the PRC. Our financial performance is affected by the prices of our products. Certain pharmaceutical products sold in the PRC are subject to price ceilings or other forms of price control set by the PRC government.

Cost of purchasing merchandise

The cost of purchasing merchandise is the largest component of our cost of sales across our pharmaceutical distribution and retail businesses. To control our procurement cost, we have adopted procurement policies and procedures for inventory purchases. We recorded the historical sales and the warehouse outward dispatch record for each product in our ERP System. Based on the historical moving average of our sales and the warehouse outward dispatch record, our procurement staff make purchase orders for each product with reference to the minimum and maximum inventory levels set for each product and monitor our inventory levels through the ERP System to ensure that the inventory levels for each product in our warehouses are adequate.

CRITICAL ACCOUNTING POLICIES

We have identified certain accounting policies that are significant to the preparation of our combined financial statements. Notes 3 and 4 to Appendix I to this listing document include a summary of significant accounting policies and key sources of estimation uncertainty used in the preparation of our combined financial statements. The determination of these accounting policies is fundamental to our financial condition and results of operations, and requires management to make subjective and complex judgments about matters that are inherently uncertain based on information and data that may change in future periods. As a result, determinations regarding these items necessarily involved the use of assumptions and subjective judgments as to future events and are subject to change, and the use of different assumptions or data could produce materially different results. In addition, actual results could differ from estimates and may have a material adverse effect on our business, financial condition, results of operations and cash flows.

Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting the estimates may differ significantly from management's current judgments. We believe the following represents our critical accounting judgments and estimates.

Estimated Impairment of Goodwill

We perform annual tests on whether there has been impairment of goodwill in accordance with the accounting policy state in Note 3 to Appendix I to this listing document. The recoverable amounts of cash-generating units are determined based on value-in-use calculations. These calculations require the use of estimates and assumptions made by management on the future operation of the business, pre-tax discount rates, and other assumptions underlying the value-in-use calculations.

Income Taxes

We are subject to income taxes in numerous tax authorities. Significant judgment is required in determining the provision of income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. We recognise liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such difference will impact the income tax and deferred tax provisions in the period in which such determination is made.

Fair Value of Investment Properties

The fair value of each investment property is individually determined at the end of each reporting period based on its market value and by adopting direct comparison method. Direct comparison method assumes each of these properties is capable of being sold in its existing state with the benefit of vacant possession and by making reference to comparable sales evidence as available in the relevant market condition, the fair value of the investment properties will change in future.

Impairment of Trade Receivables

The aged debt profile of trade debtors is reviewed on a regular basis to ensure that the trade debtor balances are collectible and follow-up actions are promptly carried out if the agreed credit periods have been exceeded. However, from time to time, we may experience delays in collection. Where recoverability of trade debtor balances are called into doubts, specific provisions for bad and doubtful debts are made based on credit status of the customers, the aged analysis of the trade receivable balances and write-off history. Certain receivables may be initially identified as collectible, yet subsequently become uncollectible and result in a subsequent write-off of the related receivable to the combined statement of comprehensive income. Changes in the collectability of trade receivables for which provisions are not made could affect our results of operations.

Useful Lives and Residual Values of Property, Plant and Equipment

In determining the useful life and residual value of an item of property, plant and equipment, we have to consider various factors, such as technical or commercial obsolescence arising from changes or improvements in production, or from a change in the market demand for the product or service output of the asset, expected usage of the asset, expected physical wear and tear, the care and maintenance of the asset, and legal or similar limits on the use of the asset. The estimation of useful life of the asset is based on the experience of us with similar assets that are used in a similar way. Additional depreciation is made if the estimated useful lives and/or the residual values of items of property, plant and equipment are different from the previous estimation. Useful lives and residual values are reviewed at the end of the reporting period based on changes in circumstances.

Impairment of Property, Plant and Equipment

We assess whether there are any indicators of impairment for an asset at the end of each reporting period. The asset is tested for impairment when there are indicators that the carrying amounts may not be recoverable. When value in use calculation are undertaken, an estimation of the value in use of the cash-generating units to which the asset is allocated will be required. Estimating the value in use requires us to make an estimate of the expected future cash flows from the cash-generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows. A change in the estimated future cash flows and/or the discount rate applied will result in an adjustment to the estimated impairment provision previously made.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost, which comprises all costs of purchase and, where applicable, other costs that have been incurred in bringing the inventories to their present location and condition, is calculated using the first-in, first-out method. Net realisable value represents the estimated selling price in the ordinary course of business less all estimated costs necessary to make the sale.

Impairment of Assets

Internal and external sources of information are reviewed at the end of each reporting period to determine whether there is any indication of impairment of assets, or whether there is any indication that an impairment loss previously recognised no longer exists or may have decreased. If any such indication exists, the recoverable amount of the asset is estimated. An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount. An impairment loss is charged to the combined statement of comprehensive income in the year in which it arises, unless the asset is carried at a revalued amount, when the impairment loss is accounted for in accordance with the relevant policy for that revalued asset.

SELECTED FINANCIAL DATA

The following tables present the selected historical combined financial information of our Group as extracted from Appendix I to this listing document.

Selected information from combined statements of comprehensive income

	For the year ended 31 March		
	2011	**2012**	**2013**
	HK$'000	*HK$'000*	*HK$'000*
Turnover	1,357,679	1,712,147	1,885,369
Cost of sales	(1,224,365)	(1,551,795)	(1,721,210)
Gross profit	133,314	160,352	164,159
Other revenue	3,265	6,258	7,729
Other income	231	1,922	1,078
Selling and distribution expenses	(38,929)	(54,899)	(61,397)
Administrative expenses	(41,233)	(40,163)	(46,802)
Finance costs	(4,388)	(4,928)	(4,090)
Profit before taxation	52,260	68,542	60,677
Taxation	(19,420)	(23,210)	(18,772)
Profit for the year	32,840	45,332	41,905
Profit attributable to:			
Owners of the Company	32,765	45,228	41,763
Non-controlling interests	75	104	142
	32,840	45,332	41,905
Earnings per share attributable to owners of the Company during the year (expressed in HK cents per share)			
– Basic and diluted	5.05	6.98	6.44

Selected information from combined statements of financial position

	As at 31 March		
	2011	**2012**	**2013**
	HK$'000	*HK$'000*	*HK$'000*
Non-current assets	807,795	810,689	809,216
Current assets			
Cash and bank balances	41,279	48,480	30,676
Inventories	104,378	106,215	119,570
Trade and other receivables and deposits	236,212	301,925	427,399
Pledged bank deposits	13,809	22,847	3,609
Other current assets	3,122	3,542	453
Total current assets	398,800	483,009	581,707
Total assets	1,206,595	1,293,698	1,390,923
Current liabilities			
Trade and other payables	214,401	275,047	306,758
Amount due to the ultimate holding company	895,113	880,964	889,426
Bank borrowings	49,194	36,582	50,672
Other current liabilities	9,539	11,312	10,866
Total liabilities	1,168,247	1,203,905	1,257,722
Equity			
Equity attributable to owners of the Company	38,147	89,499	132,762
Non-controlling interests	201	294	439
Total equity	38,348	89,793	133,201
Total equity and liabilities	1,206,595	1,293,698	1,390,923

Basis of Presentation

Our Group resulting from the Reorganisation is regarded as a continuing group. Accordingly, the combined statements of comprehensive income, combined statements of changes in equity and combined statements of cash flows of our Group for the Track Record Period have been prepared and included the financial information of the companies now comprising our Group as if the current group structure had been in existence throughout the Track Record Period. The combined statements of financial position of our Group as at 31 March 2011, 2012 and 2013 have been prepared to present the assets and liabilities of our Group as at those dates as if the current group structure had been in existence at those dates.

Inter-company transactions between members of our Group have been eliminated on consolidation of our financial statements. For the purpose of preparing the combined financial statements, the accounting policies of our Company's subsidiaries have been changed where necessary to ensure consistency with the policies adopted by our Company.

During the Track Record Period, the acquisition of the entire issued share capital of Nurture Fit, a company incorporated in BVI, which holds 100% interest in Huihao Hong Kong, Fuzhou Huihao, Putian Huihao and Fujian Huiming and 99.29% indirect interest in Huihao Sihai by Timely Hero were completed on 8 March 2010. We also acquired 100% equity interest in Quanzhou Huihao in April 2011. The aforementioned companies acquired during the Track Record Period are included in the combined financial statements from the date of these acquisitions.

Pursuant to the Catalogue for the Guidance of Foreign Investment Industries[#] (外商投資產業指導目錄) (as amended in 2007) which was published by the NDRC and the Ministry of Commerce on 31 October 2007 and became effective on 1 December 2007, at the time of entering into of the sale and purchase agreement dated 13 November 2009 between Mr. Yung as vendor and Timely Hero as purchaser in relation to the Acquisitions, foreign investors and enterprises are not allowed to hold any shareholding interest in a company which is principally engaged in pharmaceutical retail chain business in the PRC with more than 30 retail pharmacy stores selling different kinds and brands of pharmaceutical products from many different suppliers. Under CEPA, preferential treatment is granted by the PRC authorities to a natural person who is a Hong Kong permanent resident or a Hong Kong service provider which is a company having engaged in substantive business operations in Hong Kong for three to five years, to acquire the entire equity interests in the restricted business. In order to obtain an effective control on Huihao Sihai, Huihao Hong Kong and Huihao Sihai have entered into the Control Agreements with Mr. Yung on 20 December 2009 as the Group did not have any suitable vehicles that meet the requirement in order to benefit from CEPA to hold the 99.29% equity interests in Huihao Sihai at that time.

The Control Agreements were designed to provide our Group with an effective control over and the right to enjoy the economic benefits in and/or assets of Huihao Sihai. The reporting accountants have confirmed, pursuant to the Control Agreements, Huihao Sihai has been and will be accounted for as a 99.29% subsidiary of our Company in accordance with generally accepted accounting principles in Hong Kong and the financial results of Huihao Sihai has been and will be consolidated with that of Huihao Hong Kong.

On 6 January 2012, Huihao Hong Kong has exercised its right under the Exclusive Share Purchase Agreement to acquire the 99.29% equity interest in Huihao Sihai at a consideration of HK$12,463,124.44 which was not paid in cash but by way of offsetting against the loan amount under the Loan Agreement. As a result, Huihao Sihai became a directly owned subsidiary of Huihao Hong Kong.

FINANCIAL OVERVIEW

The following sets forth the financial information and analysis of our Group as extracted from Appendix I to this listing document.

Turnover

We derive our revenue primarily from two main business segments: (i) pharmaceutical wholesale and distribution; and (ii) pharmaceutical retail. Our revenue represents total segment revenue after elimination of inter-segment revenue. For the years ended 31 March 2011, 2012 and 2013, our revenue were approximately HK$1,357.7 million, HK$1,712.1 million and HK$1,885.4 million, respectively. The following table sets forth our revenue by business segment for the periods indicated:

	For the year ended 31 March					
	2011		2012		2013	
	HK$'000	*%*	*HK$'000*	*%*	*HK$'000*	*%*
Pharmaceutical wholesale and distribution	1,200,270	88.4	1,525,145	89.1	1,672,848	88.7
Pharmaceutical retail	157,409	11.6	187,002	10.9	212,521	11.3
Total	1,357,679	100.0	1,712,147	100.0	1,885,369	100.0

The following table sets forth a breakdown of the external revenue of our Group by major product categories for the periods indicated based on information provided by our Group:

	For the year ended 31 March					
	2011		2012		2013	
	HK$'000	*%*	*HK$'000*	*%*	*HK$'000*	*%*
Western medicines	1,030,634	75.9	1,389,515	81.1	1,468,786	78.0
Chinese medicines	154,265	11.4	93,602	5.5	171,858	9.1
Medical supplies and medical devices	29,096	2.1	51,362	3.0	38,116	2.0
Healthcare products	71,575	5.3	128,463	7.5	104,131	5.5
Others	72,109	5.3	49,205	2.9	102,478	5.4
Total	1,357,679	100.0	1,712,147	100.0	1,885,369	100.0

As shown from the above table, the majority of our Group's revenue derived from the sales of Western medicines which accounted for approximately 75.9%, 81.1% and 78.0% of the total revenue of our Group for the years ended 31 March 2011, 2012 and 2013 respectively. Western medicines are also the largest category of products our Group distributes. The increase in sales of Western medicine products was mainly due to increase in the overall demand for pharmaceutical products and the expansion of our product portfolio.

Pharmaceutical Wholesale and Distribution

Our pharmaceutical wholesale and distribution business generates revenue primarily from the sales of a full range of prescription and over-the-counter pharmaceutical products, consisting of branded and generic Western and Chinese medicines, and other healthcare products and medical devices and other products through purchasing these products from domestic pharmaceutical manufacturers and other suppliers in the PRC and selling or distributing these products to our customers. Our direct sales customers include public hospitals and healthcare institutions as well as end customers such as companies operating pharmaceutical retail chain stores, independent pharmacies, out-patient departments of community hospitals, healthcare service stations and clinics. We also distribute prescription medicines and over-the-counter medicines as well as healthcare products, medical devices and other products to distributor customers located in Fujian Province and other provinces in the PRC. For the years ended 31 March 2011, 2012 and 2013, segment revenue of our pharmaceutical wholesale and distribution business were approximately HK$1,200.3 million, HK$1,525.1 million and HK$1,672.9 million respectively.

The following table sets forth a breakdown of the revenue of our Group from our pharmaceutical wholesale and distribution business by types of customer for the periods indicated:

	2011		2012		2013	
	HK$	*%*	*HK$*	*%*	*HK$*	*%*
			(in millions, except for percentage)			
Revenue:						
Hospitals and healthcare institutions	187.1	15.6	296.1	19.4	456.0	27.3
Distributor customers	838.8	69.8	1,036.3	67.9	1,055.4	63.1
End customers *(note 1)*	141.7	11.8	160.6	10.6	135.5	8.1
Others *(note 2)*	32.7	2.8	32.1	2.1	26.0	1.5
Total	1,200.3	100.0	1,525.1	100.0	1,672.9	100.0

Notes:

1. End customers include companies operating pharmaceutical retail chain stores, independent pharmacies, out-patient departments of community hospitals, healthcare service stations and clinics. End customers are different from retail customers as end customers are not individual persons whereas the latter are.

2. Others relate to rebates received (net of sales tax) from suppliers as rewards for meeting certain sales target set by the suppliers.

As shown from the above table, the increase in our Group's revenue was mainly derived from increases in sales to hospitals and healthcare institutions and distributor customers. A majority of our revenue from our pharmaceutical wholesale and distribution business was derived from sales to our distributor customers during the Track Record Period. Sales to distributor customers were approximately HK$838.8 million, HK$1,036.3 million and HK$1,055.4 million for the years ended 31 March 2011, 2012 and 2013 respectively, representing approximately 69.8%, 67.9% and 63.1% for each of the three years ended 31 March 2013 respectively. During the years ended 31 March 2011, 2012 and 2013, we had 323, 324 and 367 distributor customers, respectively, which were located in Fujian Province and other provinces in the PRC, details of which are disclosed in the section headed "Business – Pharmaceutical Wholesale and Distribution – Sales and Distribution Arrangements – Distributor Customers" in this listing document. The increase in sales to our distributor customers was driven by (i) an increase in overall market demand as a result of decrease in gross profit margin of pharmaceutical products sold to distributor customers in order to boost sales and increase market share; (ii) an increase in the number of distributor customers; (iii) an expansion of distribution network and product portfolio; and (iv) the completion of the acquisition of Quanzhou Huihao, which is principally engaged in the wholesale and distribution of pharmaceutical and healthcare products in the PRC, on 1 April 2011, details of which are summarised in the section headed "History, Development and Reorganisation – Corporate Development – Quanzhou Huihao" in this listing document.

Pharmaceutical Retail

Our pharmaceutical retail business generates revenue primarily from sales of pharmaceutical and other healthcare products to individual retail customers. For the years ended 31 March 2011, 2012 and 2013, segment revenue of our pharmaceutical retail business was approximately HK$157.4 million, HK$187.0 million and HK$212.5 million, respectively. The revenue growth during these periods was primarily due to an increase in the number of retail pharmacies and an increase in the average revenue per retail pharmacy. Our Group's number of retail pharmacies increased from 90 as at 1 April 2011 to 97 as at 31 March 2013. Based on revenue generated from the pharmaceutical retail business of our Group of approximately HK$157.4 million, HK$187.0 million and HK$212.5 million for the years ended 31 March 2011, 2012 and 2013 respectively, the average revenue per retail pharmacy (based on total revenue divided by the average number of retail pharmacies during the year) was approximately HK$1.68 million, HK$1.93 million and HK$2.19 million for the years ended 31 March 2011, 2012 and 2013 respectively, representing a CAGR of approximately 14.2%. Looking forward, our Group plans to open 30 retail pharmacies (with GFA ranging from approximately 60 sq.m. to 350 sq.m.) in Fujian Province, the PRC during the financial year ending 31 March 2014, further details of which are disclosed in the section headed "Business – Our Business Strategies and Future Plans – Increase the number of our retail pharmacies through internal growth" in this listing document. To increase the revenue per retail pharmacy, we aim to broaden our product offerings and offer more higher margin pharmaceutical products in our retail pharmacies.

Revenue Recognition

We recognise revenue from sales of goods when the significant risks and rewards of ownership have been transferred to the buyers, provided that our Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the good sold. Sales of goods by our pharmaceutical distribution and wholesale business are recognised when we have delivered products to a customer; the customer has full discretion over the channel and price to sell the products; and there is no unfulfilled obligation that could affect the customer's acceptance of the products. Sales of goods by our pharmaceutical retail business are recognised when we sell a product to the customer. Retail sales are usually settled in cash or by cash or debit cards or credit cards or medical insurance cards.

Cost of Sales, Gross Profit and Gross Margin

For the years ended 31 March 2011, 2012 and 2013, our cost of sales were approximately HK$1,224.4 million, HK$1,551.8 million and HK$1,721.2 million, respectively, and our gross profit were approximately HK$133.3 million, HK$160.4 million and HK$164.2 million, respectively. Our gross margin, which equals gross profit divided by revenue, were approximately 9.8%, 9.4% and 8.7%, respectively, in the same periods. Based on information provided by our Group, the following table sets forth a breakdown of our revenue, cost of sales, gross profit and gross margin by business segment for the periods indicated:

	For the year ended 31 March					
	2011		2012		2013	
	Amount HK$'000	*% of segment revenue*	*Amount HK$'000*	*% of segment revenue*	*Amount HK$'000*	*% of segment revenue*
Pharmaceutical wholesale and distribution						
Segment revenue	1,200,270	100.0	1,525,145	100.0	1,672,848	100.0
Segment cost of sales	1,122,560	93.5	1,437,579	94.3	1,593,435	95.3
Segment gross margin	77,710	6.5	87,566	5.7	79,413	4.7
Pharmaceutical retail						
Segment revenue	157,409	100.0	187,002	100.0	212,521	100.0
Segment cost of sales	101,805	64.7	114,216	61.1	127,775	60.1
Segment gross margin	55,604	35.3	72,786	38.9	84,746	39.9

During the Track Record Period, the gross profit margin of pharmaceutical retail reached over 30% and was higher than those of the pharmaceutical wholesale and distribution. This was mainly due to the difference between the operation of pharmaceutical retail business and pharmaceutical wholesale and distribution business in the volume of items sold and the cost of operations such as rental expenses. For pharmaceutical wholesale and distribution business, the volume of items sold was much higher than pharmaceutical retail business, the price of products in bulk volume are usually set at a lower level than the products sold individually. On the other hand, the operation cost of pharmaceutical retail business is much higher than that of pharmaceutical wholesale and distribution business. Included in selling and distribution expenses, pharmaceutical retail business incurred a higher rental expenses for retail shops, amounted to approximately HK$8.8 million, HK$12.0 million and HK$13.5 million for the years ended 31 March 2011, 2012

and 2013 respectively, than that of the warehouses for wholesale and distribution business, which amounted to approximately HK$462,000, HK$768,000 and HK$860,000 for the years ended 31 March 2011, 2012 and 2013 respectively. In addition, the salaries incurred for retail business was also higher than wholesale and distribution business, amounted to approximately HK$18.6 million, HK$26.7 million and HK$31.6 million for retail business for the years ended 31 March 2011, 2012 and 2013 respectively compared to HK$8.0 million, HK$11.5 million and HK$14.1 million for wholesale and distribution business for the same period.

Pharmaceutical Wholesale and Distribution

The cost of sales of our pharmaceutical wholesale and distribution business mainly represents cost of pharmaceutical and healthcare products purchased by our pharmaceutical wholesale and distribution business for resale. For the years ended 31 March 2011, 2012 and 2013, segment cost of sales were approximately HK$1,122.6 million, HK$1,437.6 million and HK$1,593.4 million, respectively. The increase in cost of sales during these periods was in line with our growth in sales of pharmaceutical wholesale and distribution business.

For the years ended 31 March 2011, 2012 and 2013, segment gross profit, which is equal to segment revenue less segment cost of sales, were approximately HK$77.7 million, HK$87.6 million and HK$79.4 million, respectively, and our gross margin, which is equal to segment gross profit divided by segment revenue, were approximately 6.5%, 5.7% and 4.7%, respectively. During these periods, the gross margin of our pharmaceutical wholesale and distribution business was primarily affected by a number of factors, such as product mix, customer mix and regulatory environment and competition.

Manufacturers offer different profit margins for distributing different products. To optimize our product mix, we evaluate our product mix from time to time to ensure that our resources are allocated to distributing products with higher margins.

In general, we derived higher gross profit margins for products sold to our hospital and healthcare institution customers than those sold to our end customers such as companies operating pharmaceutical retail chain stores, independent pharmacies, out-patient departments of community hospitals, healthcare service stations and clinics with the lowest gross margin for products sold to our distributor customers. As a result, our customer mix has

a significant impact on our segment gross margin. The following table sets forth a breakdown of the segment revenue, gross profit and gross profit margin of our pharmaceutical wholesale and distribution business by customer type for the periods indicated:

	For the year ended 31 March					
	2011		2012		2013	
	Amount	*%*	*Amount*	*%*	*Amount*	*%*
	HK$'000		*HK$'000*		*HK$'000*	
Revenue:						
Hospitals and healthcare institutions	187,124	15.6	296,171	19.4	456,049	27.3
Distributor customers	838,797	69.8	1,036,316	67.9	1,055,392	63.1
End customers *(note 1)*	141,664	11.8	160,576	10.6	135,492	8.1
Others *(note 2)*	32,685	2.8	32,082	2.1	25,915	1.5
Total segment revenue	1,200,270	100.0	1,525,145	100.0	1,672,848	100.0

	For the year ended 31 March					
	2011		2012		2013	
		Gross margin		Gross margin		Gross margin
	HK$'000	*%*	*HK$'000*	*%*	*HK$'000*	*%*
Gross Profit:						
Hospitals and healthcare institutions	11,064	5.9	16,906	5.7	26,870	5.9
Distributor customers	26,060	3.1	29,278	2.8	21,760	2.1
End customers *(note 1)*	7,901	5.6	9,300	5.8	4,868	3.6
Others *(note 2)*	32,685	100	32,082	100	25,915	100
	77,710	6.5	87,566	5.7	79,413	4.7

Notes:

1. End customers include companies operating pharmaceutical retail chain stores, independent pharmacies, out-patient departments of community hospitals, healthcare service stations and clinics. End customers are different from retail customers as end customers are not individual persons whereas the latter are.

2. Others relate to rebates received (net of sales tax) from suppliers as rewards for meeting certain sales target set by the suppliers.

As shown from the above table, the majority of our sales during the Track Record Period was derived from sales to distributor customers and hence any changes in gross profit margin and amount of sales to distributor customers have a significant impact on the gross profit margin from our pharmaceutical wholesale and distribution business. The gross profit margin of our pharmaceutical wholesale and distribution business decreased from approximately 6.5% for the year ended 31 March 2011 to approximately 5.7% for the year ended 31 March 2012 and subsequently to approximately 4.7% for the year ended 31 March 2013 caused by a decrease in the gross profit margin of sales to our distributor customers and end customers arising mainly from our Group's attempt to lower gross margins by reducing

the selling prices of some products in order to increase our distribution network, number of customers and market share with a view to attract more pharmaceutical manufacturers to engage us for distribution of their products to our hospital and healthcare institution customers under the collective tendering process so as to increase our sales to the hospital and healthcare institution customers.

Pharmaceutical Retail

The cost of sales of our pharmaceutical retail business mainly consists of the cost of pharmaceutical and healthcare products purchased by our pharmaceutical retail business for resale. For the years ended 31 March 2011, 2012 and 2013, segment cost of sales were approximately HK$101.8 million, HK$114.2 million and HK$127.8 million, respectively. The growth of segment cost of sales during these periods corresponded to the increases in segment revenue.

For the years ended 31 March 2011, 2012 and 2013, segment gross profit, which is equal to segment revenue less segment cost of sales, were approximately HK$55.6 million, HK$72.8 million and HK$84.7 million, respectively, and our segment gross margin, which is equal to segment gross profit divided by segment revenue, were approximately 35.3%, 38.9% and 39.9%, respectively. The increase in the gross profit margin from our pharmaceutical retail business was due to more offerings of products with higher margins which, in turn, led to an increase in the proportion of high margin products sold to retail customers and continuous effort in building the brand name of "Huihao Sihai" in Fujian Province in the PRC.

Operating Expenses

Our operating expenses consist of selling and distribution expenses and administrative expenses. The following table sets forth the principal components of our operating expenses for the periods indicated:

	For the year ended 31 March					
	2011		2012		2013	
	Amount HK$'000	*% of turnover*	*Amount HK$'000*	*% of turnover*	*Amount HK$'000*	*% of turnover*
Other revenue	3,265	0.2	6,258	0.4	7,729	0.4
Other income	231	0.0	1,922	0.1	1,078	0.1
Selling and distribution expenses	(38,929)	2.9	(54,899)	3.2	(61,397)	3.3
Administrative expenses	(41,233)	3.0	(40,163)	2.4	(46,802)	2.5

Other Revenue

The following table sets forth the breakdown of our Group's other revenue for the periods indicated:

	For the year ended 31 March		
	2011	**2012**	**2013**
	HK$'000	*HK$'000*	*HK$'000*
Bank interest income	1,689	905	632
Rental income	314	1,195	1,410
Exhibition income	–	2,358	4,505
Sundry income	1,262	1,800	1,182
Total	3,265	6,258	7,729

Our other revenue consists primarily of sundry income, bank interest income, exhibition income and rental income. Sundry income mainly consists of reversal of other payables, advertising income and sponsor income which arises from organising exhibitions. Bank interest income primarily represents interest generated from bank deposits. The exhibition income mainly represented the aggregate of participation fee income and entrance fee income from exhibition activities organised by our Group. Rental income mainly represents income from leasing of properties to independent third parties. The reversal of other payables was represented by overprovision of the costs for leasehold improvement provided in prior years, therefore the reversal of overprovision was recognised. For the years ended 31 March 2011, 2012 and 2013, our Group's other revenue was approximately HK$3.3 million, HK$6.3 million and HK$7.7 million, respectively.

Selling and Distribution Expenses

The following table sets forth the breakdown of our Group's selling and distribution expenses for the periods indicated:

	For the year ended 31 March		
	2011	**2012**	**2013**
	HK$'000	*HK$'000*	*HK$'000*
Advertising and promotion	829	1,278	1,289
Electricity and water	942	1,260	1,280
Telephone and fax	696	1,071	798
Other tax expenses	717	470	652
Transportation	1,163	1,774	1,680
Depreciation	1,147	1,234	1,349
Salaries	18,954	26,620	31,520
Social insurance	2,138	4,111	3,910
Rental	9,270	12,764	14,351
Motor vehicles	240	826	1,218
Staff welfare	268	750	465
Others	2,565	2,741	2,885
Total	38,929	54,899	61,397

The major components of our selling and distribution expenses consist mainly of salaries paid to sales and marketing personnel and rental expenses of retail pharmacies. For the years ended 31 March 2011, 2012 and 2013, our selling and distribution expenses increased in absolute terms mainly attributable to the increase in both salaries and rental expenses arising from the increase in both the number of sales and marketing personnel employed by our Group and the number of retail pharmacies during the Track Record Period. Our selling and distribution expenses as a percentage of our revenue fluctuated within the range from approximately 2.9% to approximately 3.3% during the Track Record Period.

Administrative Expenses

The following table sets forth the breakdown of our Group's administrative expenses for the periods indicated:

	For the year ended 31 March		
	2011	**2012**	**2013**
	HK$'000	*HK$'000*	*HK$'000*
Bank charges	1,333	1,313	1,191
Corporate administrative service fees	18,717	13,524	9,603
Depreciation	1,668	2,879	2,583
Electricity and water	393	320	284
Entertainment	513	680	1,014
Listing expenses	–	–	6,410
Motor vehicle	502	471	413
Office expenses	323	410	420
Overseas travelling	292	368	608
Postage and carrier	368	319	457
Provision of impairment of trade and other receivables	1,497	878	989
Rental	1,364	864	1,087
Salaries	7,609	11,735	15,393
Social insurance	1,413	1,618	1,841
Staff welfare	370	307	205
Telephone and fax	336	359	479
Transportation	–	376	–
Other tax expenses	612	555	636
Others	3,923	3,187	3,189
Total	41,233	40,163	46,802

Administrative expenses primarily consist of salaries and wages of administrative staff, corporate administrative service fees allocated from Hua Xia, provision for impairment of trade and other receivables, depreciation, rental expenses and office supply expenses. During the Track Record Period, corporate administrative service fees, which were directly incurred by Hua Xia for its Hong Kong corporate office's general operations such as accounting services, administration services, compliance functions, investors and public relations, were charged to Timely Hero by Hua Xia at the end of each financial year. As advised by the directors of Hua Xia, (i) from Hua Xia's perspective, it is better for Hua Xia, being a listed company which take up all the general operations of Hua Xia Group and our Group but does not generate any income by itself, to assign its administrative expenses costs to its subsidiaries based on the turnover so as to obtain the best benefit of Hua Xia Group and our Group as a whole. As Hua Xia did not have any operation in Hong Kong, the corporate administrative service fees charged to the two subsidiaries, namely Timely Hero

and Ally Health, were considered as non-taxable income by the Inland Revenue Department of Hong Kong (the "**IRD**") while all the losses incurred by Hua Xia at the company level were also considered as non-deductible expenses by the IRD. In order to achieve the best taxation benefit, the directors of Hua Xia considered that Timely Hero and Ally Health may possibly use the losses to set off against the future assessable profit derived from Timely Hero and Ally Health should Timely Hero and Ally Health become registered with the IRD and commence operations in Hong Kong in the future; and (ii) it was a commercial decision to assign Timely Hero and Ally Health, the ultimate investment holding companies of the pharmaceutical wholesale and distribution and retail business and general hospital services business respectively, as the administrative centers and to be charged with the corporate administrative service fees in proportion to their respective turnovers based on the following reasons: (a) all the corporate administrative service fees were incurred by and related to the general operations of Hua Xia's Hong Kong corporate office but were neither directly nor indirectly related to the business operation of any particular subsidiary of Hua Xia Group, and (b) the board of directors of Hua Xia, after taking into account of the balance of convenience and cost efficient factors, consider that it was more appropriate to use the ultimate investment holding company of each segment of pharmaceutical wholesale and distribution and retail chain business, and provision of general hospital services business, i.e. Timely Hero and Ally Health, to absorb the administrative expenses of Hua Xia's Hong Kong corporate office. Hua Xia therefore did not assign the corporate administrative service fees to each and every subsidiary of Hua Xia nor to any of its particular subsidiary, save for Timely Hero and Ally Health.

As mentioned above, the corporate administrative service fees charged to Timely Hero by Hua Xia during the Track Record Period was determined based on the percentage of turnover of each business segment of Hua Xia, i.e. the provision of general hospital services business and the pharmaceutical business. The percentage represents the ratio to share the common administrative expenses incurred by the two investment holding companies, namely Timely Hero and Ally Health for each period. Since administrative expenses charged to Timely Hero were expenses incurred by Hua Xia and Hua Xia's office in Hong Kong and neither directly nor indirectly related to the operation of Nurture Fit Group in the PRC, Hua Xia only allocated the administrative expenses at Timely Hero level but not at the level of Nurture Fit Group. For the years ended 31 March 2011, 2012 and 2013, the management fee paid by our Group to Hua Xia were approximately HK$18.7 million, HK$13.5 million and HK$9.6 million respectively.

During the Track Record Period, our administrative expenses increased in absolute terms with the growth of our business in general. In these periods, administrative expenses decreased as a percentage of our revenue, primarily due to improved operational efficiency. Provision for impairment of trade receivables decreased in both absolute terms and as a percentage of our revenue during these periods, reflecting our continuous efforts to control

our credit risk. A provision for impairment of trade receivables is recognised when there is objective evidence that we will not be able to collect all amounts due according to the original terms of the receivables. For further details of our accounting policy on impairment of trade receivables, please refer to the section headed – "Critical Accounting Policies – Impairment of Trade Receivables" of this section.

The amount of listing expenses to be recognised for our Group is determined on the percentage of completion of work performed by each professional party at the end of each reporting period during the Track Record Period, and the reporting accountants of our Company considered it is a fair basis. Our Directors estimated that 60% of the total listing expenses will be recognised in our Group's profit or loss, and the remaining 40% will be capitalised as share premium. The ratio of capitalisation of listing expenses of 40% is assumed as approximately 40% of the existing shares of our Company will be distributed under the Hua Xia Distribution. No listing expenses will be borne by Hua Xia Group. Our Group expects that the total listing expenses amount to approximately HK$26.5 million. It is noted that the listing expenses above are a current estimate for reference only and the actual amount to be recognised is subject to adjustment based on audit and the then changes in variables and assumptions.

Listing expenses recognised in the profit or loss during the years ended 31 March 2011, 2012 and 2013 were nil, nil and HK$6.4 million respectively. There were no prepaid or deferred listing expenses as at 31 March 2011, 2012 and 2013. Based on the above assumed total listing expenses, it is expected that approximately HK$9.5 million will be further recognised in our Group's profit or loss for the year ending 31 March 2014 and approximately HK$10.6 million will be deducted from our Group's share premium upon the Listing.

Other Income

Our other income consists primarily of reversal of impairment of trade receivables and changes in fair value in investment properties. Reversal of impairment of trade receivables represent the recorded amount of impaired receivables in previous reporting period. See note 9 to the Accountants' Report in Appendix I to this listing document. For the years ended 31 March 2011, 2012 and 2013, our other income were approximately HK$0.2 million, HK$1.9 million and HK$1.1 million, respectively.

Finance Costs

Our finance costs mainly represent interest expenses on bank borrowings. Interest expenses on borrowing increased during these periods, primarily reflecting increase in effective interest rates as well as increased average outstanding amounts of bank loans during these periods. For further details of bank borrowings, please refer to the paragraph headed " Indebtedness" of this section.

Income Tax Expenses

Pursuant to the rules and regulations of the Cayman Islands and the BVI, our Group is not subject to any income tax in the Cayman Islands and the BVI.

All PRC subsidiaries are subject to corporate income tax of 25% on the assessable profits and other subsidiaries operated in Hong Kong are subject to Hong Kong Profits Tax at 16.5% during the Track Record Period.

No provision for Hong Kong Profits Tax has been provided during the Track Record Period as our Group did not have assessable profits subject to Hong Kong Profits Tax.

The PRC income tax charge of our Group during the Track Record Period represents mainly the PRC income tax charge from Fuzhou Huihao, Fujian Huiming, Putian Huihao, Quanzhou Huihao and Huihao Sihai.

The National People's Congress of the PRC approved the Corporate Income Tax Law of the PRC on 16 May 2007. With effect from 1 January 2008, the tax rate applicable to enterprises established in the PRC will be unified at 25% with certain grandfather provisions and preferential provisions. Fuzhou Huihao, Fujian Huiming, Putian Huihao, Quanzhou Huihao and Huihao Sihai are all entitled to the statutory tax rate of 25% throughout the years ended 31 December 2011, 2012 and 2013.

Under the Corporate Income Tax Law of the PRC with effect from 1 January 2008 onwards, non-resident enterprises without an establishment or place of business in the PRC or which have an establishment or place of business but the relevant income is not effectively connected with the establishment or a place of business in the PRC will be subject to withholding income tax at the rate of 10% on various types of passive income such as dividends derived from sources in the PRC. Pursuant to the double tax arrangement between the PRC and Hong Kong effective on 8 December 2006, the withholding income tax rate will be reduced to 5% if the investment by the Hong Kong investor in the invested entities in the PRC is not less than 25%. On 22 February 2008, the Minister of Finance and State Administration of Tax approved Caishui (2008) No. 1, pursuant to which dividend distributions out of retained earnings of foreign investment enterprises prior to 31 December 2007 will be exempted from withholding income tax.

Subject to the dividend income received from a PRC subsidiary, a provision of withholding tax of approximately HK$2.7 million was recognised with a tax rate of 5% on the dividend income received for the year ended 31 March 2012.

The following table sets forth our Group's profit before tax and income tax for each of the three financial years ended 31 March 2011, 2012 and 2013 and the reconciliation between tax expense and accounting profit at the applicable tax rates:

	For the year ended 31 March		
	2011	**2012**	**2013**
	HK$'000	*HK$'000*	*HK$'000*
Profit before taxation	52,260	68,542	60,677
Notional tax on profit before tax, calculated at the rates applicable in the jurisdictions concerned	14,656	18,294	16,669
Tax effect of non-deductible expenses and non-taxable income	844	(22)	860
Tax loss not recognised	3,600	2,250	1,855
Withholding tax paid/(refund) on undistributed profits of PRC subsidiaries	–	2,688	(612)
Tax effect of under-provision	320	–	–
Actual tax expense	19,420	23,210	18,772
Applicable tax rate *(Note 1)*	28.0%	26.7%	27.5%
Withholding tax rate *(Note 2)*	–	6.5%	-1.5%
Overall tax rate	28.0%	26.7%	27.5%
Effective tax rate	37.1%	33.9%	30.9%

Note:

1. The applicable tax rate is calculated based on the notional tax on profit before tax at the applicable tax rate in the PRC and Hong Kong over the profit before taxation of our Group for each of the three years ended 31 March 2011, 2012 and 2013 respectively.

2. The applicable withholding tax for dividend is 5% based on the dividend income received from the PRC subsidiary.

The main reasons for the difference between the overall tax rate and the effective tax rate during the Track Record Period are mainly due to the tax effect of non-deductible expenses or the tax effect of non-taxable income, tax effect of tax loss not recognised and tax effect of withholding tax of dividend.

RESULTS OF OPERATIONS

The following sets forth the financial information and analysis of our Group as extracted from Appendix I to this listing document.

Comparison of the years ended 31 March 2013 and 31 March 2012

Turnover

Our turnover increased by approximately 10.1% from approximately HK$1,712.1 million for the year ended 31 March 2012 to approximately HK$1,885.4 million for the year ended 31 March 2013. The increase in revenue was contributed by the increase in revenue generated from our pharmaceutical wholesale and distribution business as our Group has, since April 2012, commenced the distribution of pharmaceutical products made by pharmaceutical manufacturers that have recently won the bid of the Eighth Provincial Centralised Purchasing# (福建省第八批藥品集中採購) in Fujian Province, the PRC which was organised by the Fujian Province Drugs Centralised Purchasing Leading Group Office# (福建省藥品集中採購領導小組辦公室) and the increase in average revenue for each retail pharmacy for the year ended 31 March 2013 as compared to the previous financial year.

Pharmaceutical Wholesale and Distribution

The segment revenue of our pharmaceutical wholesale and distribution business increased by approximately 9.7% from approximately HK$1,525.1 million for the year ended 31 March 2012 to approximately HK$1,672.9 million for the year ended 31 March 2013. The growth was primarily driven by the increase in sales to our hospital and healthcare institution customers as our Group has, since April 2012, commenced the distribution of pharmaceutical products made by pharmaceutical manufacturers that have won the bid of the Eighth Provincial Centralised Purchasing# (福建省第八批藥品集中採購) in Fujian Province, the PRC which was organised by the Fujian Province Drugs Centralised Purchasing Leading Group Office# (福建省藥品集中採購領導小組辦公室) as we were chosen by our pharmaceutical manufacturers to be the only distributor to deliver a particular type of medicines to our hospital and healthcare institution customers within a prefectural – level district of Fujian Province in the PRC on an exclusive basis. Sales to our hospital and healthcare institution customers increased by approximately 54.0% from approximately HK$296.1 million for the year ended 31 March 2012 to approximately HK$456.0 million for the year ended 31 March 2013.

Pharmaceutical Retail

The segment revenue of our pharmaceutical retail business increased by approximately 13.6% from approximately HK$187.0 million for the year ended 31 March 2012 to approximately HK$212.5 million for the year ended 31 March 2013. The increase was primarily due to the expansion of product portfolio and the optimisation of product mix with more offerings of products with higher margins which, in turn, led to an increase in average revenue for each retail pharmacy for the year ended 31 March 2013 as compared to the same period in the previous year.

Cost of Sales, Gross Profit and Gross Margin

Our cost of sales increased by approximately 10.9% from approximately HK$1,551.8 million for the year ended 31 March 2012 to approximately HK$1,721.2 million for the year ended 31 March 2013. This increase in cost of sales was mainly attributable to increase in volume of products purchased from our suppliers and was generally in line with the increase in revenue of our Group during the period under review.

Our gross profit was approximately HK$160.4 million and HK$164.2 million for the years ended 31 March 2012 and 2013, respectively, and our gross margin was approximately 9.4% and 8.7%, respectively, in the same periods. The decrease in our Group's gross profit margin was mainly contributed by the decrease in gross profit margin from our pharmaceutical wholesale and distribution business from approximately 5.7% for the year ended 31 March 2012 to approximately 4.7% for the year ended 31 March 2013.

Pharmaceutical Wholesale and Distribution

The cost of sales of our pharmaceutical wholesale and distribution business increased by approximately 10.8% from approximately HK$1,437.6 million for the year ended 31 March 2012 to approximately HK$1,593.4 million for the year ended 31 March 2013, which corresponded to increased segment sales.

Segment gross profit of our pharmaceutical wholesale and distribution business was approximately HK$87.6 million and HK$79.4 million for the years ended 31 March 2012 and 2013, respectively. Segment gross margin was approximately 5.7% and 4.7% respectively, in the same periods. The decrease in gross margin was due to a decrease in the gross profit margin of sales to our distributor customers and end customers arising mainly from our Group's attempt to lower gross margins by reducing the selling prices of some products in order to increase our distribution network, number of customers and market share with a view to attract more pharmaceutical manufacturers to engage us for distribution of their products to our hospital and healthcare institution customers under the collective tendering process so as to increase our sales to the hospital and healthcare institution customers.

Pharmaceutical Retail

The cost of sales of our pharmaceutical retail business increased by approximately 11.9% from approximately HK$114.2 million for the year ended 31 March 2012 to approximately HK$127.8 million for the year ended 31 March 2013, which corresponded to increased segment sales.

Segment gross profit of our pharmaceutical retail business was approximately HK$72.8 million and HK$84.7 million for the years ended 31 March 2012 and 2013, respectively. Segment gross margin was approximately 38.9% and 39.9%, respectively, in the same periods. The increase in gross profit and gross profit margin was primarily due to more offerings of products with higher margins, which in turn, led to an increase in the proportion of high margin products sold to retail customers.

Other Revenue

Our other revenue increased by approximately 23.5% from approximately HK$6.3 million for the year ended 31 March 2012 to approximately HK$7.7 million for the year ended 31 March 2013 primarily due to increase in exhibition income, which was derived from organising exhibitions or events about the latest development of the pharmaceutical industry by our Group, by approximately 91.1% from approximately HK$2.4 million for the year ended 31 March 2012 to approximately HK$4.5 million for the year ended 31 March 2013.

Selling and Distribution Expenses

Our selling and distribution expenses increased by approximately 11.8% from approximately HK$54.9 million for the year ended 31 March 2012 to approximately HK$61.4 million for the year ended 31 March 2013 primarily due to (i) an increase in salaries paid to sales and marketing staff by approximately 18.4% from approximately HK$26.6 million for the year ended 31 March 2012 to approximately HK$31.5 million for the year ended 31 March 2013, resulting from increased remuneration to our sales and marketing staff; and (ii) an increase in rental expenses by approximately 12.4% from approximately HK$12.8 million for the year ended 31 March 2012 to approximately HK$14.4 million for the year ended 31 March 2013 due to increase in the number of retail pharmacies from 90 as at 1 April 2011 to 97 as at 31 March 2013. As a percentage of revenue, our selling and distribution expenses remained relatively stable at approximately 3.2% and 3.3% for each of the years ended 31 March 2012 and 2013 respectively.

Administrative Expenses

Our administrative expenses increased by approximately 16.5% from approximately HK$40.2 million for the year ended 31 March 2012 to approximately HK$46.8 million for the year ended 31 March 2013 mainly contributed by (i) an increase in salaries paid to our staff (other than sales and marketing staff) by approximately 31.2% from approximately HK$11.7 million for the year ended 31 March 2012 to approximately HK$15.4 million for the year ended 31 March 2013, resulting from increased remuneration to our staff (other than sales and marketing staff); and (ii) the recognition of a portion of the listing expenses in relation to the Listing in the amount of approximately HK$6.4 million for the year ended 31 March 2013 (31 March 2012: nil). As a percentage of revenue, our administrative expenses increased from approximately 2.4% for the year ended 31 March 2012 to approximately 2.5% for the year ended 31 March 2013, primarily attributable to the recognition of a portion of the listing expenses in relation to the Listing for the year ended 31 March 2013 in the amount of approximately HK$6.4 million, representing approximately 0.3% of our revenue for the year ended 31 March 2013.

Other Income

Our other income decreased by approximately 43.9% from approximately HK$1.9 million for the year ended 31 March 2012 to HK$1.1 million for the year ended 31 March 2013 mainly due to a decrease in the change in fair value in investment properties by approximately 63.1% from approximately HK$1.3 million for the year ended 31 March 2012 to approximately HK$0.5 million for the year ended 31 March 2013.

Finance Costs

Our finance costs decreased from approximately HK$4.9 million for the year ended 31 March 2012 to approximately HK$4.1 million for the year ended 31 March 2013. The decrease in our finance costs was mainly due to decrease in bill payables from approximately HK$0.5 million for the year ended 31 March 2012 to nil for the year ended 31 March 2013.

Profit before Taxation

As a result of the foregoing, our profit before taxation decreased by approximately 11.5% from approximately HK$68.5 million for the year ended 31 March 2012 to approximately HK$60.7 million for the year ended 31 March 2013.

Taxation

Our income tax expense decreased from approximately HK$23.2 million for the year ended 31 March 2012 to approximately HK$18.8 million for the year ended 31 March 2013. Our effective tax rate was approximately 33.9% for the year ended 31 March 2012 and approximately 30.9% for the year ended 31 March 2013. Our effective tax rate during these periods was higher than the standard 25% PRC enterprise income tax rate primarily due to the losses attributable by Timely Hero, Nurture Fit and Huihao Hong Kong which are subject to a Hong Kong profits tax rate of 16.5%, the tax effect of expenses not deductible for tax purpose and the tax effect of tax loss not recognised. Our effective tax rate for the year ended 31 March 2013 was lower than that for the year ended 31 March 2012, mainly attributable to PRC withholding tax refund for the year ended 31 March 2013.

Profit for the Year

As a result of the foregoing, our profit for the year decreased by approximately 7.6% from approximately HK$45.3 million for the year ended 31 March 2012 to approximately HK$41.9 million for the year ended 31 March 2013.

Comparison of Years Ended 31 March 2012 and 31 March 2011

Revenue

Our revenue increased by approximately 26.1% from approximately HK$1,357.7 million for the year ended 31 March 2011 to approximately HK$1,712.1 million for the year ended 31 March 2012. The increase in revenue was mainly contributed by the increase in revenue generated from our pharmaceutical wholesale and distribution business, further details are explained below.

Pharmaceutical Wholesale and Distribution

The segment revenue of our pharmaceutical wholesale and distribution business increased by approximately 27.1% from approximately HK$1,200.3 million for the year ended 31 March 2011 to approximately HK$1,525.1 million for the year ended 31 March 2012. The increase in revenue of our pharmaceutical wholesale and distribution business was mainly derived from an increase in the sales of pharmaceutical products to our hospital and healthcare institution customers and our distributor customers as a result of increase in market demand, expansion of distribution network and product portfolio and the completion of the acquisition of Quanzhou Huihao, which is principally engaged in the wholesale and distribution of pharmaceutical and healthcare products in the PRC, on 1 April 2011, details of which are summarised under the section headed "History, Development and Reorganisation – Corporate Development – Quanzhou Huihao" in this listing document.

Pharmaceutical Retail

The segment revenue of our pharmaceutical retail business increased by approximately 18.8% from approximately HK$157.4 million for the year ended 31 March 2011 to approximately HK$187.0 million for the year ended 31 March 2012. This increase was primarily due to an increase in the number of retail pharmacies from 90 as at 1 April 2011 to 97 as at 31 March 2012 as well as an increase in the average revenue of each retail pharmacy during the year as a result of more offerings of products with higher margins which in turn led to an increase in the proportion of high margin products sold to retail customers.

Cost of Sales, Gross Profit and Gross Margin

Our cost of sales increased by approximately 26.7% from approximately HK$1,224.4 million for the year ended 31 March 2011 to approximately HK$1,551.8 million for the year ended 31 March 2012. This increase in cost of sales was mainly attributable to increase in volume of products purchased from our suppliers and was generally in line with the increase in revenue of our Group during the year under review.

Our gross profit was approximately HK$133.3 million and HK$160.4 million for the years ended 31 March 2011 and 2012, respectively, and our gross profit margin was approximately 9.8% and 9.4%, respectively, in the same periods. The decrease in our Group's gross profit margin was mainly contributed by the decrease in gross profit margin from our pharmaceutical wholesale and distribution business from approximately 6.5% for the year ended 31 March 2011 to approximately 5.7% for the year ended 31 March 2012.

Pharmaceutical Wholesale and Distribution

The cost of sales of our pharmaceutical wholesale and distribution business increased by approximately 28.1% from approximately HK$1,122.6 million for the year ended 31 March 2011 to approximately HK$1,437.6 million for the year ended 31 March 2012, which corresponded to increased segment sales.

Segment gross profit of our pharmaceutical wholesale and distribution business was approximately HK$77.7 million and HK$87.6 million for the years ended 31 March 2011 and 2012, respectively. Segment gross margin was approximately 6.5% and 5.7%, respectively, in the same periods. The decrease in gross margin was due to an increase in total amount of sales to other distributor customers and a decrease in gross profit margin of pharmaceutical products sold to other distributor customers.

Pharmaceutical Retail

The cost of sales of our pharmaceutical retail business increased by approximately 12.2% from approximately HK$101.8 million for the year ended 31 March 2011 to approximately HK$114.2 million for the year ended 31 March 2012. The increase in cost of sales was lower than the increase in segment revenue of our pharmaceutical retail business, which was mainly due to optimisation of product mix with more products offerings of higher margin products that led to an increase in the proportion of high margin products and hence revenue sold to our retail customers.

Segment gross profit of our pharmaceutical retail business was approximately HK$55.6 million and HK$72.8 million for the years ended 31 March 2011 and 2012, respectively, and segment gross profit margin was 35.3% and 38.9%, respectively, in the same periods. The increase in gross profit and gross profit margin was primarily due to more offerings of products with higher margins, which in turn, led to an increase in the proportion of high margin products sold to retail customers.

Other Revenue

Our other revenue increased by approximately 91.7% from approximately HK$3.3 million for the year ended 31 March 2011 to approximately HK$6.3 million for the year ended 31 March 2012, primarily attributable to the recognition of exhibition income derived from organising exhibitions or events about the latest development of the pharmaceutical industry by our Group during the year ended 31 March 2012.

Selling and Distribution Expenses

Our selling and distribution expenses increased by approximately 41.0% from approximately HK$38.9 million for the year ended 31 March 2011 to approximately HK$54.9 million for the year ended 31 March 2012, which was mainly due to (i) an increase in staff salaries by approximately 40.4% from approximately HK$19.0 million for the year ended 31 March 2011 to approximately HK$26.6 million for the year ended 31 March 2012 resulting from an increase in the number of sales and marketing staff; and (ii) an increase in rental expenses by approximately 37.7% from approximately HK$9.3 million for the year ended 31 March 2011 to approximately HK$12.8 million for the year ended 31 March 2012 as a result of the increase in rent of our retail pharmacies following the renewal of their lease agreements As a percentage of revenue, selling and distribution expenses increased slightly from approximately 2.9% for the year ended 31 March 2011 to approximately 3.2% for the year ended 31 March 2012.

Administrative Expenses

Our administrative expenses decreased by approximately 2.6% from approximately HK$41.2 million for the year ended 31 March 2011 to approximately HK$40.2 million for the year ended 31 March 2012, primarily attributable to a decrease in corporate administrative service fees allocated from Hua Xia by approximately 27.7% from approximately HK$18.7 million for the year ended 31 March 2011 to approximately HK$13.5 million for the year ended 31 March 2012 which offsets the increase in salaries paid to staff (other than sales and marketing staff) from approximately HK$7.6 million for the year ended 31 March 2011 to approximately HK$11.7 million for the year ended 31 March 2012. As a percentage of revenue, administrative expenses decreased from approximately 3.0% for the year ended 31 March 2011 to approximately 2.4% for the year ended 31 March 2012, mainly reflecting the improvement of operational efficiency due to our internal integration efforts.

Other Income

Our other income increased by approximately 732.0% from approximately HK$0.2 million for the year ended 31 March 2011 to approximately HK$1.9 million for the year ended 31 March 2012, mainly due to the recognition of a reversal of impairment loss of trade receivables of approximately HK$0.6 million for the year ended 31 March 2012 (2011: nil) and an increase in change in fair value of investment properties from approximately HK$0.2 million for the year ended 31 March 2011 to approximately HK$1.3 million for the year ended 31 March 2012.

Finance Costs

Our finance costs increased by approximately 12.3% from approximately HK$4.4 million for the year ended 31 March 2011 to approximately HK$4.9 million for the year ended 31 March 2012. The increase mainly arose from an increase in the weighted average interest rate of bank borrowings from approximately 5.5% for the year ended 31 March 2011 to approximately 8.4% for the year ended 31 March 2012.

Profit before Taxation

As a result of the foregoing, our profit before taxation increased by approximately 31.2% from approximately HK$52.3 million for the year ended 31 March 2011 to approximately HK$68.5 million for the year ended 31 March 2012.

Taxation

Our income tax expense increased from approximately HK$19.4 million for the year ended 31 March 2011 to approximately HK$23.2 million for the year ended 31 March 2012. Our effective tax rate was approximately 37.1% for the year ended 31 March 2011 and approximately 33.9% for the year ended 31 March 2012. Our effective tax rate during these periods was higher than the standard 25% PRC enterprise income tax rate primarily due to the losses attributable by Timely Hero, Nurture Fit and Huihao Hong Kong which are subject to a Hong Kong profits tax rate of 16.5%, the tax effect of income not taxable and expenses not deductible and the tax effect of tax loss not recognised. Our effective tax rate for the year ended 31 March 2011 was higher than that for the year ended 31 March 2012, which was mainly attributable to an increase in tax effect of expenses not deductible for tax purpose and tax effect of under-provision with lower amount of profit before taxation for the year ended 31 March 2011.

Profit for the Year

As a result of the foregoing, our profit for the year increased by approximately 38.0% from approximately HK$32.8 million for the year ended 31 March 2011 to approximately HK$45.3 million for the year ended 31 March 2012.

LIQUIDITY AND CAPITAL RESOURCES

Overview

Our liquidity requirements primarily relate to working capital needs, capital expenditures, debt services and business acquisitions. Our principal sources of liquidity are cash generated from our operations and bank borrowings. Going forward, we expect these sources to continue to be our principal sources of liquidity. In the future, if our capital expenditures or other long-term commitments increase, or if we need significant financing for business acquisitions, we may decide to incur additional long-term indebtedness, depending on our financial condition at the time. As at 31 March 2013, we had cash and cash equivalents of approximately HK$30.7 million. The following table sets forth our cash and cash equivalents for the years indicated below:

	For the year ended 31 March		
	2011	**2012**	**2013**
	HK$'000	*HK$'000*	*HK$'000*
Net cash (used in)/generated from operating activities	(12,339)	31,383	(46,885)
Net cash used in investing activities	(918)	(2,937)	(1,521)
Net cash generated from/(used in) financing activities	37,323	(26,578)	29,239
Net increase/(decrease) in cash and cash equivalents	24,066	1,868	(19,167)
Cash and cash equivalents at beginning of year	15,226	41,279	48,480
Effect of foreign currency exchange rate changes	1,987	5,333	1,363
Cash and cash equivalents at end of year	41,279	48,480	30,676

Net Cash Generated from or Used in Operating Activities

Net cash used in operating activities was approximately HK$46.9 million for the year ended 31 March 2013. Such amount was derived from our profit before taxation of approximately HK$60.7 million which was adjusted mainly to reflect an increase in inventories of approximately HK$13.4 million, an increase in trade and other payables of approximately HK$31.7 million, an increase in trade and other receivables and deposits of approximately HK$126.0 million, a decrease in amount due from a fellow subsidiary of approximately HK$3.0 million and an increase in amount due to the ultimate holding company of approximately HK$8.5 million. The main reason for negative operating cashflow for the year ended 31 March 2013 was mainly due to the significant increase in our trade receivables caused by the increase in the proportion of sales to our hospital and healthcare institution customers to total turnover of our Group from approximately 15.6% for the year ended 31 March 2011 to approximately 27.3% for the year ended 31 March 2013 and the credit terms given to our hospital customers range generally from 60 to 90 days which are comparatively longer than those given to our distributor customers and end customers, which are 30 to 60 days for distributor customers and 30 days for end customers and hence our trade receivables turnover days was 43.5, 47.3 and 57.1 days as at 31 March 2011, 2012 and 2013, respectively. In general, the credit periods given to our hospital customers are longer than those given to our distributor customers and end customers due to the reasons that (i) our hospital customers are public healthcare institutions which are managed and/or controlled by the PRC government and therefore the risks of non-repayment of outstanding account receivables are comparatively lower; and (ii) sales to our hospital customers is considered to be a relatively better quality business within our pharmaceutical wholesale and distribution segment as it generates a higher gross profit margin and is relatively stable as we have the exclusive right to distribute the pharmaceutical products that have won the bid under the collective tendering process to our hospital customers within a prefectural-level district of Fujian Province in the PRC during the term of the respective tender. It is a normal industry practice for pharmaceutical distributors to grant a comparatively longer credit period to hospital customers than to distributor customers and end customers. In general, our Group has not extended longer credit period to our customers who have long overdue payments during the Track Record Period. Having considered that (i) in calculating net cash flow from operating activities, the increase in trade receivables only measures changes in the trade receivables balance at a particular point of time at the year-end date only; (ii) approximately HK$253.8 million, or approximately 73.1% of our gross trade receivables of approximately HK$347.2 million as at 31 March 2013 were subsequently settled as at 31 May 2013; and (iii) although the proportion of sales to our hospital customers has increased during the Track Record Period, the majority of our sales was still generated from our distributor customers which accounted for over 50% of total revenue of our Group, our Directors are of the view, and the Sponsor concur, that the negative operating cashflow for the year ended 31 March 2013 does not indicate the occurrence of underlying material operating cashflow problems in our business operations.

Net cash generated from operating activities was approximately HK$31.4 million for the year ended 31 March 2012. Such amount was derived from our profit before taxation of approximately HK$68.5 million, which was adjusted mainly to reflect an increase in trade and other payables of approximately HK$56.7 million and certain non-cash charges of approximately HK$4.0 million relating to depreciation of property, plant and equipment, partially offset by an increase in trade and other receivables of approximately HK$65.0 million, a decrease in amount due to the ultimate holding company of approximately HK$14.1 million and an increase in our inventories of approximately HK$0.4 million. The significant increases in our trade and other payables and trade and other receivables from 31 March 2011 to 31 March 2012 were primarily due to (i) the increase in our sales which give rise to trade receivables and receipt in advance and (ii) the increase in our purchase which give rise to trade payables and deposit paid in advance to suppliers.

Net cash used in operating activities was approximately HK$12.3 million for the year ended 31 March 2011. Such amount was derived from our profit before taxation of approximately HK$52.3 million, which was adjusted mainly to reflect an increase in trade and other receivables of approximately HK$49.5 million, decrease in trade and other payables of approximately HK$14.5 million and an increase in our inventories of approximately HK$11.9 million. The increases in our trade and other receivables and deposits and inventories during this period were primarily due to the increase in our sales.

In light of the negative operating cashflow for the year ended 31 March 2013, our Group will adopt the following measures to manage our liquidity and working capital: (i) continuing to expand the sales of higher margin products to improve profitability; (ii) continuing to strengthen management of trade receivables by closely monitoring the credit policy and credit periods of customers. Requests for large credit amount and/or long credit period require the approval from senior management of our Group; (iii) continuing to manage its inventory to minimise inventory holding costs and reduce inventory turnover days by closely monitoring the inventory levels through the ERP system; (iv) obtaining additional cashflow for our business operations from bank borrowing; and (v) obtaining longer credit period from our suppliers as we continue to expand our business and increase our purchase, our bargaining power with suppliers will increase. To expedite the settlement of outstanding trade receivables from our hospital and healthcare institution customers, our Group will strengthen our management and supervision of our sales persons in the collection of outstanding balance from the customers which they deal with by increasing the amount of rewards to them in relation to early repayment of outstanding trade receivables from the customers they deal with and penalising them in relation to long overdue trade receivables balance from the customers they deal with so as to motivate them in chasing outstanding balance from our hospital and healthcare institution customers. Furthermore, our Group will strive to reduce the risks of long overdue amount from our hospital and healthcare institution customers by encouraging more frequent and smaller orders from them.

Net Cash Generated from or Used in Investing Activities

Net cash used in investing activities was approximately HK$1.5 million for the year ended 31 March 2013. Cash used in investing activities during the year mainly consists of: (i) purchase of office equipment, motor vehicle and leasehold improvement of approximately HK$2.2 million; and (ii) purchase of prepaid lease payments of approximately HK$60,000 which was partially offset by interest received of approximately HK$0.6 million.

Net cash used in investing activities was approximately HK$2.9 million for the year ended 31 March 2012. Cash used in investing activities during this year mainly consists of: (i) purchase of office equipment and leasehold improvement of approximately HK$4.0 million; and (ii) purchase of prepaid lease payments of approximately HK$0.5 million; and partially offset by increase in net cash flow from acquisition of Quanzhou Huihao of approximately HK$0.7 million and interest income of approximately HK$0.9 million.

Net cash used in investing activities was approximately HK$0.9 million for the year ended 31 March 2011. Cash generated from investing activities for the year ended 31 March 2011 mainly include interest received of approximately HK$1.7 million and proceeds from disposal of property, plant and equipment of approximately HK$0.2 million. Cash used in investing activities in the same period mainly consists of payment of approximately HK$2.8 million in connection with the purchase of office equipment and leasehold improvement.

Net Cash Generated from or Used in Financing Activities

Net cash generated from financing activities was approximately HK$29.2 million for the year ended 31 March 2013, mainly consisting of proceeds from new bank borrowings of approximately HK$53.1 million and a decrease in pledged bank deposit of approximately HK$19.2 million, partially offset by repayment of bank loan borrowings of approximately HK$39.0 million and interest paid of approximately HK$4.1 million.

Net cash used in financing activities was approximately HK$26.6 million for the year ended 31 March 2012, mainly consisting of repayment of bank loan borrowings of approximately HK$104.2 million, an increase in pledged bank deposits of approximately HK$9.0 million and interest paid of approximately HK$4.9 million, partially offset by proceeds totalling HK$91.6 million from new bank borrowings.

Net cash generated from financing activities was approximately HK$37.3 million for the year ended 31 March 2011, mainly consisting of repayment of approximately HK$73.5 million in bank loan borrowings and interest paid of approximately HK$4.4 million, capital injection from the ultimate holding company of approximately HK$35.3 million partially offset by proceeds totalling HK$76.5 million from new bank borrowings and decrease in pledged bank deposit of approximately HK$3.5 million.

Capital Expenditures

Our capital expenditures mainly relate to the acquisition of property, plant and equipment which mainly consist of leasehold improvement, office equipment and motor vehicles. For the years ended 31 March 2011, 2012 and 2013, our capital expenditures were approximately HK$2.8 million, HK$4.5 million and HK$2.3 million, respectively. We fund these expenditures primarily using cash generated from our operating activities and, to a lesser extent, proceeds from bank borrowings. The following table sets forth our capital expenditures by business segments for the years indicated below:

	For the year ended 31 March		
	2011	**2012**	**2013**
	HK$'000	*HK$'000*	*HK$'000*
Capital expenditures:			
Pharmaceutical wholesale and distribution	447	1,904	1,141
Pharmaceutical retail	2,401	2,557	1,073
Unallocated	–	–	62
Total	2,848	4,461	2,276

Our capital expenditure increased from approximately HK$2.8 million for the year ended 31 March 2011 to approximately HK$4.5 million for the year ended 31 March 2012 due to a substantial increase in office equipment purchased for our pharmaceutical wholesale and distribution business. Our capital expenditure decreased from approximately HK$4.5 million for the year ended 31 March 2012 to approximately HK$2.3 million for the year ended 31 March 2013 mainly attributable to substantial decrease in office equipment purchased for our pharmaceutical wholesale and distribution business and pharmaceutical retail business.

Working Capital

Taken into account (i) the existing cash and bank balances of our Group; (ii) the unutilised banking facilities available to our Group and our Group being able to obtain additional cashflow for our business operation from our bank borrowings; and (iii) the internally generated cashflow arising from the expansion of our business, in particular the expected increase in revenue from our pharmaceutical retail business from the expected opening of 30 retail pharmacies during the year ending 31 March 2014, our Directors and the Sponsor are of the opinion that our Group will have sufficient working capital to satisfy our present requirements for at least the next 12 months from the date of this listing document.

We may, however, need additional cash resources in the future if we experience changes in business conditions or other developments. We may also need additional cash resources in the future if we find and wish to pursue opportunities for investment, acquisition, collaborations or other similar action. If we ever determine that our cash requirements exceed our amounts of cash and cash equivalents on hand, we may seek to issue debt or equity securities or obtain credit facilities. Any issuance of equity securities could cause dilution for our Shareholders. Any incurrence of indebtedness could increase our debt service obligations and cause us to be subject to restrictive operating and finance covenants. It is possible that, when we need additional cash resources, financing will only be available to us in amounts or on terms that would not be acceptable to us or financing will not be available at all.

CERTAIN KEY FINANCIAL POSITION ITEMS

Goodwill

As at 31 March 2011, 2012 and 2013, we had goodwill of approximately HK$785.2 million, HK$785.5 million and HK$785.5 million respectively. The goodwill mainly arose from the Acquisitions during the year ended 31 March 2010, further details are disclosed under the paragraph headed "History, Development and Reorganisation – Corporate Development" in this listing document. The goodwill represents the excess of the cost of acquisition over our interest in the fair value of the identifiable assets, liabilities and contingent liabilities of the relevant subsidiary at the date of acquisition. Such goodwill is carried at cost less any accumulated impairment losses.

Goodwill is tested annually for impairment. As at 31 March 2011, 2012 and 2013, our Group assessed the recoverable amount of goodwill, and determined that no impairment charge on goodwill would need to be made during the Track Record Period. The recoverable amount of the cash-generating unit is determined based on value-in-use calculations which use cash flow projections based on financial budgets approved by management covering a five-year period in accordance with HKAS 36 "Impairment of Assets" and a discount rate of 9.01%, 12.78% and 9.74% per annum for each of the three years ended 31 March 2013. Management estimates that the discount rates used reflects specific risk relating to the relevant business. The volatility of discount rates was mainly arisen from the change in market premium, which was associated with risk free rate and expected returns on the market. Cash flow projections during the budgeted period are based on the same expected gross margins throughout the budget period. Management determined the budgeted gross margin based on past performance and its expectations for the market development. Cash flows beyond the budgeted period have been extrapolated using a steady growth rate of 1% per annum as the management considered it is prudent to adopt this growth rate which does not exceed the long-term average growth rate for the market. The valuation methodology of the business value of Nurture Fit is commonly adopted in valuing similar type of business value and intangible assets for impairment purpose. Further details of the impairment testing on goodwill can be found in note 19 to the Accountants' Report in Appendix I to this listing document.

In view of the general environment and the particular situation in which Nurture Fit and its subsidiaries operate, the following general assumptions have been adopted in the valuation of the business value of Nurture Fit:

- there will be no major change in the existing political, legal and economic conditions in the PRC in which Nurture Fit and its subsidiaries operate;

- save for those proposed changes on taxation policies announced by the Tax Bureau of the PRC, there will be no major change in the current taxation law and tax rates as prevailing and that all applicable laws and regulations on taxation will be complied with by Nurture Fit and its subsidiaries;

- the interest rates and exchange rates will not differ materially from those presently prevailing;

- the availability of finance will not be a constraint on the forecast growth of the Nurture Fit and its subsidiaries' operations in accordance with the business plan and the projections;

- the business forecast revealed by our Company are based on reasonable grounds, reflecting estimates which have been arrived at after due and careful consideration by their management and will materialise;

- the production facilities, systems and the technology utilised by our Company in operating Nurture Fit and its subsidiaries do not infringe any relevant regulations and laws;

- our Group have obtained all necessary permits and approvals to carry out its business operations in the PRC and there is no legal impediment in renewing those permits and approvals from time to time;

- Nurture Fit and its subsidiaries and their operating assets are free from and clear of any lien, charge, option, pre-emption rights or other encumbrances or rights whatsoever;

- Nurture Fit and its subsidiaries shall secure and retain competent management, key personnel, marketing and technical staff to carry out and support their operations; and

- the estimated fair values do not include consideration of any extraordinary financing or income guarantees, special tax considerations or any other atypical benefits which may influence the ordinary recoverable amount of Nurture Fit.

Net Current Liabilities

As at 31 March 2011, 2012, 2013 and 31 July 2013, we had net current liabilities of approximately HK$769.5 million, HK$720.9 million, HK$676.0 million and HK$653.9 million, respectively. The following table sets forth our current assets, current liabilities and net current liabilities as at the dates indicated:

	As at 31 March			As at 31 July
	2011	**2012**	**2013**	**2013**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
				(Unaudited)
Current Assets:				
Inventories	104,378	106,215	119,570	120,435
Trade and other receivables and deposits	236,212	301,925	427,399	438,068
Amount due from a fellow subsidiary	3,122	3,419	448	877
Amount due from the immediate holding company	–	–	5	5
Held-to-maturity investment	–	123	–	–
Pledged bank deposits	13,809	22,847	3,609	37,050
Cash and bank balances	41,279	48,480	30,676	39,325
Total	398,800	483,009	581,707	635,760
Current Liabilities:				
Trade and other payables	214,401	275,047	306,758	351,859
Amount due to the ultimate holding company	895,113	880,964	889,426	880,535
Amount due to fellow subsidiaries	277	1,762	1,062	1,083
Bank borrowings	49,194	36,582	50,672	51,459
Tax payable	9,262	9,550	9,804	4,718
Total	1,168,247	1,203,905	1,257,722	1,289,654
Net Current Liabilities	(769,447)	(720,896)	(676,015)	(653,894)

The net current liabilities as at 31 March 2011, 2012, 2013 and 31 July 2013 mainly resulted from the amount due to Hua Xia by Timely Hero of approximately HK$895.1 million, HK$881.0 million, HK$889.4 million and HK$880.5 million respectively. Such amount due to Hua Xia comprises mainly of the consideration paid by Hua Xia on behalf of Timely Hero in relation to the Acquisitions amounting to approximately HK$840.2 million. As part of the Reorganisation, Timely Hero entered into a loan capitalisation agreement on 3 September 2013 with Hua Xia whereby the amount due to Hua Xia by our Group of a non-trading nature was capitalised. Further details of the loan capitalisation can be found under the section headed ''History, Development and Reorganisation – Reorganisation'' in this listing document.

Inventories

Our inventories principally consist of finished goods that we purchase from our suppliers. As a pharmaceutical distributor and retailer, we need to maintain sufficient inventory levels to operate our pharmaceutical distribution and wholesale and pharmaceutical retail businesses successfully as well as meet our customer demand. At the same time, we are exposed to the risk of excess inventory accumulation. For further details, please refer to "Risk Factors – Risks Relating to Our Business Operations – Our Group may fail to maintain proper inventory levels for our pharmaceutical wholesale, distribution and retail operations" in this listing document. Inventory levels in excess of customer demand may result in inventory write-downs, increase our inventory storage costs and adversely affect our liquidity.

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the first-in, first-out method, where appropriate. The cost of finished goods comprised cost of purchase of merchandise. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses. We write down inventories to their net realisable values when the carrying value of inventories declines below the net realisable value. During the Track Record Period, no write-down nor provision for obsolete stock was made by us. As at 31 May 2013, approximately HK$98.4 million, or 82.3%, of our inventories as at 31 March 2013 were subsequently consumed or sold.

For the years ended 31 March 2011, 2012 and 2013, our inventory turnover days during these periods was approximately 29.3, 24.8 and 23.9 days, respectively. The decrease of inventory turnover days was primarily due to our consistent efforts to optimise inventory level such as development and improvement of automatic restock system and increased the efficiency of distribution system and network. The calculation of inventory turnover days for any financial year is based on the average balance of inventories divided by cost of sales for the relevant financial year multiplied by the number of days in the relevant year. Average balance is calculated as the quotient of the sum of the beginning balance and ending balance, and divided by two.

Trade and Other Receivables and Deposits

The following table sets forth the components of our trade and other receivables (other than those due from related parties) as at the dates indicated:

	As at 31 March		
	2011	**2012**	**2013**
	HK$'000	*HK$'000*	*HK$'000*
Trade receivables:			
Trade receivables	200,144	242,551	347,237
Less: Provision for impairment	(1,530)	(1,044)	(1,437)
Trade receivables – net	198,614	241,507	345,800
Bill receivables	–	3,206	7,490
Prepayments and deposit paid	13,111	37,107	58,181
Prepaid lease payments	165	181	184
Other receivables	24,322	19,924	15,744
Trade and other receivables – net	236,212	301,925	427,399

Trade Receivables

As at 31 March 2011, 2012 and 2013, our net trade receivables amounted to approximately HK$198.6 million, HK$241.5 million and HK$345.8 million, respectively. Our trade receivables increased significantly primarily reflecting the increase in our sales to hospitals and healthcare institutions customers.

We recognise a provision for impairment of trade receivables as administrative expenses when there is objective evidence that we will not be able to collect all amounts due according to the original terms of the trade receivables. We access the recoverability of receivables of each customer individually and recognise a provision for impairment on such amount when it is long outstanding and no further subsequent settlement. It is a prudence accounting estimates for the accounts receivables. Please refer to the paragraph headed "Critical Accounting Policies – Impairment of Trade Receivables" of this section. When other receivables of which provision for impairment

previously made was subsequently settled, the provision for impairment previously made is reversed. As at 31 March 2011, 2012 and 2013, provision for impairment of trade receivables was approximately HK$1.5 million, HK$1.0 million and HK$1.4 million, respectively.

The following table sets forth an aging analysis of our trade receivables from third parties net of impairment as at the dates indicated below:

	As at 31 March		
	2011	**2012**	**2013**
	HK$'000	*HK$'000*	*HK$'000*
Within 90 days	184,267	209,982	284,759
More than 90 days but within 180 days	10,113	23,120	56,130
More than 180 days but within 365 days	4,234	8,194	3,489
More than 365 days	–	211	1,422
Total	198,614	241,507	345,800

We generally grant to customers of our pharmaceutical wholesale and distribution businesses a credit period of 30 days to 90 days. Sales of our pharmaceutical retail business are usually settled in cash or by debit or credit cards or medical insurance cards.

For the years ended 31 March 2011, 2012 and 2013, our trade receivables turnover days was approximately 43.5, 47.3 and 57.1 days, respectively. The calculation of trade receivables turnover days for any financial year is based on the average balance of gross trade receivables from third parties divided by revenue for the relevant financial year and multiplied by the number of days in the relevant financial year. Average balance is calculated as the quotient of the sum of the beginning balance and ending balance, and divided by two. The increase in trade receivables turnover days during the Track Record Period was mainly due to increase in the proportion of sales to our hospital and healthcare institution customers to total turnover of our Group from approximately 13.8% for the year ended 31 March 2011 to approximately 24.2% for the year ended 31 March 2013 and the credit terms given to our hospital customers range generally from 60 to 90 days which are comparatively longer than those given to our distributor customers and end customers, which are 30 to 60 days for distributor customers and 30 days for end customers. In general, the credit periods given to our hospital customers are longer than those given to our distributor customers and end customers due to the reasons that (i) our hospital customers are public healthcare institutions which are managed and/or controlled by the PRC government and therefore the risks of non-repayment of outstanding account receivables are comparatively lower; and (ii) sales to our hospital customers is considered to be a relatively better quality business within our pharmaceutical wholesale and

distribution segment as it generates a higher gross profit margin and is relatively stable as we have the exclusive right to distribute the pharmaceutical products that have won the bid under the collective tendering process to our hospital customers within a prefectural-level district of Fujian Province in the PRC during the term of the respective tender. It is a normal industry practice for pharmaceutical distributors to grant a comparatively longer credit period to hospital customers than to distributor customers and end customers. In general, our Group has not extended longer credit period to our customers who have long overdue payments during the Track Record Period. As at 31 March 2013, approximately HK$61.0 million of our trade receivables had been outstanding for over 90 days. Based on collectability, we made provisions of approximately HK$1.4 million for these receivables. Out of the remaining trade receivables of approximately HK$59.6 million, approximately HK$42.0 million was subsequently settled within 31 May 2013.

Approximately HK$253.8 million, or approximately 73.1% of our gross trade receivables as at 31 March 2013 were subsequently settled on or before 31 May 2013.

Other Receivables

As at 31 March 2011, 2012 and 2013, our other receivables amounted to approximately HK$24.3 million, HK$19.9 million and HK$15.7 million respectively. The following table sets forth the components of other receivables as at the dates indicated:

	As at 31 March		
	2011	**2012**	**2013**
	HK$'000	*HK$'000*	*HK$'000*
VAT recoverable	12,223	9,717	10,762
Advances to connected persons of our Company and third parties	9,811	8,598	5,412
Advance to staffs	317	609	429
Tender fee paid on behalf of suppliers	753	772	163
Other income receivables	1,447	1,323	210
	24,551	21,019	16,976
Less: Impairment loss recognised in respect of other receivables	(229)	(1,095)	(1,232)
Total	24,322	19,924	15,744

Other receivables decreased from approximately HK$24.3 million as at 31 March 2011 to approximately HK$19.9 million as at 31 March 2012 due to decreases in VAT recoverable and settlement of advances to the connected persons of our Company and third parties. As at 31 March 2013, other receivables subsequently decreased to approximately HK$15.7 million due to decreases in tender fee paid on behalf of suppliers and settlement of advances to the connect persons of our Company and third parties. VAT recoverable represent the amount of VAT deductible calculated based on the amount of purchase in excess of the amount of VAT payable calculated based on the amount of sales. Advance to staff represents the operating cash held by staffs for daily operation and sufficient internal control to monitor such advances. Other income receivables mainly consists of exhibition income and advertising income recognised during the Track Record Period.

We recognise a provision for impairment of other receivables as administrative expenses when there is objective evidence that we will not be able to collect all amounts due according to the original terms of the receivables. The main reason for provision for impairment of other receivables was the long outstanding receivables due from an auction agent in relation to the sales of shops before the acquisition of Nurture Fit. For further details of our accounting policy on impairment of assets, please refer to the paragraph headed "Critical Accounting Policies – Impairment of assets" of this section. As at 31 March 2011, 2012 and 2013, provision for impairment of other receivables from third parties was approximately HK$0.2 million, HK$1.1 million and HK$1.2 million, respectively, representing approximately 0.9%, 5.2% and 7.3%, respectively, of our total other receivables as at those dates.

Prepayments and deposits

The table below sets forth the components of our prepayments and deposits as at the dates indicated:

	As at 31 March		
	2011	**2012**	**2013**
	HK$'000	*HK$'000*	*HK$'000*
Prepaid expenses	478	1,092	1,124
Rental deposit paid	2,166	2,375	2,302
Deposits paid to suppliers	8,262	33,640	47,775
Prepaid listing expenses	–	–	2,036
Others	2,205	–	4,944
Total	13,111	37,107	58,181

Prepaid expenses mainly relate to various prepaid operating expenses such as retail expenses of pharmacies, insurance expenses and electricity and water expenses. Deposits paid to suppliers increased significantly from approximately HK$8.3 million as at 31 March 2011 to approximately HK$33.6 million as at 31 March 2012 and approximately HK$47.8 million as at 31 March 2013 due to the increase in deposits demanded by suppliers. Increase in deposits demand by suppliers was mainly represented by the commencement of distribution of pharmaceutical products made by pharmaceutical manufacturers that have won the bid of the Eighth Provincial Centralised Purchasing# (福建省第八批藥品集中採購) in Fujian Province, the PRC. The others of approximately HK$2.2 million and HK$4.9 million as at 31 March 2011 and 2013 relate to deposit paid for the acquisition of Quanzhou Huihao and secured deposits paid for bank borrowings respectively and were one-off in nature.

Pledged bank deposits

Our pledged bank deposits represents certain bank deposits that have been pledged to banks to secure our bills payable. As at 31 March 2011, 2012 and 2013, our pledged bank deposits amounted to approximately HK$13.8 million, HK$22.8 million and HK$3.6 million, respectively. Our pledged bank deposits increased markedly as at 31 March 2012 compared to 31 March 2011, primarily due to our increased use of bills payable to settle our payments to suppliers in order to enjoy longer payment cycles. Please refer to the sub-section headed "Trade and Bills Payable" under "Trade and Other Payables" below. Banks issuing the bills usually require us to pledge cash deposits to secure these bills. Our pledged bank deposits decreased from approximately HK$22.8 million as at 31 March 2012 to approximately HK$3.6 million as at 31 March 2013 mainly due to decreases in bills payable.

Trade and Other Payables

The following table sets forth the components of our trade and other payables (other than those due to related parties) as at the dates indicated:

	As at 31 March		
	2011	**2012**	**2013**
	HK$'000	*HK$'000*	*HK$'000*
Trade and bills payable:			
Trade payables	166,088	207,776	278,309
Bills payable	26,486	45,693	4,350
Sub-total	192,574	253,469	282,659
Other payables:			
Accruals and other payables	18,477	17,772	21,083
Receipt in advance	3,350	3,806	3,016
Sub-total	21,827	21,578	24,099
Total	214,401	275,047	306,758

Trade and Bills Payable

As at 31 March 2011, 2012 and 2013, our trade and bills payable amounted to approximately HK$192.6 million, HK$253.5 million and HK$282.7 million, respectively. Our trade payables primarily consist of amounts outstanding for the purchase of merchandise for our pharmaceutical distribution and wholesale business and pharmaceutical retail business. The increase in trade payables was primarily due to the expansion of our business as well as our acquisition of Quanzhou Huihao during the year ended 31 March 2012. We recognised the financial results, including trade payables, of these acquired businesses on and after the respective acquisition dates. Our bills payable decreased significantly from approximately HK$45.7 million as at 31 March 2012 to approximately HK$4.4 million as at 31 March 2013 primarily due to increase in bank borrowings for working capitals.

We normally settle trade payables to our pharmaceutical and healthcare product suppliers on terms ranging from 30 to 90 days. The table below sets forth an aging analysis of trade payables as at the dates indicated below:

	As at 31 March		
	2011	**2012**	**2013**
	HK$'000	*HK$'000*	*HK$'000*
Within 90 days	136,227	145,068	157,368
More than 90 days but within 180 days	19,873	38,831	56,640
More than 180 days but within 365 days	5,445	16,500	51,350
More than 365 days	4,543	7,377	12,951
Total	166,088	207,776	278,309

For the years ended 31 March 2011, 2012 and 2013, our trade payables turnover days was approximately 48.9 days, 44.1 days and 51.5 days, respectively. Trade payables turnover days decreased from approximately 48.9 days for the year ended 31 March 2011 to approximately 44.1 days for the year ended 31 March 2012 mainly due to the quicker settlement to suppliers. The credit period offered by our suppliers generally ranges from 30 to 90 days. As we continue to expand our pharmaceutical wholesale and distribution business, our bargaining power with suppliers for longer credit period increased and therefore our trade payable turnover days increased from approximately 44.1 days for the year ended 31 March 2012 to approximately 51.5 days for the year ended 31 March 2013. The calculation of trade payables turnover days for any financial year is based on the average balance of trade payables to third parties divided by cost of sales for the relevant financial year and multiplied by the number of days in the relevant financial year. Average balance is calculated as the quotient of the sum of the beginning balance and ending balance, and divided by two.

Approximately HK$174.0 million, or 62.5% of our trade payables as at 31 March 2013 were subsequently settled on or before 31 May 2013 and there was no subsequent settlement for our bill payables as at the Latest Practicable Date.

Other Payables

As at 31 March 2011, 2012 and 2013, our other payables amounted to approximately HK$21.8 million, HK$21.6 million and HK$24.1 million, respectively. The following table sets forth the components of other payables as at the dates indicated:

	As at 31 March		
	2011	**2012**	**2013**
	HK$'000	*HK$'000*	*HK$'000*
Accruals and other payables	18,477	17,772	21,083
Receipt in advance	3,350	3,806	3,016
Total	21,827	21,578	24,099

Accruals and other payables consist of accrued operating expenses including staff salaries and social insurance benefits and others, other tax payables, VAT payables and secured deposits received. Receipt in advance relates to advances received from customers. Other payables remained relatively stable as at 31 March 2011 and 2012 but increased from approximately HK$21.6 million as at 31 March 2012 to approximately HK$24.1 million as at 31 March 2013 mainly due to increases in accruals and other payables.

Amount due to the ultimate holding company

As at 31 March 2011, 2012 and 2013, the amount due to the ultimate holding company was approximately HK$895.1 million, HK$881.0 million and HK$889.4 million respectively. The amount due to the ultimate holding company comprises mainly of the consideration paid by Hua Xia on behalf of Timely Hero in relation to the Acquisitions amounting to approximately HK$840.2 million. As part of the Reorganisation, Timely Hero, Luxuriant Expand and Hua Xia entered into a loan capitalisation agreement on 3 September 2013 with Hua Xia whereby the amount due to Hua Xia by our Group of a non-trading nature was capitalised. Further details of the loan capitalisation can be found under the section headed "History, Development and Reorganisation – Reorganisation" in this listing document.

FINANCIAL RATIOS

The following table sets forth certain financial ratios of our Group as at the dates or for the years indicated below:

		For the year ended 31 March		
	Note	**2011**	**2012**	**2013**
Profitability ratios:				
Gross profit margin *(%)*	*1*	9.8	9.4	8.7
Net profit margin *(%)*	*2*	2.4	2.7	2.2
Return on assets *(%)*	*3*	2.7	3.5	3.0
Return on equity *(%)*	*4*	85.9	50.5	31.5

		As at 31 March		
		2011	**2012**	**2013**
Liquidity ratios:				
Current ratio	*5*	0.3	0.4	0.5
Quick ratio	*6*	0.2	0.3	0.4
Gearing ratio	*7*	0.2	-0.1	0.2

Notes:

1. Gross profit margin is calculated based on the gross profit divided by turnover and multiplied by 100%.

2. Net profit margin is calculated based on the profit for the year divided by turnover and multiplied by 100%.

3. Return on assets is calculated based on the profit for the year divided by the total assets at the end of the respective year and multiplied by 100%.

4. Return on equity is calculated based on the profit for the year attributable to the owners of our Company divided by issued share capital and reserves at the end of the respective year and multiplied by 100%.

5. Current ratio is calculated based on the total current assets divided by the total current liabilities at the end of the respective year.

6. Quick ratio is calculated based on the total current assets less the inventories and pledged bank deposit divided by the total current liabilities at the end of the respective year.

7. Gearing ratio is calculated based on the net debt divided by total equity at the end of the respective year. Net debt of our Group includes total bank borrowings net of cash and bank balances at the end of the respective year.

ANALYSIS ON SELECTED FINANCIAL RATIOS

Gross profit margin ratio

Our Group's gross profit margin was approximately 9.8% for the year ended 31 March 2011, approximately 9.4% for the year ended 31 March 2012 and approximately 8.7% for the year ended 31 March 2013. The main reason for the drop in gross profit margin during the Track Record Period was the decrease in the gross profit margin of our pharmaceutical wholesale and distribution business from approximately 6.5% for the year ended 31 March 2011 to approximately 5.7% for the year ended 31 March 2012 and to approximately 4.7% for the year ended 31 March 2013. The decrease in the gross profit margin of our pharmaceutical wholesale and distribution business was primarily due to a decrease in the gross profit margin of sales to our distributor customers and end customers arising mainly from our Group's attempt to lower gross margins by reducing the selling prices of some products in order to increase our distribution network, number of customers and market share with a view to attract more pharmaceutical manufacturers to engage us for distribution of their products to our hospital and healthcare institution customers under the collective tendering process so as to increase our sales to the hospital and healthcare institution customers.

Net profit margin ratio

Our Group's net profit margin was approximately 2.4% for the year ended 31 March 2011, approximately 2.7% for the year ended 31 March 2012 and approximately 2.2% for the year ended 31 March 2013. The increase in net profit margin from the year ended 31 March 2011 to the year ended 31 March 2012 was mainly due to improvement in operational efficiency. Our Group's net profit margin decreased from approximately 2.7% for the year ended 31 March 2012 to approximately 2.2% for the year ended 31 March 2013 due to increases in selling and distribution and administrative expenses and decrease in the gross profit margin during the year.

Current and quick ratios

The current ratio of our Group was approximately 0.3 as at 31 March 2011, 0.4 as at 31 March 2012 and 0.5 as at 31 March 2013; and the quick ratio of our Group was approximately 0.2 as at 31 March 2011, 0.3 as at 31 March 2012 and 0.4 as at 31 March 2013. The current and quick ratio in general showed an increasing trend as at 31 March 2011, 2012 and 2013 respectively, which were mainly attributable to the combined effects of (i) an increase in trade and other receivables and deposits which was mainly attributable to the increase in turnover, (ii) an increase in profits generated during the Track Record Period.

Gearing ratio

Our Group's gearing ratio (calculated based on the net debt divided by the total equity) turned from approximately 0.2 as at 31 March 2011 to a minus 0.1 as at 31 March 2012 mainly due to the fact that our Group's bank and cash balances increased from approximately HK$41.3 million as at 31 March 2011 to approximately HK$48.5 million as at 31 March 2012 mainly attributable to net cash generated from operating activities resulting from an increase in revenue during the year ended 31 March 2012 whereas bank borrowings of our Group decreased from approximately HK$49.2 million as at 31 March 2011 to approximately HK$36.6 million as at 31 March 2012 mainly as a result of repayment of bank loans upon their expiration. Our Group's gearing ratio turned from a minus 0.1 as at 31 March 2012 to approximately 0.2 as at 31 March 2013 mainly due to a decrease in cash and bank balances of our Group from approximately HK$48.5 million as at 31 March 2012 to approximately HK$30.7 million as at 31 March 2013 mainly attributable to net cash used in operating activities resulting from an increase in trade and other receivables and deposits (for details, please refer to the paragraph headed "Liquidity and Capital Resources – Overview – Net Cash Generated from or used in Operating Activities" under this section) and an increase in bank borrowings from approximately HK$36.6 million as at 31 March 2012 to approximately HK$50.7 million as at 31 March 2013 mainly due to addition of new bank loans to finance business operation.

Return on assets

Return on assets is an indicator of how profitable a company is in terms of its total assets and gives an idea as to how efficient a company is using its assets to generate earnings. Our Group's return on assets for each of the three financial years ended 31 March 2013 amounted to approximately 2.7%, 3.5% and 3.0% respectively. Our Group's return on assets increased from approximately 2.7% for the year ended 31 March 2011 to approximately 3.5% for the year ended 31 March 2012 due to the fact that the increase in profit for the year from approximately HK$32.8 million for the year ended 31 March 2011 to approximately HK$45.3 million for the year ended 31 March 2012, representing an increase of approximately 38.0% while our Group's total assets increased by approximately 7.2% during the same period reflecting better efficiency in the use of our assets. Our Group's return on assets decreased from approximately 3.5% for the year ended 31 March 2012 to approximately 3.0% for the year ended 31 March 2013 primarily due to increases in total assets from approximately HK$1,293.7 million for the year ended 31 March 2012 to approximately HK$1,390.9 million for the year ended 31 March 2013.

Return on equity

Return on equity measures the efficiency of a company in generating profits from every dollar of net assets invested. Our Group's return on equity for each of the three financial years ended 31 March 2013 amounted to approximately 85.9%, 50.5% and 31.5% respectively. The decrease of return on equity was mainly attributable to increase in equity due to profit generated during the Track Record Period.

INDEBTEDNESS

As at 31 July 2013, we had outstanding borrowings of approximately HK$51.5 million which was denominated in Renminbi. The following table sets forth the components of our borrowings as at the dates indicated:

	As at 31 March			As at 31 July
	2011	2012	2013	2013
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Current:				
Short-term bank borrowings	49,194	36,582	50,672	51,549
Total borrowings	49,194	36,582	50,672	51,549

Our short-term bank borrowings were incurred primarily for the purposes of financing our working capital and business acquisitions. Our short-term bank borrowings decreased from approximately HK$49.2 million as at 31 March 2011 to approximately HK$36.6 million as at 31 March 2012 due to repayments made during the year ended 31 March 2012. As at 31 March 2013, our short-term bank borrowings increased to approximately HK$50.7 million mainly attributable to a new loan of RMB20 million obtained on 18 June 2012.

All of our bank borrowings outstanding during the Track Record Period were denominated in Renminbi. As at 31 March 2011, 2012, 2013 and 31 July 2013, the effective interest rates of our Renminbi-denominated bank borrowings were approximately 5.5%, 8.4%, 7.7% and 8.1%, respectively. The interest rate increased mainly attributable to the prevailing market interest rates for Renminbi-denominated loans borrowed by our PRC subsidiaries.

The following table sets forth a breakdown of our secured and unsecured bank borrowings as at the dates indicated below:

	As at 31 March			As at 31 July
	2011	**2012**	**2013**	**2013**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
				(Unaudited)
Secured	37,933	36,582	50,672	51,549
Unsecured	11,261	–	–	–
Total	49,194	36,582	50,672	51,549

At 31 March 2013, the secured bank borrowings of approximately HK$12,359,000 were secured by personal guarantee by Mr. Weng and an independent third party and secured bank borrowings of approximately HK$37,077,000 were secured by corporate guarantee by independent third parties and inter-group company, carries fixed interest rate at 7.57% to 7.80% per annum.

As at 31 March 2013, the secured bank borrowings of approximately HK$1,236,000 were secured by corporate guarantee by inter-group company, carries variable interest rate at 130% lending rate of The People's Bank of China per annum.

At 31 March 2012, the secured bank borrowings were secured by land and buildings owned by an independent third party and the personal guarantee by Mr. Yung. Secured bank borrowings of approximately HK$24,552,000 carries fixed interest rate at 8.53% per annum. Secured bank borrowings of approximately HK$12,030,000 carries variable interest rate at 130%, 115% and lending rate of The People's Bank of China per annum.

As at 31 March 2011, the unsecured bank borrowings carries variables interest rate at 115% lending rate of The People's Bank of China per annum. The weighted average effective interest rate on the unsecured bank borrowings is 6.4% per annum.

As at 31 July 2013, the bank borrowings of approximately HK$51,549,000 were secured by personal guarantee by Mr. Weng and an independent third party and corporate guarantee by independent third parties and intra-group company.

All the secured and unsecured bank borrowings were denominated in RMB and repayable within one year.

As at 31 March 2012, our Group had certain banking facilities and financial assistances with connected persons and Independent Third Parties of our Group, details of which are as follows:–

i) Banking facilities with connected persons of our Group providing guarantee:

	Lender	Borrower	Nature	Aggregate Amount *(RMB million)*	Amount utilized as at 31 March 2012 *(RMB million)*	Term	Guarantor(s)	Type of guarantee
1	Industrial and Commercial Bank of China (Taijiang Branch)	Fuzhou Huihao	General banking facilities	29.8	29.8	3 years (from Nov 2010 to Oct 2013)	Fujian Sanming Medical Company Limited (福建三明醫藥股份有限公司#) ("**Sanming Medical**") *(Note 1)*	Cross corporate guarantee
							Mr. Yung	Personal guarantee
							Mr. Zheng Zhen Xian *(Note 2)*	Personal guarantee
2	Shanghai Pudong Development Bank (Fuzhou Branch)	Fuzhou Huihao	General banking facilities	50	nil	3 months to 1 year	FHP Company	Cross corporate guarantee
							FHP Chain	Cross corporate guarantee
							Mr. Yung	Personal guarantee
				Sub-total	29.8			

ii) Guarantee provided by our Group to a connected person:

	Lender	Borrower	Nature	Aggregate Amount *(RMB million)*	Amount utilized as at 31 March 2012 *(RMB million)*	Term	Guarantor(s)	Type of guarantee
3	Agricultural Bank of China (Fuzhou Hudong Branch)	FHP Company	Short term loan	19	19	1 year (from February 2012 to February 2013)	Huihao Sihai	Cross corporate guarantee
							Mr. Weng Jiale (翁加樂) *(Note 3)*	Personal guarantee
							Mr. Weng Qingjie (翁清杰) *(Note 4)*	Personal guarantee
4	Agricultural Bank of China (Fuzhou Hudong Branch)	FHP Company	Liquid cash loan	8.9	8.9	1 year (from October 2011 to October 2012)	Huihao Sihai	Pledged and corporate guarantee
				Sub-total	27.9			

Notes:

1. Sanming Medical, a company established in the PRC, being a third party independent of our Company and its connected persons.

2. Mr. Zheng Zhen Xian is an Independent Third Party. The personal guarantee given by Mr. Zheng Zhen Xian was subsequently released after the repayment of loan in the amount of RMB2.3 million in January 2013.

3. Mr. Weng Jiale is a nephew of Mr. Yung and a brother of Mr. Weng, and thus he is a connected person of our Company as defined under the Listing Rules.

4. Mr. Weng Qingjie is an Independent Third Party.

As at 31 March 2012, our Group's aggregate loan amount outstanding from cross-corporate guarantees with connected persons of our Company amounted to approximately RMB29.8 million (equivalent to approximately HK$36.6 million).

As at 31 March 2013, (i) all cross-corporate guarantees given by FHP Company and FHP Chain and the personal guarantee given by Mr. Yung in favour of the banks for securing bank borrowings of our Group; and (ii) all guarantees provided by our Group for securing bank borrowings of FHP Company had been released. As at 31 March 2013, our Group had the following banking facilities:

i) Banking facilities with connected persons of our Company providing guarantee:

	Lender	**Borrower**	**Nature**	**Aggregate Amount** *(RMB million)*	**Amount utilized as at 31 March 2013** *(RMB million)*	**Term**	**Guarantor(s)**	**Type of guarantee**
1	Industrial and Commercial Bank of China (Taijiang Branch)	Fuzhou Huihao	General banking facilities	29.8 *(Note 1)*	10 *(Note 2)*	3 years (from Nov 2010 to Oct 2013)	Fujian Sanming Medical Company Limited (福建三明醫藥股份有限公司#) ("**Sanming Medical**") *(Note 1)*	Cross corporate guarantee
							Mr. Weng *(Note 2)*	Personal guarantee

ii) Banking facilities with guarantee provided by Independent Third Parties:

	Lender	Borrower	Nature	Aggregate Amount *(RMB million)*	Amount utilized as at 31 March 2013 *(RMB million)*	Term	Guarantor(s)	Type of guarantee
2	Industrial Bank (Sanming Branch) 興業銀行(三明分行)	Fujian Huiming	Short term loan	20	20	1 year (from Jun 2012 to Jun 2013)	Sanming Huayi Financing Guarantee Shares Company Limited# (三明市華屹融資擔保股份有限公司)及 Fujian Province Huafu Financing Guarantee Shares Company Limited# (福建省華福融資擔保股份有限公司) *(Note 3)*	Pledged and corporate guarantees

iii) Banking facilities with guarantee provided by members of our Group:

	Lender	Borrower	Nature	Aggregate Amount *(RMB million)*	Amount utilized as at 31 March 2013 *(RMB million)*	Term	Guarantor(s)	Type of guarantee
3.	Fujian Haixia Bank (Qingcheng Branch)	Fuzhou Huihao	Short bank loan	10	10	1 year (from Oct 2012 to Oct 2013)	Fujian Huiming	Cross corporate guarantee
4.	China Merchants Bank (Quanzhou Branch)	Quanzhou Huihao	General banking facilities	8	1.6	1 year (from Oct 2012 to Oct 2013)	Fuzhou Huihao	Cross corporate guarantee

Notes:

1. The general banking facilities of RMB29.8 million was guaranteed by Sanming Medical, a company established in the PRC and a third party independent of our Group and its connected persons.

2. The RMB10 million loan (which is included as part of RMB29.8 million general banking facilities) was personally guaranteed by Mr. Weng, who is a Director and thus a connected person of our Company as defined under the Listing Rules.

3. Sanming Huayi Financing Guarantee Shares Company Limited# (三明市華屹融資擔保股份有限公司) and Fujian Province Huafu Financing Guarantee Shares Company Limited# (福建省華福融資擔保股份有限公司) are Independent Third Parties.

As at the Latest Practicable Date, our Group had the following banking facilities:

i) Banking facilities with connected persons of our Company providing guarantee:

	Lender	Borrower	Nature	Aggregate Amount *(RMB million)*	Amount utilized as at the Latest Practicable Date *(RMB million)*	Term	Guarantor(s)	Type of guarantee
1.	Industrial and Commercial Bank of China (Taijiang Branch)	Fuzhou Huihao	General banking facilities	29.8 *(Note 1)*	10 *(Note 2)*	3 years (from Nov 2010 to Oct 2013)	Fujian Sanming Medical Company Limited (福建三明醫藥股份有限公司#) ("Sanming Medical") *(Note 1)*	Cross corporate guarantee
							Mr. Weng *(Note 2)*	Personal guarantee

ii) Banking facilities with guarantee provided by members of our Group:

	Lender	Borrower	Nature	Aggregate Amount *(RMB million)*	Amount utilized as at the Latest Practicable Date *(RMB million)*	Term	Guarantor(s)	Type of guarantee
2.	Fujian Haixia Bank (Qingcheng Branch)	Fuzhou Huihao	General banking facilities	50	50	1 year (from May 2013 to May 2014)	Fujian Huiming	Cross corporate guarantee
							Huihao Sihai	Cross corporate guarantee
3.	China Merchants Bank (Quanzhou Branch)	Quanzhou Huihao	General banking facilities	8	4.4	1 year (from Oct 2012 to Oct 2013)	Fuzhou Huihao	Cross corporate guarantee
4.	Industrial Bank (Sanming Branch)	Fujian Huiming	General banking facilities	60	20	1 year (from July 2013 to July 2014)	Fuzhou Huihao	Cross corporate guarantee
							Huihao Sihai	Pledged and cross corporate guarantee

Notes:

1. The general banking facilities of RMB29.8 million was guaranteed by Sanming Medical, a company established in the PRC and a third party independent of our Company and its connected persons.

2. The RMB10 million loan (which is included as part of RMB29.8 million general banking facilities) was personally guaranteed by Mr. Weng, who is a Director and thus a connected person of our Company as defined under the Listing Rules.

Except as disclosed above, we did not have, as at the Latest Practicable Date, any outstanding mortgages, charges, debentures or other loan capital (issued or agreed to be issued), bank overdrafts, loans, liabilities under acceptance or other similar indebtedness, hire purchase and finance lease commitments or any guarantees or other material contingent liabilities.

Our Directors have confirmed that there has not been any material change in our indebtedness or contingent liabilities since 31 March 2013.

OPERATING LEASE COMMITMENTS

As at 31 March 2011, 2012 and 2013, we were committed to make the following future minimum lease payments in respect of rented premises under non-cancellable operating leases which fall due as follows:

	As at 31 March 2011	As at 31 March 2012	As at 31 March 2013
	HK$'000	*HK$'000*	*HK$'000*
Within one year	10,119	11,055	12,795
In the second to fifth years, inclusive	15,991	14,545	21,050
Over five years	689	475	229
	26,799	26,075	34,074

The leases are generally negotiated for a lease term from 2 to 10 years.

OFF-BALANCE SHEET ARRANGEMENTS

As at 31 March 2013, we did not have any material off-balance sheet arrangements except for an outstanding litigation pending the judgement by the court. Please refer to paragraph headed "Legal proceedings" in the section headed "Business" in this listing document.

CONTINGENT LIABILITIES

We are from time to time involved in legal proceedings and litigation in the ordinary course of business. As at the Latest Practicable Date, we did not have any material contingent liabilities except for those set forth under the section headed "Business – Legal Proceedings" in this listing document.

FINANCIAL RISKS

We are exposed to various types of financial risk in the ordinary course of business, including market risk (consisting of foreign exchange risk and interest rate risk), credit risk and liquidity risk. We did not, during the years ended 31 March 2011, 2012 and 2013, use derivative financial instruments to hedge our risk exposures on changes in foreign currency exchange rates and interest rates.

Foreign Exchange Risk

Currency risk

Our Group has minimal exposures to foreign currency risk as most of its business transactions, assets and liabilities are principally denominated in the functional currencies of the respective subsidiaries. Our Group currently does not have a foreign currency hedging policy in respect of foreign currency transactions, assets and liabilities. Our Group will monitor its foreign currency exposure closely and will consider hedging significant foreign currency exposure should the need arise.

Fair value of financial instruments

The fair values of financial assets and financial liabilities are determined as follows:

(i) the fair values of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices; and

(ii) the fair values of other financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

The carrying amount of other financial assets and liabilities carried at amortised cost, approximate their respective fair values due to the relatively short-term nature of these financial instruments.

Interest Rate Risk

Our Group's exposure to changes in interest rates is mainly attributable to its bank borrowings. Bank borrowings at variable rates expose our Group to cash flow interest rate risk. Our Group's income and operating cash flows are substantially independent of changes in market interest rates. Our Group currently does not have any interest rate hedging policy. However, the management monitors interest rate exposure and will consider hedging significant interest rate exposure should the need arise.

Sensitivity analysis on interest rate risk

Regarding the cash flow interest rate risk, the sensitivity analysis set out below have been determined based on the exposure to interest rates for both derivative and non-derivative instruments at the end of the reporting period. For variable rate borrowings, the analysis is prepared assuming the amount of liability outstanding at the end of the reporting period was outstanding for the whole year. A 50 basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 50 basis points higher/lower and all other variables were held constant, our Group's profit for the years ended 31 March 2011, 2012 and 2013 would decrease/increase by approximately HK$70,000, HK$51,000 and HK$5,000 respectively. This is mainly attributable to our Group's exposure to interest rates on its variable rate borrowings.

Credit Risk

The carrying amounts of trade and other receivables included in the combined statements of financial position represent our Group's maximum exposure to credit risk in relation to our Group's financial assets. No other financial assets carry a significant exposure to credit risk.

Our Group's concentration of credit risk by geographical location is mainly in the PRC. Our Group also has concentration of credit risk by customers as approximately 25.7%, 11.3% and 12.7% of total trade receivables was due from our Group's five largest customers as at 31 March 2011, 2012 and 2013 respectively.

In order to minimise the credit risk, the management of our Group has credit approvals and other monitoring procedures to ensure that follow-up action is taken on a timely basis and adequate impairment losses are made for irrecoverable amounts overdue. In this regards, our Directors consider that our Group's credit risk is significantly reduced.

Substantially all of our Group's cash and cash equivalents are mainly deposited in the state controlled PRC banks which the directors assessed the credit risk to be insignificant.

Liquidity Risk

Liquidity risk is the risk that funds will not be available to meet liabilities as they fall due, and it results from amount and maturity mismatches of assets and liabilities. Our Group will consistently maintain a prudent financial policy and ensure that it maintains sufficient cash to meet its liquidity requirements.

Our Group's financial liabilities are analysed into relevant maturity groupings based on the remaining period at the respective end of the reporting periods to the contractual maturity date, using the contractual undiscounted cash flows, as follows:

	Weighted average interest rate	On demand or less than 1 year	Over 1 year	Total undiscounted cash flow	Total carrying amount
	%	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 31 March 2013					
Trade and other payables	–	306,758	–	306,758	306,758
Amount due to the ultimate holding company	–	889,426	–	889,426	889,426
Amounts due to fellow subsidiaries	–	1,062	–	1,062	1,062
Bank borrowings	7.7	52,104	–	52,104	50,672
		1,249,350	–	1,249,350	1,247,918

	Weighted average interest rate	On demand or less than 1 year	Over 1 year	Total undiscounted cash flow	Total carrying amount
	%	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 31 March 2012					
Trade and other payables	–	275,047	–	275,047	275,047
Amount due to the ultimate holding company	–	880,964	–	880,964	880,964
Amounts due to fellow subsidiaries	–	1,762	–	1,762	1,762
Bank borrowings	8.4	38,078	–	38,078	36,582
		1,195,851	–	1,195,851	1,194,355

	Weighted average interest rate	On demand or less than 1 year	Over 1 year	Total undiscounted cash flow	Total carrying amount
	%	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 31 March 2011					
Trade and other payables	–	214,401	–	214,401	214,401
Amount due to the ultimate holding company	–	895,113	–	895,113	895,113
Amounts due to fellow subsidiaries	–	277	–	277	277
Bank borrowings	5.5	51,536	–	51,536	49,194
		1,161,327	–	1,161,327	1,158,985

QUARTERLY REPORTING

As long as we remain a subsidiary of Hua Xia and Hua Xia is required to publish quarterly results, we will publish quarterly results after the listing of our Shares on the Stock Exchange.

DISCLOSURE UNDER RULES 13.13 TO 13.19 OF THE LISTING RULES

Our Directors confirm that as at the Latest Practicable Date, there were no circumstances which would give rise to the disclosure requirements under Rules 13.13 to 13.19 of the Listing Rules had the Shares been listed on the Stock Exchange on that date.

DIVIDEND POLICY

The payment of any dividend by us must be approved by our Shareholders in a Shareholders' meeting. While our Board intends to recommend the declaration of cash dividends to the Shareholders in general meeting, the decision to make a recommendation for the payment of any dividend and the amount of the dividend will depend on, among other things:

- our results of operations and cash flow;
- our financial position;
- general business conditions;
- our future prospects;
- statutory, regulatory and contractual restrictions on the payment of dividends by us; and
- other factors that our Board deems relevant.

In accordance with applicable requirements of the PRC Company Law, we may only distribute dividends after we have made an allowance for:

- recovery of losses, if any;
- allocation to the statutory reserve fund; and
- allocation to a discretionary revenue fund if approved by our Shareholders and after allocation is made to the statutory reserve fund.

Dividends may be paid only out of our distributable profits as permitted under the relevant laws. Our dividend distribution record in the past may not be used as a reference or basis to determine the level of dividends that may be declared or paid by it in the future.

Our Directors currently intend that not less than 10% of our profit after taxation may be distributed as dividends for the applicable financial year subject to the approval of our Board after considering the above factors and by its then Shareholders. Such intention does not amount to any guarantee or representation or indication that we must or will declare and pay dividend in such manner or declare and pay any dividend at all.

NO MATERIAL ADVERSE CHANGE

Our Directors have confirmed that there has been no material adverse change in our financial and trading position or prospects since 31 March 2013, being the date to which our latest audited combined financial statements have been prepared.

PROFIT FORECAST FOR THE YEAR ENDING 31 MARCH 2014

Estimated combined profit attributable to owners of the Company for the year ending 31 March 2014 *(Note 1)* . . . . . not less than HK$40 million

Unaudited pro forma estimated earnings per Share for the year ending 31 March 2014 *(Note 2)* . . . . . not less than HK6.17 cents

Notes:

(1) The bases on which the above profit forecast has been prepared are set out in Appendix IV to this listing document. Our Directors have prepared the estimated combined profit attributable to owners of the Company for the year ending 31 March 2014 based on the unaudited combined results of our Group shown in the management accounts for the four months ended 31 July 2013 and a forecast of the combined results for the remaining eight months of the financial year ending 31 March 2014. The profit forecast has been prepared on a basis consistent in all material respects with the accounting policies presently adopted by our Group as set out in note 3 of Section II in Appendix I to this listing document.

(2) The calculation of the unaudited pro forma estimated earnings per Share is based on the estimated combined profit attributable to owners of the Company for the year ending 31 March 2014 and assuming a total of 648,405,300 Shares had been in issue throughout the year ending 31 March 2014. The calculation takes no account of any Shares which may be allotted and issued upon the exercise of any options that may be granted under the Share Option Scheme.

UNAUDITED PRO FORMA ADJUSTED NET TANGIBLE ASSETS

The following unaudited pro forma statement of our adjusted net tangible assets prepared in accordance with Rule 4.29 of the Listing Rules and with reference to AG 7, "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" is for illustration purposes only, and is set forth here to illustrate the effect of the Listing and loan capitalisation for the amount due to Hua Xia Group on our net tangible assets as of 31 March 2013 as if Listing and loan capitalisation for the amount due to Hua Xia Group had taken place on 31 March 2013.

The unaudited pro forma statement of adjusted net tangible assets has been prepared for illustrative purpose only and because of its hypothetical nature it may not give a true picture of our net tangible liabilities as of 31 March 2013 as derived from our financial statements set forth in the Accountants' Report in Appendix I to this listing document, and adjusted as described below. The unaudited pro forma statement of net tangible assets does not form part of the Accountants' Report as set forth in Appendix I to this listing document.

	Audited net tangible liabilities attributable to owners of our Company as at 31 March 2013	**Pro forma adjustments**	**Unaudited pro forma adjusted net tangible assets**	**Unaudited pro forma adjusted net tangible assets per Share**
	HK$'000	*HK$'000*	*HK$'000*	*HK$*
	(Note 1)	*(Note 2)*		*(Note 3)*
Based on 648,405,300 Shares in issue	(652,759)	869,380	216,621	0.33

Notes:

(1) The audited net tangible liabilities attributable to owners of our Company as at 31 March 2013 is based on the net assets attributable to owners of our Company of approximately HK$132,762,000 less the goodwill of approximately HK$785,521,000 as at 31 March 2013 extracted from the Accountants' Report set out in Appendix I to this listing document.

(2) The pro forma adjustments combined the net effect of (i) the loan capitalisation of the amount due to Hua Xia Group as at 31 March 2013 of approximately HK$889,480,000 and (ii) the estimated outstanding Listing expenses recognised by our Company of approximately HK$20,100,000. The capitalisation of the loan amount due to Hua Xia Group of approximately HK$889,480,000 represented the amount due to the ultimate holding company of approximately HK$889,426,000, the amount due to a fellow subsidiary of approximately HK$59,000 and deducted from the amount due from the immediate holding company of approximately HK$5,000. The loan captalisation of the amount due to Hua Xia Group is non-trading in nature.

(3) The unaudited pro forma adjusted net tangible assets per Share is calculated based on 648,405,300 Shares in issue immediately following the Listing.

The following is the text of a report, prepared for the purpose of inclusion in this listing document received from the independent reporting accountants, HLB Hodgson Impey Cheng, Certified Public Accountants, Hong Kong.

HLB 國衛會計師事務所 Hodgson Impey Cheng

31/F, Gloucester Tower
The Landmark
11 Pedder Street
Central
Hong Kong

30 September 2013

The Board of Directors
Wanjia Group Holdings Limited
Messis Capital Limited

Dear Sirs,

We set out below our report on the financial information of Wanjia Group Holdings Limited ("**Company**") and its subsidiaries (hereinafter collectively referred to as the "**Group**"), comprising the combined statements of financial position of the Group as at 31 March 2011, 2012 and 2013, the statement of financial position of the Company as at 31 March 2013, and the combined statements of comprehensive income, the combined statements of changes in equity and the combined statements of cash flows of the Group for each of the years ended 31 March 2011, 2012 and 2013 (the "**Track Record Period**"), together with the notes thereto (the "**Financial Information**"), prepared on the basis of presentation set out in Note 3 of Section II below, for inclusion in the listing document of the Company dated 30 September 2013 (the "**Listing Document**") in connection with the listing of shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**").

The Company was incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands on 9 July 2012. Pursuant to a group reorganisation (the "**Reorganisation**") as more fully explained in the paragraph headed "Corporate reorganisation" in Appendix VI to the Listing Document, the Company became the holding company of the subsidiaries now comprising the Group as set out in Note 2 of Section II. The Reorganisation became effective on 3 September 2013.

The Company has adopted 31 March as its year end date. No statutory audited financial statements have been prepared for the Company since its date of incorporation as there are no statutory requirements for the Company to prepare audited financial statements.

No statutory audited financial statements have been prepared for Luxuriant Expand Global Investments Limited ("**Luxuriant Expand**") as there are no statutory requirements for Luxuriant Expand to prepare audited financial statements.

No statutory audited financial statements have been prepared for Timely Hero Enterprises Limited ("**Timely Hero**") as there are no statutory requirements for Timely Hero to prepare audited financial statements.

No statutory audited financial statements have been prepared for Nurture Fit Limited ("**Nurture Fit**") as there are no statutory requirements for Nurture Fit to prepare audited financial statements.

The statutory audited financial statements of Hui Hao (HK) Group Limited ("**Huihao Hong Kong**") for the years ended 31 March 2011, 2012 and 2013 were prepared in accordance with Hong Kong Financial Reporting Standards ("**HKFRSs**") issued by the Hong Kong Institute of Certified Public Accountants (the "**HKICPA**") and the statutory audited financial statements of Huihao Hong Kong for the years ended 31 March 2011 and 2012 were audited by HLB Hodgson Impey Cheng, Certified Public Accountants registered in Hong Kong. The statutory audited financial statements of Huihao Hong Kong for the year ended 31 March 2013 were audited by HLB Hodgson Impey Cheng Limited, Certified Public Accountants registered in Hong Kong.

The statutory audited financial statements of 福建省福州市惠好藥業有限公司 ("**Fuzhou Huihao**") for the years ended 31 December 2010, 2011 and 2012 were prepared in accordance with the relevant accounting principles and financial regulations applicable to enterprises in the PRC and were audited by 福建華達會計師事務所有限公司 ("**Fujian Huada**"), certified public accountants registered in the PRC.

The statutory audited financial statements of 福建莆田惠好醫藥有限公司 ("**Putian Huihao**") for the years ended 31 December 2010, 2011 and 2012 were prepared in accordance with the relevant accounting principles and financial regulations applicable to enterprises in the PRC and were audited by Fujian Huada.

The statutory audited financial statements of 福建省惠明醫藥有限公司 ("**Fujian Huiming**") for the years ended 31 December 2010, 2011 and 2012 were prepared in accordance with the relevant accounting principles and financial regulations applicable to enterprises in the PRC and were audited by Fujian Huada.

The statutory audited financial statements of 福建惠好四海醫藥連鎖有限責任公司 ("**Huihao Sihai**") for the years ended 31 December 2010, 2011 and 2012 were prepared in accordance with the relevant accounting principles and financial regulations applicable to enterprises in the PRC and were audited by Fujian Huada.

The statutory audited financial statements of 惠好醫藥(泉州)有限公司 ("**Quanzhou Huihao**") for the years ended 31 December 2011 and 2012 were prepared in accordance with the relevant accounting principles and financial regulations applicable to enterprises in the PRC and were audited by Fujian Huada.

BASIS OF PREPARATION

For the purpose of this report, the directors of the Company have prepared the Financial Information for the Track Record Period based on the audited financial statements or unaudited financial statements with no adjustments made thereon, in accordance with Hong Kong Financial Reporting Standards ("**HKFRSs**") issued by the Hong Kong Institute of Certified Public Accountants (the "**HKICPA**") and the applicable disclosure requirements of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "**Listing Rules**"). The Financial Information for each of the Track Record Period were audited by us in accordance with Hong Kong Standards on Auditing issued by the HKICPA.

RESPONSIBILITY OF THE DIRECTORS

The directors of the Company are responsible for the contents of the Listing Document, including the preparation of the Financial Information that gives a true and fair view in accordance with the basis set out in Note 3 of Section II. The directors of the Company are responsible for the preparation of the Financial Information that gives a true and fair view in accordance with HKFRSs and the disclosure requirements of the Listing Rules and the Hong Kong Companies Ordinance, and for such internal control as the directors of the Company determine is necessary to enable the preparation of the Financial Information that are free from material misstatement, whether due to fraud or error.

RESPONSIBILITY OF REPORTING ACCOUNTANTS

For the Financial Information for the Track Record Period, it is our responsibility to form an independent opinion on the Financial Information based on our examination and to report our opinion to you. We examined the relevant audited financial statements or, where appropriate, the relevant unaudited financial statements of the Group for the Track Record Period, and carried out such procedures as are necessary in accordance with the Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" issued by the HKICPA.

OPINION

In our opinion, the Financial Information for the Track Record Period, for the purpose of this report and prepared on the basis of presentation and preparation set out in Note 3 of Section II below, gives a true and fair view of the combined state of affairs of the Group as at 31 March 2011, 2012 and 2013 and of the state of affairs of the Company as at 31 March 2013 and of the combined results and combined cash flows of the Group for the Track Record Period.

I. FINANCIAL INFORMATION

COMBINED STATEMENTS OF COMPREHENSIVE INCOME

	Note	For the year ended 31 March 2011 HK$'000	For the year ended 31 March 2012 HK$'000	For the year ended 31 March 2013 HK$'000
Turnover	*7*	1,357,679	1,712,147	1,885,369
Cost of sales		(1,224,365)	(1,551,795)	(1,721,210)
Gross profit		133,314	160,352	164,159
Other revenue	*8*	3,265	6,258	7,729
Other income	*9*	231	1,922	1,078
Selling and distribution expenses		(38,929)	(54,899)	(61,397)
Administrative expenses		(41,233)	(40,163)	(46,802)
Finance costs	*10*	(4,388)	(4,928)	(4,090)
Profit before taxation	*11*	52,260	68,542	60,677
Taxation	*13*	(19,420)	(23,210)	(18,772)
Profit for the year		32,840	45,332	41,905
Other comprehensive income for the year, net of tax:				
Exchange difference on translation of foreign operations		4,021	6,113	1,502
Total comprehensive income for the year, net of tax		36,861	51,445	43,407
Profit attributable to:				
Owners of the Company		32,765	45,228	41,763
Non-controlling interests		75	104	142
		32,840	45,332	41,905
Total comprehensive income attributable to:				
Owners of Company		36,667	51,352	43,262
Non-controlling interests		194	93	145
		36,861	51,445	43,407
Earnings per share attributable to owners of the Company – Basic and diluted (HK cents)	*15*	5.05	6.98	6.44

The accompanying notes form an integral part of the Financial Information.

COMBINED STATEMENTS OF FINANCIAL POSITION

	Note	As at 31 March 2011 HK$'000	As at 31 March 2012 HK$'000	As at 31 March 2013 HK$'000
Non-current assets				
Property, plant and equipment	16	12,346	12,854	10,926
Prepaid lease payments	17	4,235	4,705	4,612
Investment properties	18	6,045	7,611	8,157
Goodwill	19	785,169	785,519	785,521
		807,795	810,689	809,216
Current assets				
Inventories	20	104,378	106,215	119,570
Trade and other receivables and deposits	21	236,212	301,925	427,399
Held-to-maturity investment		–	123	–
Amount due from a fellow subsidiary	22	3,122	3,419	448
Amount due from the immediate holding company	23	–	–	5
Pledged bank deposits		13,809	22,847	3,609
Cash and bank balances	24	41,279	48,480	30,676
		398,800	483,009	581,707
Current liabilities				
Trade and other payables	25	214,401	275,047	306,758
Amount due to the ultimate holding company	26	895,113	880,964	889,426
Amounts due to fellow subsidiaries	27	277	1,762	1,062
Bank borrowings	28	49,194	36,582	50,672
Tax payable		9,262	9,550	9,804
		1,168,247	1,203,905	1,257,722
Net current liabilities		(769,447)	(720,896)	(676,015)
Total assets less current liabilities		38,348	89,793	133,201
Capital and reserves				
Share capital	29	–	–	1
Reserves	30	38,147	89,499	132,761
Equity attributable to owners of the Company		38,147	89,499	132,762
Non-controlling interests		201	294	439
Total equity		38,348	89,793	133,201

The accompanying notes form an integral part of the Financial Information.

STATEMENT OF FINANCIAL POSITION

	Note	As at 31 March 2013 HK$'000
Current assets		
Other receivables and deposits		2,036
Cash and bank balances		10
		2,046
Current liabilities		
Amount due to the ultimate holding company	*26*	1,139
Amount due to a subsidiary	*27*	8,312
Amount due to a fellow subsidiary	*27*	15
Accruals and other payables		3
		9,469
Net current liabilities		(7,423)
Total assets less current liabilities		(7,423)
Capital and reserves		
Share capital	*29*	–
Reserves	*30*	(7,423)
Total equity		(7,423)

The accompanying notes form an integral part of the Financial Information.

COMBINED STATEMENTS OF CHANGES IN EQUITY

	Share capital *HK$'000*	Translation reserve *HK$'000 (Note 30(b))*	Statutory reserve *HK$'000 (Note 30(c))*	Retained earnings *HK$'000*	Subtotal *HK$'000*	Non-controlling interests *HK$'000*	Total *HK$'000*
At 1 April 2010	–	(54)	–	1,534	1,480	7	1,487
Profit for the year	–	–	–	32,765	32,765	75	32,840
Other comprehensive income for the year	–	3,902	–	–	3,902	119	4,021
Total comprehensive income for the year	–	3,902	–	32,765	36,667	194	36,861
Transfer to statutory reserve	–	–	4,877	(4,877)	–	–	–
At 31 March 2011 and 1 April 2011	–	3,848	4,877	29,422	38,147	201	38,348
Profit for the year	–	–	–	45,228	45,228	104	45,332
Other comprehensive income/ (loss) for the year	–	6,124	–	–	6,124	(11)	6,113
Total comprehensive income for the year	–	6,124	–	45,228	51,352	93	51,445
Transfer to statutory reserve	–	–	8,202	(8,202)	–	–	–
At 31 March 2012 and 1 April 2012	–	9,972	13,079	66,448	89,499	294	89,793
Profit for the year	–	–	–	41,763	41,763	142	41,905
Other comprehensive income for the year	–	1,499	–	–	1,499	3	1,502
Total comprehensive income for the year	–	1,499	–	41,763	43,262	145	43,407
Issue of shares	1	–	–	–	1	–	1
Transfer to statutory reserve	–	–	5,731	(5,731)	–	–	–
At 31 March 2013	1	11,471	18,810	102,480	132,762	439	133,201

The accompanying notes form an integral part of the Financial Information.

COMBINED STATEMENTS OF CASH FLOWS

	For the year ended 31 March 2011 *HK$'000*	For the year ended 31 March 2012 *HK$'000*	For the year ended 31 March 2013 *HK$'000*
OPERATING ACTIVITIES			
Profit before taxation	52,260	68,542	60,677
Adjustments for:			
Interest income	(1,689)	(905)	(632)
Interest expenses	4,388	4,928	4,090
Amortisation of prepaid lease payments	161	179	182
Depreciation of property, plant and equipment	3,501	4,022	3,932
Provision for impairment loss on trade and other receivables	1,497	878	989
Reversal of impairment loss of trade receivables	–	(564)	(476)
Gain arising from change in fair value of investment properties	(231)	(1,335)	(492)
Loss on disposal of property, plant and equipment	191	208	276
Operating cash inflows before movements in working capital	60,078	75,953	68,546
Increase in inventories	(11,895)	(443)	(13,355)
Increase in trade and other receivables and deposits	(49,522)	(64,961)	(125,997)
(Decrease)/increase in trade and other payables	(14,475)	56,748	31,711
(Increase)/decrease in amount due from a fellow subsidiary	(3,122)	(297)	2,971
Increase in amount due from the immediate holding company	–	–	(5)
Increase/(decrease) in amounts due to fellow subsidiaries	277	1,485	(700)
Increase/(decrease) in amount due to the ultimate holding company	18,733	(14,149)	8,462
Net cash generate from/(used in) operations	74	54,336	(28,367)
Withholding tax (paid)/refund	–	(2,688)	612
PRC enterprise income tax paid	(12,413)	(20,265)	(19,130)
Net cash (used in)/generated from operating activities	(12,339)	31,383	(46,885)
INVESTING ACTIVITIES			
Interest received	1,689	905	632
Proceeds from disposal of property, plant and equipment	241	–	–
Purchase of property, plant and equipment	(2,848)	(3,951)	(2,216)
Purchase of prepaid lease payments	–	(510)	(60)
Proceeds from disposal of held-to-maturity investment	–	–	123
Acquisition of held-to-maturity investment	–	(123)	–
Net cash inflow from acquisition of a subsidiary	–	742	–
Net cash used in investing activities	(918)	(2,937)	(1,521)

	For the year ended 31 March 2011 *HK$'000*	For the year ended 31 March 2012 *HK$'000*	For the year ended 31 March 2013 *HK$'000*
FINANCING ACTIVITIES			
Interest paid	(4,388)	(4,928)	(4,090)
Decrease/(increase) in pledged bank deposit	3,465	(9,038)	19,238
Proceeds from new bank borrowings	76,458	91,578	53,138
Issue of shares	–	–	1
Capital injection from the ultimate holding company	35,318	–	–
Repayment of bank borrowings	(73,530)	(104,190)	(39,048)
Net cash generated from/(used in) financing activities	37,323	(26,578)	29,239
Net increase/(decrease) in cash and cash equivalents	24,066	1,868	(19,167)
Cash and cash equivalents at beginning of the year	15,226	41,279	48,480
Effect of foreign currency exchange rate changes	1,987	5,333	1,363
Cash and cash equivalents at end of the year	41,279	48,480	30,676
ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	41,279	48,480	30,676

The accompanying notes form an integral part of the Financial Information.

II. NOTES TO THE FINANCIAL INFORMATION

1. General information

Corporate information

The Company was an exempted company incorporated with limited liability in the Cayman Islands on 9 July 2012. Its ultimate controlling shareholder is Mr. Yung Kwok Leong ("**Mr. Yung**"). The registered office of the Company is located at Cricket Square, Hutchin Drive, PO Box 2681, Grand Cayman, KY1-1111, Cayman Islands and the principal place of business of the Company is located at Room 1902, 19/F., No. 101 King's Road, Hong Kong.

In the opinion of the directors of the Company ("**Director(s)**"), the Company's immediate holding company is Greatly Wealth Global Group Limited ("**Greatly Wealth**"), a company incorporated in the British Virgin Islands and the ultimate holding company is Hua Xia Healthcare Holdings Limited ("**Hua Xia**"), a company incorporated in the Cayman Islands on 28 May 2001 as an exempted company with limited liability, of which its shares are listed on the Growth Enterprise Market ("**GEM**") of The Stock Exchange.

The Company acts as an investment holding company while its subsidiaries are principally engaged in pharmaceutical wholesale and distribution and pharmaceutical retail chain business in the PRC.

2. Reorganisation

In the preparation for the listing of the Company's shares on the Main Board of the Stock Exchange, the Group underwent the Reorganisation, as a result of which the Company became the holding company of the subsidiaries comprising the Group. The Reorganisation included the following principal steps:

(a) incorporation of Luxuriant Expand on 10 April 2012 and allotment and issue of 100 ordinary shares of Luxuriant Expand to Hua Xia at par on 4 July 2012;

(b) incorporation of the Company on 9 July 2012 in the Cayman Islands and transfer of the Incorporation Share from Codan Trust Company (Cayman) Limited to Greatly Wealth at nil consideration as described in the section headed "History, Development and Reorganisation – Corporation Development – Our Companies" in this listing document;

(c) acquisition of 1 ordinary share, representing the entire issued share capital in Timely Hero, by Luxuriant Expand from Hua Xia on 3 September 2013 in consideration of the allotment and issue of 200 shares of US$1 each in Luxuriant Expand, all credited as fully paid up, to Hua Xia;

(d) capitalisation of the outstanding amount of HK$866,810,761 due from Timely Hero to Hua Xia on 3 September 2013 in consideration of (i) the allotment and issue of 1 share of US$1 in the share capital of Timely Hero to Luxuriant Expand, credited as fully paid up, at the direction of Hua Xia; and (ii) the allotment and issue of a total of 100 shares of US$1 each in the share capital of Luxuriant Expand, all credited as fully paid up, to Hua Xia in consideration of its receipt of 1 share in Timely Hero at the direction of Hua Xia; and

(e) acquisition of 300 shares in Luxuriant Expand, representing its entire issued share capital by the Company from Hua Xia on 3 September 2013 in consideration of (i) the allotment and issue of 648,405,299 Shares, all credited as fully paid up, to Greatly Wealth at the direction of Hua Xia and the crediting as fully paid at par of the Incorporation Share registered in the name of Greatly Wealth as described in the paragraph headed "Our Company" in the section headed "History, Development and Reorganisation" in this Listing Document; and (ii) the allotment and issue of 100 shares of US$1 each in the share capital of Greatly Wealth, all credited as fully paid up, to Hua Xia in consideration of its receipt of 648,405,299 Shares from the Company at the direction of Hua Xia.

Upon the completion of the Reorganisation on 3 September 2013, the Company became the holding company of the companies now comprising the Group.

Particulars of the subsidiaries, which are all private companies, of the Group as at 31 March 2013 are set out below:

Name of subsidiaries	Place and date of registration and operations	Issued and paid up/registered capital	Percentage of equity and voting power attributable to the Company		Principal activities
			Direct	Indirect	
			%	%	
Luxuriant Expand	The BVI/ 10 April 2012	US$100/ US$50,000	100	–	Investment holding
Timely Hero	The BVI/ 1 December 2006	US$1/ US$50,000	–	100	Investment holding
Nurture Fit	The BVI/ 16 July 2009	US$1/ US$50,000	–	100	Investment holding
Huihao Hong Kong	Hong Kong/ 1 March 2004	HK$1,000,000	–	100	Investment holding
Huihao Sihai#	The PRC 30 November 2001	RMB15,856,350	–	99.29	Pharmaceutical retail chain business in the PRC
Fuzhou Huihao#	The PRC 9 July 2008	RMB60,000,000	–	100	Pharmaceutical wholesale and distribution business in the PRC
Putian Huihao#	The PRC 11 July 2008	RMB10,000,000	–	100	Pharmaceutical wholesale and distribution business in the PRC
Fujian Huiming#	The PRC 10 July 2008	RMB20,000,000	–	100	Pharmaceutical wholesale and distribution business in the PRC
Quanzhou Huihao#	The PRC 17 May 2007	RMB10,000,000	–	100	Pharmaceutical wholesale and distribution business in the PRC

The English names of the Company's subsidiaries in the PRC are transliteration of their respective Chinese names and have not been registered.

3. Summary of significant accounting policies

(a) Statement of compliance

The Financial Information set out in this report has been prepared in accordance with HKFRSs, which collective term includes HKFRSs, Hong Kong Accounting Standards ("**HKAS**") and related interpretations promulgated by the HKICPA. The Financial Information also complies with the disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure required by the Rules Governing the Listing of Securities on the Stock Exchange.

The HKICPA has issued a number of new and revised HKFRSs during the Track Record Period. For the purpose of preparing this Financial Information, the Group has adopted all these new and revised HKFRSs to the Track Record Period.

At the date of this report, the Group has not applied the following new or revised standards, amendments and interpretations ("**New HKFRSs**") that have been issued by the HKICPA but are not yet effective, in the Financial Information:

HKFRSs (Amendments)	Annual Improvements to HKFRSs 2009-2011 Cycle[2]
HKFRS 1 (Amendments)	First-time Adoption of Hong Kong Financial Reporting Standard – Government Loans[2]
HKFRS 7 (Amendments)	Disclosures – Offsetting Financial Assets and Financial Liabilities[2]
HKFRS 7 and HKFRS 9 (Amendments)	Mandatory Effective Date of HKFRS 9 and Transition Disclosures[4]
HKFRS 9	Financial Instruments[4]
HKFRS 10	Consolidated Financial Statements[2]
HKFRS 11	Joint Arrangements[2]
HKFRS 12	Disclosure of Interests in Other Entities[2]
HKFRS 13	Fair Value Measurement[2]
HKFRS 10, HKFRS 11 and HKFRS 12 (Amendments)	Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance[2]
HKFRS 10, HKFRS 12 and HKAS 27 (Amendments)	Investment Entities[3]
HKAS 1 (Amendments)	Presentation of Items of Other Comprehensive Income[1]
HKAS 19 (as revised in 2011)	Employee Benefits[2]

HKAS 27 (as revised in 2011)	Separate Financial Statements[2]
HKAS 28 (as revised in 2011)	Investments in Associates and Joint Ventures[2]
HKAS 32 (Amendments)	Offsetting Financial Assets and Financial Liabilities[3]
HKAS 36 (Amendments)	Recoverable Amount Disclosures for Non-Financial Assets[3]
HKAS 39 (Amendments)	Novation of Derivatives and Continuation of Hedge Accounting[3]
HK(IFRIC)-Int 20	Stripping Costs in the Production Phase of a Surface Mine[2]
HK(IFRIC)-Int 21	Levies[3]

[1] *Effective for annual periods beginning on or after 1 July 2012*

[2] *Effective for annual periods beginning on or after 1 January 2013*

[3] *Effective for annual periods beginning on or after 1 January 2014*

[4] *Effective for annual periods beginning on or after 1 January 2015*

HKFRS 9 "Financial Instruments"

HKFRS 9 issued in 2009 introduced new requirements for the classification and measurement of financial assets. HKFRS 9 was amended in 2010 to include the requirements for the classification and measurement of financial liabilities and for derecognition.

Key requirements of HKFRS 9 are described as follows:

- All recognised financial assets that are within the scope of HKAS 39 "Financial Instruments: Recognition and Measurement" to be 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 reporting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent accounting 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. Previously, under HKAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss was presented in profit or loss.

HKFRS 9 is effective for annual periods beginning on or after 1 January 2015, with earlier application permitted.

The directors anticipate that the adoption of HKFRS 9 in the future may have a significant impact on the amounts reported in respect of the Group's financial assets and financial liabilities. Regarding the Group's financial assets, it is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed.

New and revised standards on consolidation, joint arrangements, associates and disclosures

In June 2011, a package of five standards on consolidation, joint arrangements, associates and disclosures was issued, including HKFRS 10, HKFRS 11, HKFRS 12, HKAS 27 (as revised in 2011) and HKAS 28 (as revised in 2011).

Key requirements of these standards are described below.

HKFRS 10 replaces the parts of HKAS 27 "Consolidated and Separate Financial Statements" that deal with consolidated financial statements. HK (SIC)-Int 12 "Consolidation – Special Purpose Entities" will be withdrawn upon the effective date of HKFRS 10. Under HKFRS 10, there is only one basis for consolidation, that is, control. In addition, HKFRS 10 includes a new definition of control that contains three elements: (a) power over an investee, (b) exposure, or rights, to variable returns from its involvement with the investee, and (c) the ability to use its power over the investee to affect the amount of the investor's returns. Extensive guidance has been added in HKFRS 10 to deal with complex scenarios.

HKFRS 11 replaces HKAS 31 "Interests in Joint Ventures". HKFRS 11 deals with how a joint arrangement of which two or more parties have joint control should be classified. HK (SIC) – Int 13 "Jointly Controlled Entities – Non-monetary Contributions by Venturers" will be withdrawn upon the effective date of HKFRS 11. Under HKFRS 11, joint arrangements are classified as joint operations or joint ventures, depending on the rights and obligations of the parties to the arrangements. In contrast, under HKAS 31, there are three types of joint arrangements: jointly controlled entities, jointly controlled assets and jointly controlled operations. In addition, joint ventures under HKFRS 11 are required to be accounted for using the equity method of accounting, whereas jointly controlled entities under HKAS 31 can be accounted for using the equity method of accounting or proportionate consolidation.

HKFRS 12 is a disclosure standard and is applicable to entities that have interests in subsidiaries, joint arrangements, associates and/or unconsolidated structured entities. In general, the disclosure requirements in HKFRS 12 are more extensive than those in the current standards.

In July 2012, the amendments to HKFRS 10, HKFRS 11 and HKFRS 12 were issued to clarify certain transitional guidance on the application of these HKFRSs for the first time.

These five standards, together with the amendments relating to the transitional guidance, are effective for annual periods beginning on or after 1 January 2013, with earlier application permitted provided all of these standards are applied at the same time.

The directors anticipate that the application of these five standards will be adopted in the Group's consolidated financial statements for the annual period beginning 1 April 2013. The application of these five standards may have significant impact on accounts reported in the consolidated financial statements. However, the directors have not yet performed a detailed analysis of the impact of the application of these standards and hence have not yet quantified the extent of the impact.

HKFRS 13 "Fair Value Measurement"

HKFRS 13 establishes a single source of guidance for fair value measurements and disclosures about fair value measurements. The standard defines fair value, establishes a framework for measuring fair value, and requires disclosures about fair value measurements. The scope of HKFRS 13 is broad; it applies to both financial instrument items and non-financial instrument items for which other HKFRSs require or permit fair value measurements and disclosures about fair value measurements, except in specified circumstances. In general, the disclosure requirements in HKFRS 13 are more extensive than those in the current standards. For example, quantitative and qualitative disclosures based on the three-level fair value hierarchy currently required for financial instruments only under HKFRS 7 "Financial Instruments: Disclosures" will be extended by HKFRS 13 to cover all assets and liabilities within its scope.

HKFRS 13 is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted.

The directors anticipate that the application of the new standard may affect certain amounts reported in the consolidated financial statements and result in more extensive disclosures in the consolidated financial statements.

HKFRS 7 and HKAS 32 (Amendments) "Offsetting Financial Assets and Financial Liabilities and the related disclosures"

The amendments to HKAS 32 clarify existing application issues relating to the offset of financial assets and financial liabilities requirements. Specifically, the amendments clarify the meaning of "currently has a legally enforceable right of set-off" and "simultaneous realisation and settlement".

The amendments to HKFRS 7 require entities to disclose information about rights of offset and related arrangements (such as collateral posting requirements) for financial instruments under an enforceable master netting agreement or similar arrangement.

The amendments to HKFRS 7 are effective for annual periods beginning on or after 1 January 2013 and interim periods within those annual periods. The disclosures should be provided retrospectively for all comparative periods. However, the amendments to HKAS 32 are not effective until annual periods beginning on or after 1 January 2014, with retrospective application required.

The directors anticipate that the application of these amendments to HKAS 32 and HKFRS 7 may result in more disclosures being made with regard to offsetting financial assets and financial liabilities in the future.

HKAS 19 "Employee Benefits"

The amendments to HKAS 19 change the accounting for defined benefit plans and termination benefits. The most significant change relates to the accounting for changes in defined benefit obligations and plan assets. The amendments require the recognition of changes in defined benefit obligations and in fair value of plan assets when they occur, and hence eliminate the 'corridor approach' permitted under the previous version of HKAS 19 and accelerate the recognition of past service costs. The amendments require all actuarial gains and losses to be recognised immediately through other comprehensive income in order for the net pension asset or liability recognised in the consolidated statement of financial position to reflect the full value of the plan deficit or surplus. Furthermore, the interest cost and expected return on plan assets used in the previous version of HKAS 19 are replaced with a 'net-interest' amount, which is calculated by applying the discount rate to the net defined benefit liability or asset.

The amendments to HKAS 19 are effective for annual periods beginning on or after 1 January 2013 and require retrospective application.

HKAS 1 (Amendments) "Presentation of Items of Other Comprehensive Income"

The amendments to HKAS 1 introduce new terminology for the statement of comprehensive income and income statement. Under the amendments to HKAS 1, a statement of comprehensive income is renamed as a statement of profit or loss and other comprehensive income and an income statement is renamed as a statement of profit or loss. The amendments to HKAS 1 retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate but consecutive statements. However, the amendments to HKAS 1 require items of other comprehensive income to be grouped into two categories in the other comprehensive income section: (a) items that will not be reclassified subsequently to profit or loss and (b) items that may be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis. The amendments do not change the option to present items of other comprehensive income either before tax or net of tax.

The amendments to HKAS 1 are effective for annual periods beginning on or after 1 July 2012. The presentation of items of other comprehensive income will be modified accordingly when the amendments are applied in the future accounting periods.

Annual Improvements to HKFRSs 2009 – 2011 Cycle issued in June 2012

The Annual Improvements to HKFRSs 2009 – 2011 Cycle include a number of amendments to various HKFRSs. The amendments are effective for annual periods beginning on or after 1 January 2013. Amendments to HKFRSs include:

- amendments to HKAS 1 "Presentation of Financial Statements";
- amendments to HKAS 16 "Property, Plant and Equipment"; and
- amendments to HKAS 32 "Financial Instruments: Presentation".

HKAS 1 (Amendments)

HKAS 1 requires an entity that changes accounting policies retrospectively, or makes a retrospective restatement or reclassification to present a statement of financial position as at the beginning of the preceding period (third statement of financial position). The amendments to HKAS 1 clarify that an entity is required to present a third statement of financial position only when the retrospective application, restatement or reclassification has a material effect on the information in the third statement of financial position and that related notes are not required to accompany the third statement of financial position.

HKAS 16 (Amendments)

The amendments to HKAS 16 clarify that spare parts, stand-by equipment and servicing equipment should be classified as property, plant and equipment when they meet the definition of property, plant and equipment in HKAS 16 and as inventory otherwise. The directors do not anticipate that the amendments to HKAS 16 will have a significant effect on the Group's consolidated financial statements.

HKAS 32 (Amendments)

The amendments to HKAS 32 clarify that income tax on distributions to holders of an equity instrument and transaction costs of an equity transaction should be accounted for in accordance with HKAS 12 "Income Taxes". The directors anticipate that the amendments to HKAS 32 will have no effect on the Group's consolidated financial statements.

The Group is in the process of assessing the potential impact of the above New HKFRSs upon initial application but is not yet in a position to state whether the above New HKFRSs will have a significant impact on the Group's results of operations and financial position.

(b) Basis of preparation

The Financial Information is presented in Hong Kong Dollar ("HK$"), rounded to the nearest thousand except when otherwise indicated, which is the presentation currency and the functional currency of the Company.

The measurement basis used in the preparation of the Financial Information is the historical cost convention except for certain financial assets, financial liabilities and investment properties which have been carried at fair value as explained below. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

The preparation of the Financial Information in conformity with HKFRSs requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. 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.

Judgments made by management in the application of HKFRSs that have significant effect on the Financial Information and estimates with a significant risk of material adjustment in the next year are discussed in Note 4.

The accounting policies set out below have been applied consistently to all periods presented in the Financial Information.

(c) Merger accounting for common control combination

The Financial Information incorporates the financial statement items of the combining entities or business in which the common control combination occurs as if they had been combined from the date when the combining entities or businesses first came under the control of the controlling party.

The net assets of the combining entities or business are combined using the existing book values from the controlling party's perspective. No amount is recognised with respect to goodwill or any excess of acquirer's interest in the fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over its cost at the time of common control combination, to the extent of the contribution of the controlling party's interest.

The combined statements of comprehensive income include the results of each of the combining entities or business from the earliest date presented or since the date when combining entities or business first came under common control, where this is a shorter period, regardless of the date of common control combination.

Intra-group transactions, balances and unrealised gains on transactions between the combining entities or business are eliminated. Unrealised losses are eliminated but considered as an impairment indicator of the asset transferred. Accounting policies of combining entities or business have been changed where necessary to ensure consistency with the policies adopted by the Group.

Transaction costs, including professional fees, registration fees, cost of furnishing information to shareholders, costs or losses incurred in combining operations of the previously separate businesses, etc., incurred in relation to the common control combination that is to be accounted for by using merger accounting are recognised as an expense in the period in which they are incurred.

(d) Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquire and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition related costs are generally recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value at the acquisition date, except that:

(i) deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognised and measured in accordance with HKAS 12 Income Taxes and HKAS 19 Employee Benefits respectively;

(ii) liabilities or equity instruments related to share-based payment transactions of the acquiree or the replacement of an acquiree's share-based payment transactions with share-based payment transactions of the Group are measured in accordance with HKFRS 2 Share-based Payment at the acquisition date; and

(iii) assets (or disposal groups) that are classified as held for sale in accordance with HKFRS 5 Non-current Assets Held for Sale and Discontinued Operations are measured in accordance with that standard.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after assessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquire and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at their fair value or another measurement basis required by another standard.

When the consideration the Group transfers in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition date fair value and considered as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with the corresponding adjustments being made against goodwill or gain on bargain purchase.

Measurement period adjustments are adjustments that arise from additional information obtained during the measurement period about facts and circumstances that existed as of the acquisition date. Measurement period does not exceed one year from the acquisition date.

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates in accordance with HKAS 39, or HKAS 37 Provisions, Contingent Liabilities and Contingent Assets, as appropriate, with the corresponding gain or loss being recognised in profit or loss.

When a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date (i.e. the date when the Group obtains control), and the resulting gain or loss, if any, is recognised in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss where such treatment would be appropriate if that interest were disposed of.

Changes in the value of the previously held equity interest recognised in other comprehensive income and accumulated in equity before the acquisition date are reclassified to profit or loss when the Group obtains control over the acquiree. If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see above), or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the amounts recognised as of that date.

(e) Goodwill

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business (see the accounting policy above) less accumulated impairment losses, if any.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently when there is indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit on a prorate basis based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in profit or loss in the combined statement of comprehensive income. An impairment loss recognised for goodwill is not reversed in subsequent periods.

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

(f) Subsidiaries

A subsidiary is a company in which the Company, directly or indirectly, controls more than one half of the voting power; has the power to govern the financial and operating policies; to appoint or remove the majority of the members of the board of directors; or to cast majority of votes at the meetings of the board of directors.

Investments in subsidiaries are included in the Company's statement of financial position at cost less any impairment loss. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

(g) Property, plant and equipment

Property, plant and equipment are stated in the combined statements of financial position at cost less accumulated depreciation and impairment losses.

The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after the property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the combined statement of comprehensive income in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the property, plant and equipment, the expenditure is capitalised as an additional cost of that asset.

Depreciation is provided to write off the cost of items of property, plant and equipment, using the straight line method, over its estimated useful life. The principal annual rates are as follows:

Leasehold improvements	Over lease term
Motor vehicle	20%
Office equipment	20%

The gain or loss on disposal or retirement of an item of property, plant and equipment is the difference between the net sale proceeds and the carrying amount of the relevant asset, and is recognised in the combined statement of comprehensive income.

(h) Impairment of assets

(1) 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 investment have been affected.

For all other financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contracts, such as a default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial reorganisation; or
- the disappearance of an active market for that financial asset because of financial difficulties.

For certain categories of financial asset, such as trade receivables, assets that are assessed not to be impaired individually are 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 average credit period of within 90 days, as well as 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 estimated future cash flows, discounted at the financial asset's original effective interest rate.

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. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

(2) Other assets

Internal and external sources of information are reviewed at each reporting date to identify indications that other assets may be impaired or an impairment loss previously recognised no longer exists or may have decreased.

If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount.

– Calculation of recoverable amount

The recoverable amount of an asset is the greater of its net selling price 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. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generate cash inflows independently (i.e. a cash-generating unit).

– Recognition of impairment losses

An impairment loss is recognised in profit or loss whenever the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount.

– Reversals of impairment losses

An impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount.

A reversal of impairment losses is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to the statement of comprehensive income in the year in which the reversals are recognised.

(i) Financial instruments

Financial assets and financial liabilities are recognised on the combined statements of financial position when an entity becomes a party to the contractual provisions of the instruments. 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 (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in the combined statements of comprehensive income.

(i) Financial assets

Financial assets are classified into loans and receivables (including cash and bank balances). All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales of financial assets that requires delivery of assets within the time frame established by regulation or convention in the marketplace.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At the end of each reporting period subsequent to initial recognition, loans and receivables including trade and other receivables amount due from the immediate holding company, amount due from a fellow subsidiary and cash and cash equivalents are carried at amortised cost using the effective interest method, less any identified impairment losses.

Effective interest method

The effective interest method is a method of calculating the amortised cost of debt instrument 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 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 debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

(ii) Financial liabilities (including interest-bearing borrowings)

Financial liabilities including trade and other payables, amounts due to fellow subsidiaries, amount due to the ultimate holding company and bank borrowings are initially stated at fair value less directly attributable transaction costs and are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. The related interest expense is recognised within "finance costs" in the combined statements of comprehensive income.

Gains and losses are recognised in the combined statements of comprehensive income when the liabilities are derecognised as well as through the amortisation process.

Effective interest method

The effective interest method is a method of calculating the amortised cost of 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.

(iii) Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the entity has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, 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 directly in equity is recognised in the combined statements of comprehensive income.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between th carrying amount of the financial liability derecognised and the consideration paid or payable is recognised in the combined statements of comprehensive income.

(j) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost, which comprises all costs of purchase and, where applicable, other costs that have been incurred in bringing the inventories to their present location and condition, is calculated using the first-in, first-out method. Net realisable value represents the estimated selling price in the ordinary course of business less all estimated costs necessary to make the sale.

(k) Cash and cash equivalents

For the purpose of the combined statements of cash flows, cash and cash equivalents comprise cash on hand and demand deposits which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the combined statements of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, which are not restricted to use.

(l) Revenue recognition

Revenue from sales of goods is recognised when the significant risks and rewards of ownership have been transferred to the buyers, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold.

Interest income is recognised on a time-proportion basis using effective interest method. When a receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flows discounted at original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans is recognised using the original effective interest rate.

(m) Employee benefits

i. Salaries, annual bonuses, paid annual leave, leave passage and the cost to the Group of non-monetary benefits are accrued in the period in which the associated services are rendered by employees of the Group. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

ii. Contributions to Mandatory Provident Funds as required under the Hong Kong Mandatory Provident Fund Schemes Ordinance and to the state-managed retirement benefits schemes for the employees of the Group's overseas entities are recognised as an expense in the combined statement of comprehensive income as incurred.

iii. Termination benefits are recognised when, and only when, the Group demonstrably commits itself to terminate employment or to provide benefits as a result of voluntary redundancy by having a detailed formal plan which is without realistic possibility of withdrawal.

(n) Income tax

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 net profit as reported in the combined statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years, and it further excludes combined statements of comprehensive income items that are never taxable or deductible.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which deductible temporary difference can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill (or negative goodwill) or from the initial recognition (other than 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 arising on investment in subsidiaries and associate, 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.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply to the period when the liability is settled or the asset realised. Deferred tax is charged or credited to the combined statement of comprehensive income, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

(o) Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events and it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made. Provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimate. Where the effect of the time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligations.

(p) Contingent liabilities and contingent assets

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably. A contingent liability is not recognised but is disclosed. When a change in the probability of an outflow occurs so that outflow is probable, they will then be recognised as a provision.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. A contingent asset is not recognised but is disclosed when an inflow of economic benefits is probable. When inflow is virtually certain, an asset is recognised.

(q) Foreign currencies

i. Functional and presentation currency

Items included in the financial statements of each of the companies now comprising the Group are measured using the currency of the primary economic environment in which the company operates (the "functional currency"). The combined financial statements are presented in Hong Kong dollars, which is the functional and presentation currency of the Company.

ii. Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated statement of comprehensive income.

Translation differences on non-monetary financial assets and liabilities are reported as part of their fair value gain or loss.

iii. Group companies

The results and financial positions of all the companies now comprising the Group (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(a) Assets and liabilities are translated at the closing rate;

(b) Income and expenses are translated at average exchange rates; and

(c) All resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations, and of borrowings and other currency instruments designated as hedges of such investments, are taken to owners' equity. When a foreign operation is sold, exchange differences that were recorded in equity are recognised in the consolidated statement of comprehensive income as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

(r) Borrowing costs

Borrowing costs are interests and other costs incurred in connection with the borrowing of funds. All borrowing costs are charged to the combined statements of comprehensive income in the period in which they are incurred.

(s) Related parties transactions

(i) A person, or a close member of that person's family, is related to the Group if that person:

(1) has control or joint control over the Group;

(2) has significant influence over the Group; or

(3) is a member of the key management personnel of the Group or of a parent of the Group.

(ii) An entity is related to the Group if any of the following conditions applies:

(1) the entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(2) one entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(3) both entities are joint ventures of the same third party.

(4) one entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(5) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.

(6) the entity is controlled or jointly controlled by a person identified in (i).

(7) a person identified in (i)(1) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

Close family members of an individual are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

A transaction is considered to be a related party transaction when there is a transfer of resources and obligations between related parties.

(t) Leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Rentals payable under the operating leases are charged to the combined statements of comprehensive income on the straight-line basis over the lease terms.

Prepaid lease payments for land use rights

Prepaid lease payments for land use rights is stated as cost less subsequent accumulated amortisation and any accumulated impairment losses. The cost of interest in leasehold land are amortised on a straight line basis over the relevant interest in leasehold land.

(u) Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation (including property under construction for such purpose). Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are measured at fair value. Gains and losses arising from changes in the fair value of investment properties are included in profit or loss in the period in which they arise.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from the disposal. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the net asset) is included in profit or loss in the period in which the property is derecognised.

(v) Segment reporting

Operating segments, and the amounts of each segment item reported in the Financial Information, are identified from the financial information provided regularly to the Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

4. Key sources of estimation uncertainty

In the process of applying the Group's accounting policies which are described in Note 3, management has made certain key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that may have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities within the next year, are discussed below:

(a) Income taxes

The Group is subject to income taxes in numerous tax authorities. Significant judgment is required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such difference will impact the income tax and deferred tax provisions in the period in which such determination is made.

(b) Impairment of property, plant and equipment

The Group assesses whether there are any indicators of impairment for an asset at the end of each reporting period. The asset is tested for impairment when there are indicators that the carrying amounts may not be recoverable. When value in use calculations are undertaken, an estimation of the value in use of the cash-generating units to which the asset is allocated will be required. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows. A change in the estimated future cash flows and/or the discount rate applied will result in an adjustment to the estimated impairment provision previously made.

(c) Useful lives and residual values of property, plant and equipment

In determining the useful life and residual value of an item of property, plant and equipment, the Group has to consider various factors, such as technical or commercial obsolescence arising from changes or improvements in production, or from a change in the market demand for the product or service output of the asset, expected usage of the asset, expected physical wear and tear, the care and maintenance of the asset, and legal or similar limits on the use of the asset. The estimation of the useful life of the asset is based on the experience of the Group with similar assets that are used in a similar way. Additional depreciation is made if the estimated useful lives and/or the residual values of items of property, plant and equipment are different from the previous estimation. Useful lives and residual values are reviewed at the end of the reporting period based on changes in circumstances.

(d) Estimated impairment of goodwill

The Group performs annual tests on whether there has been impairment of goodwill in accordance with the accounting policy stated in Note 3. The recoverable amounts of cash-generating units are determined based on value-in-use calculations. These calculations require the use of estimates and assumptions made by management on the future operation of the business, pre-tax discount rates, and other assumptions underlying the value-in-use calculations.

(e) Impairment of trade receivables

The aged debt profile of trade debtors is reviewed on a regular basis to ensure that the trade debtor balances are collectible and follow up actions are promptly carried out if the agreed credit periods have been exceeded. However, from time to time, the Group may experience delays in collection. Where recoverability of trade debtor balances are called into doubts, specific provisions for bad and doubtful debts are made based on credit status of the customers, the aged analysis of the trade receivable balances and write-off history. Certain receivables may be initially identified as collectible, yet subsequently become uncollectible and result in a subsequent write-off of the related receivable to the combined statement of comprehensive income. Changes in the collectability of trade receivables for which provisions are not made could affect our results of operations.

(f) Fair value of investment properties

The fair value of each investment property is individually determined at the end of each reporting period based on its market value and by adopting direct comparison method. Direct comparison method assumes each of these properties is capable of being sold in its existing state with the benefit of vacant possession and by making reference to comparable sales evidence as available in the relevant market condition, the fair value of the investment properties will change in future.

5. Financial instruments

(a) Financial instruments by category

The carrying amount of each of the categories of financial instruments as at the end of the reporting period is as follows:

	As at 31 March 2011	As at 31 March 2012	As at 31 March 2013
	HK$'000	*HK$'000*	*HK$'000*
Financial assets			
Loan and receivables			
– trade and other receivables	222,936	264,637	369,034
– amount due from the immediate holding company	–	–	5
– amount due from a fellow subsidiary	3,122	3,419	448
Cash and bank balances	41,279	48,480	30,676
Pledged bank deposits	13,809	22,847	3,609
Held-to-maturity investment	–	123	–

	As at 31 March 2011	As at 31 March 2012	As at 31 March 2013
	HK$'000	*HK$'000*	*HK$'000*
Financial liabilities			
At amortised cost			
– trade and other payables	214,401	275,047	306,758
– amount due to the ultimate holding company	895,113	880,964	889,426
– amounts due to fellow subsidiaries	277	1,762	1,062
– bank borrowings	49,194	36,582	50,672

(b) Financial risk management objective and policies

The Group's major financial instruments include trade and other receivables, cash and cash equivalents, amount due from the immediate holding company, amount due from a fellow subsidiary, held-to-maturity investment, trade and other payables, bank borrowings, amount due to the ultimate holding company and amounts due to fellow subsidiaries. The details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and 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.

The main risks arising from the Group's financial instruments are credit risk, liquidity risk, interest rate risk and currency risk. The directors review and agree policies for managing each of these risks and they are summarised below.

(a) Credit risk

The carrying amounts of trade and other receivables included in the combined statements of financial position represent the Group's maximum exposure to credit risk in relation to the Group's financial assets. No other financial assets carry a significant exposure to credit risk.

The Group's concentration of credit risk by geographical location is mainly in the PRC. The Group also has concentration of credit risk by customers as approximately 25.68%, 11.26% and 12.7% of total trade receivables was due from the Group's five largest customers as at 31 March 2011, 2012 and 2013 respectively.

In order to minimise the credit risk, the management of the Group has credit approvals and other monitoring procedures to ensure that follow-up action is taken on a timely basis and adequate impairment losses are made for irrecoverable amounts overdue. In this regards, the directors of the Company consider that the Group's credit risk is significantly reduced.

Substantially all of the Group's cash and cash equivalents are mainly deposited in the state controlled PRC banks which the directors assessed the credit risk to be insignificant.

(b) Liquidity risk

Liquidity risk is the risk that funds will not be available to meet liabilities as they fall due, and it results from amount and maturity mismatches of assets and liabilities. The Group will consistently maintain a prudent financial policy and ensure that it maintains sufficient cash to meet its liquidity requirements.

The Group's financial liabilities are analysed into relevant maturity groupings based on the remaining period at the respective end of the reporting periods to the contractual maturity date, using the contractual undiscounted cash flows, as follows:

	Weighted average interest rate	On demand or less than 1 year	Over 1 year	Total undiscounted cash flow	Total carrying amount
	%	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 31 March 2013					
Trade and other payables	–	306,758	–	306,758	306,758
Amount due to the ultimate holding company	–	889,426	–	889,426	889,426
Amounts due to fellow subsidiaries	–	1,062	–	1,062	1,062
Bank borrowings	7.7	52,104	–	52,104	50,672
		1,249,350	–	1,249,350	1,247,918

	Weighted average interest rate	On demand or less than 1 year	Over 1 year	Total undiscounted cash flow	Total carrying amount
	%	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 31 March 2012					
Trade and other payables	–	275,047	–	275,047	275,047
Amount due to the ultimate holding company	–	880,964	–	880,964	880,964
Amounts due to fellow subsidiaries	–	1,762	–	1,762	1,762
Bank borrowings	8.4	38,078	–	38,078	36,582
		1,195,851	–	1,195,851	1,194,355

	Weighted average interest rate	On demand or less than 1 year	Over 1 year	Total undiscounted cash flow	Total carrying amount
	%	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 31 March 2011					
Trade and other payables	–	214,401	–	214,401	214,401
Amount due to the ultimate holding company	–	895,113	–	895,113	895,113
Amounts due to fellow subsidiaries	–	277	–	277	277
Bank borrowings	5.5	51,536	–	51,536	49,194
		1,161,327	–	1,161,327	1,158,985

(c) Interest rate risk

The Group's exposure to changes in interest rates is mainly attributable to its bank borrowings. Bank borrowings at variable rates expose the Group to cash flow interest rate risk. The Group's income and operating cash flows are substantially independent of changes in market interest rates. The Group currently does not have any interest rate hedging policy. However, the management monitors interest rate exposure and will consider hedging significant interest rate exposure should the need arise.

Sensitivity analysis on interest rate risk

Regarding the cash flow interest rate risk, the sensitivity analysis set out below have been determined based on the exposure to interest rates for both derivative and non-derivative instruments at the end of the reporting period. For variable rate borrowings, the analysis is prepared assuming the amount of liability outstanding at the end of the reporting period was outstanding for the whole year. A 50 basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 50 basis points higher/lower and all other variables were held constant, the Group's profit for the years ended 31 March 2011, 2012 and 2013 would decrease/increase by approximately HK$70,000, HK$51,000 and HK$5,000 respectively. This is mainly attributable to the Group's exposure to interest rates on its variable rate borrowings.

(d) Currency risk

The Group has minimal exposures to foreign currency risk as most of its business transactions, assets and liabilities are principally denominated in the functional currencies of the respective subsidiaries. The Group currently does not have a foreign currency hedging policy in respect of foreign currency transactions, assets and liabilities. The Group will monitor its foreign currency exposure closely and will consider hedging significant foreign currency exposure should the need arise.

Fair value of financial instruments

The fair values of financial assets and financial liabilities are determined as follows:

(i) the fair values of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices; and

(ii) the fair values of other financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

The carrying amount of other financial assets and liabilities carried at amortised cost, approximate their respective fair values due to the relatively short-term nature of these financial instruments.

Fair value measurements recognised in the statement of financial position

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable as at 31 March 2011, 2012 and 2013.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active market for identical assets or liabilities.

- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the assets or liability that are not based on observable market data (unobservable inputs).

No analysis is disclosed since the Group has no financial instruments that are measured subsequent to initial recognition at fair value at the end of the reporting period.

Capital risk management

The primary objective of the Group's capital management is to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value. The Group manages the capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes for managing capital during the Track Record Period.

The Group monitors capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. The Group overall strategy remains unchanged during the Track Record Period.

The capital structure of the Group consists of debt (bank borrowings), cash and bank balances and equity attributable to owners of the Company, comprising issued share capital and reserves.

	As at 31 March 2011	As at 31 March 2012	As at 31 March 2013
	HK$'000	*HK$'000*	*HK$'000*
Debt *(Note (a))*	49,194	36,582	50,672
Cash and bank balances	(41,279)	(48,480)	(30,676)
Net debt	7,915	(11,898)	19,996
Equity *(Note (b))*	38,147	89,499	132,762
Gearing ratio	0.21	(0.13)	0.15

Notes:

(a) Debts represented by bank borrowings as set out in Note 28.

(b) Equity includes all capital and reserves attributable to owners of the Company.

6. Operating segment

Information reported internally to the chief operating decision maker for the purpose of resource allocation and assessment of segment performance focuses on types of goods or services delivered or provided. The Group organised into two operating divisions: (a) pharmaceutical wholesale and distribution business and (b) pharmaceutical retail chain business in the PRC. These divisions are the basis on which the Group reports its segment information.

Segment revenue and results

For the year ended 31 March 2011

	Pharmaceutical wholesale and distribution business *HK$'000*	**Pharmaceutical retail chain business** *HK$'000*	**Eliminations** *HK$'000*	**Combined** *HK$'000*
Turnover				
External sales	1,200,270	157,409	–	1,357,679
Inter-segment sales	48,355	–	(48,355)	–
Total turnover	1,248,625	157,409	(48,355)	1,357,679
Inter-segment sales are charged at arm's length				
Results				
Segment results	59,620	15,737	–	75,357
Unallocated other revenue				118
Unallocated corporate expenses				(18,827)
Profit from operations				56,648
Finance costs				(4,388)
Profit before taxation				52,260
Taxation				(19,420)
Profit for the year				32,840

Segment assets and liabilities

At 31 March 2011

	Pharmaceutical wholesale and distribution business	Pharmaceutical retail chain business	Combined
	HK$'000	*HK$'000*	*HK$'000*
Combined statement of financial position			
Assets			
Segment assets	343,749	77,411	421,160
Goodwill			785,169
Unallocated corporate assets			266
Combined total assets			1,206,595
Liabilities			
Segment liabilities	225,753	47,331	273,084
Unallocated corporate liabilities			895,163
Combined total liabilities			1,168,247

Other segment information

For the year ended 31 March 2011

	Pharmaceutical wholesale and distribution business	Pharmaceutical retail chain business	Combined
	HK$'000	*HK$'000*	*HK$'000*
Other information			
Capital expenditure	447	2,401	2,848
Depreciation	1,762	1,739	3,501
Amortisation of prepaid lease payments	–	161	161
Loss on disposal of property, plant and equipment	86	105	191
Provision for impairment loss of trade and other receivables	1,497	–	1,497

Segment revenue and results

For the year ended 31 March 2012

	Pharmaceutical wholesale and distribution business	Pharmaceutical retail chain business	Eliminations	Combined
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Turnover				
External sales	1,525,145	187,002	–	1,712,147
Inter-segment sales	50,059	–	(50,059)	–
Total turnover	1,575,204	187,002	(50,059)	1,712,147
Inter-segment sales are charged at arm's length				
Results				
Segment results	66,339	20,764	–	87,103
Unallocated other revenue				1
Unallocated other income				23
Unallocated corporate expenses				(13,657)
Profit from operations				73,470
Finance costs				(4,928)
Profit before taxation				68,542
Taxation				(23,210)
Profit for the year				45,332

Segment assets and liabilities

At 31 March 2012

	Pharmaceutical wholesale and distribution business	Pharmaceutical retail chain business	Combined
	HK$'000	*HK$'000*	*HK$'000*
Combined statement of financial position			
Assets			
Segment assets	414,070	93,783	507,853
Goodwill			785,519
Unallocated corporate assets			326
Combined total assets			1,293,698
Liabilities			
Segment liabilities	291,364	31,526	322,890
Unallocated corporate liabilities			881,015
Combined total liabilities			1,203,905

Other segment information

For the year ended 31 March 2012

	Pharmaceutical wholesale and distribution business	Pharmaceutical retail chain business	Combined
	HK$'000	*HK$'000*	*HK$'000*
Other information			
Capital expenditure	1,904	2,557	4,461
Depreciation	2,019	2,003	4,022
Amortisation of prepaid lease payments	–	179	179
Loss on disposal of property, plant and equipment	81	127	208
Provision for impairment loss of trade and other receivables	30	848	878

Segment revenue and results

For the year ended 31 March 2013

	Pharmaceutical wholesale and distribution business	Pharmaceutical retail chain business	Eliminations	Combined
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Turnover				
External sales	1,672,848	212,521	–	1,885,369
Inter-segment sales	52,597	–	(52,597)	–
Total turnover	1,725,445	212,521	(52,597)	1,885,369
Inter-segment sales are charged at arm's length				
Results				
Segment results	55,902	26,502	–	82,404
Unallocated other revenue				–
Unallocated other income				19
Unallocated corporate expenses				(17,656)
Profit from operations				64,767
Finance costs				(4,090)
Profit before taxation				60,677
Taxation				(18,772)
Profit for the year				41,905

Segment assets and liabilities

At 31 March 2013

	Pharmaceutical wholesale and distribution business	Pharmaceutical retail chain business	Combined
	HK$'000	*HK$'000*	*HK$'000*
Combined statement of financial position			
Assets			
Segment assets	508,405	94,729	603,134
Goodwill			785,521
Unallocated corporate assets			2,268
Combined total assets			1,390,923
Liabilities			
Segment liabilities	333,518	34,704	368,222
Unallocated corporate liabilities			889,500
Combined total liabilities			1,257,722

Other segment information

For the year ended 31 March 2013

	Pharmaceutical wholesale and distribution business	Pharmaceutical retail chain business	Unallocated	Combined
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Other information				
Capital expenditure	1,141	1,073	62	2,276
Depreciation	1,908	2,015	9	3,932
Amortisation of prepaid lease payments	–	182	–	182
Loss on disposal of property, plant and equipment	60	216	–	276
Provision for impairment loss of trade and other receivables	859	–	130	989

The accounting policies of the reportable segments are the same as the Group's accounting policies described in Note 3. Segment results represent the profit generated by each segment without allocation of finance costs and taxation. Unallocated corporate expenses mainly include directors' remuneration and other central administration costs. This is the measure reported to the chief operating decision maker for the purpose of resource allocation and assessment of segment performance.

For the purposes of monitoring segment performance and allocating resources between segments:

- all assets are allocated to reportable segments other than goodwill and unallocated corporate assets. Unallocated corporate assets mainly include cash and bank balances of the central administration companies.

- all liabilities are allocated to reportable segments other than unallocated corporate liabilities. Unallocated corporate liabilities mainly include the amount due to the ultimate holding company, accruals and other payables of the central administration companies.

Geographical information

The Group operates in two principal areas – pharmaceutical wholesale and distribution business and pharmaceutical retail chain business operates in the PRC and administrative activity operates in Hong Kong.

The Group's revenue is solely generated from external customers in the PRC.

The Group's non-current assets are located in the PRC.

Information about major customers

For the years ended 31 March 2011, 2012 and 2013, no single customer contributed 10% or more to the Group's turnover.

7. Turnover

The principal activities of the Group are the pharmaceutical wholesale and distribution business and pharmaceutical retail chain business in the PRC.

The Group's turnover represents the net invoiced value of goods sold, after allowances for returns and trade discounts. The turnover is as follows:

	For the year ended 31 March 2011	For the year ended 31 March 2012	For the year ended 31 March 2013
	HK$'000	*HK$'000*	*HK$'000*
Retail of pharmaceutical products	157,409	187,002	212,521
Wholesale and distribution of pharmaceutical products	1,200,270	1,525,145	1,672,848
	1,357,679	1,712,147	1,885,369

8. Other revenue

	For the year ended 31 March 2011	For the year ended 31 March 2012	For the year ended 31 March 2013
	HK$'000	*HK$'000*	*HK$'000*
Bank interest income	1,689	905	632
Rental income	314	1,195	1,410
Exhibition income	–	2,358	4,505
Sundry income	1,262	1,800	1,182
	3,265	6,258	7,729

9. Other income

	For the year ended 31 March 2011 *HK$'000*	For the year ended 31 March 2012 *HK$'000*	For the year ended 31 March 2013 *HK$'000*
Reversal of impairment loss of trade receivables	–	564	476
Change in fair value of investment properties	231	1,335	492
Exchange gain	–	23	110
	231	1,922	1,078

10. Finance costs

	For the year ended 31 March 2011 *HK$'000*	For the year ended 31 March 2012 *HK$'000*	For the year ended 31 March 2013 *HK$'000*
Interest on bank borrowings wholly repayable within five years	4,388	4,439	4,090
Other	–	489	–
	4,388	4,928	4,090

11. Profit before taxation

Profit before taxation has been arrived at after charging:

	For the year ended 31 March 2011 *HK$'000*	For the year ended 31 March 2012 *HK$'000*	For the year ended 31 March 2013 *HK$'000*
Staff costs:			
Employee benefit expense (including directors' remuneration *(Note 12)*):			
Salaries and allowance	27,319	39,412	47,583
Pension scheme contributions	3,706	5,730	5,750
	31,025	45,142	53,333
Other items:			
Depreciation of owned property, plant and equipment *(Note 16)*	3,501	4,022	3,932
Amortisation of prepaid lease payments *(Note 17)*	161	179	182
Auditors' remuneration	181	47	–
Cost of inventories sold	1,224,365	1,551,795	1,721,210
Loss on disposal of property, plant and equipment	191	208	276
Provision for impairment loss of trade and other receivables	1,497	878	989
Operating lease rentals in respect of land and building	10,634	13,704	15,661

For the years ended 31 March 2011, 2012 and 2013, the cost of inventories recognised as cost of sales of were approximately HK$1,224,365,000, HK$1,551,795,000 and HK$1,721,210,000 respectively.

12. Directors' and key management personnel emoluments

(a) Directors' emoluments

Details of directors' emoluments are as follows:

	For the year ended 31 March 2011 *HK$'000*	For the year ended 31 March 2012 *HK$'000*	For the year ended 31 March 2013 *HK$'000*
Fees	88	96	251
Other emoluments:			
Salaries, allowances and benefits in kind	95	77	141
Provident fund contributions	11	13	11
Total	194	186	403

(b) Independent non-executive directors' emoluments

The fees paid to independent non-executive directors during the Track Record Period were as follows:

	For the year ended 31 March 2011 *HK$'000*	For the year ended 31 March 2012 *HK$'000*	For the year ended 31 March 2013 *HK$'000*
Mr. Liang Yichi (appointed on 4 September 2012)	–	–	42
Mr. Zhu Donghai (appointed on 4 September 2012)	–	–	47
Mr. Wong Hon Kit (appointed on 11 April 2013)	–	–	–
	–	–	89

During the Track Record Period, no emoluments were paid by the Group to the independent non-executive directors as an inducement to join or upon joining the Group or as compensation for loss of office. There was no arrangement under which an independent non-executive director waived or agreed to waive any emoluments during the Track Record Period.

(c) Executive directors

	Fees *HK$'000*	Salaries, allowances and benefits in kind *HK$'000*	Provident fund contributions *HK$'000*	Total remuneration *HK$'000*
Year ended 31 March 2013				
Executive directors				
Mr. Weng Jiaxing ("Mr. Weng")	162	–	–	162
Mr. Chen Yong ("Mr. Chen")	–	141	11	152
	162	141	11	314
Year ended 31 March 2012				
Executive directors				
Mr. Weng	96	–	–	96
Mr. Chen	–	77	13	90
	96	77	13	186
Year ended 31 March 2011				
Executive directors				
Mr. Weng	88	8	–	96
Mr. Chen	–	87	11	98
	88	95	11	194

Mr. Weng is also the chief executive officer of the Company.

During the Track Record Period, no emoluments were paid by the Group to the Directors as an inducement to join or upon joining the Group or as compensation for loss of office. There was no arrangement under which a Director waived or agreed to waive any emoluments during the Track Record Period.

(d) Senior management emoluments and five highest paid employees

The five highest paid employees of the Group during the Track Record Period are analysed as follows:

	For the year ended 31 March 2011	**For the year ended 31 March 2012**	**For the year ended 31 March 2013**
	HK$'000	*HK$'000*	*HK$'000*
Directors	98	–	162
Non-directors	419	628	925
	517	628	1,087

Details of the remuneration of the above non-director, highest paid employees during the Track Record Period are as follows:

	For the year ended 31 March 2011	**For the year ended 31 March 2012**	**For the year ended 31 March 2013**
	HK$'000	*HK$'000*	*HK$'000*
Salaries, allowances and benefits in kind	401	593	892
Pension scheme contributions	18	35	33
	419	628	925

The pension scheme contributions represented the Group's statutory contributions to a defined contribution pension scheme organised by the PRC government and were determined based on certain percentage of the salaries of the employees.

The number of these non-director, highest paid employees whose remuneration fell within the following band is as follows:

	For the year ended 31 March 2011	For the year ended 31 March 2012	For the year ended 31 March 2013
	HK$'000	*HK$'000*	*HK$'000*
Nil to HK$1,000,000	5	5	4

The emoluments of the senior management of the Group are within the following band:

	For the year ended 31 March 2011	For the year ended 31 March 2012	For the year ended 31 March 2013
	HK$'000	*HK$'000*	*HK$'000*
Nil to HK$1,000,000	2	2	2

During the Track Record Period, no emoluments were paid by the Group to the non-director, highest paid employees as an inducement to join or upon joining the Group or as compensation for loss of office. None of the non-director, highest paid employees waived or agreed to waive any emoluments during the Track Record Period.

13. Taxation

	For the year ended 31 March 2011	For the year ended 31 March 2012	For the year ended 31 March 2013
	HK$'000	*HK$'000*	*HK$'000*
Current tax for the year			
– PRC enterprise income tax	19,420	20,522	19,384
– PRC withholding tax paid/(refund)	–	2,688	(612)
	19,420	23,210	18,772

The Group is subject to income tax on an entity basis on profits arising in or derived from the jurisdictions in which members of the Group are domiciled and operated.

No provision has been made for Hong Kong profits tax as the Group had no assessable profits arising in Hong Kong during the Track Record Period.

A reconciliation of the income tax expense applicable to profit before taxation using the statutory rate for the location in which the Company and its subsidiaries are domiciled to the tax expense at the effective tax rate are as follows:

For the year ended 31 March 2011

	The PRC		Hong Kong		Total	
	HK$'000	*%*	*HK$'000*	*%*	*HK$'000*	*%*
Profit/(loss) before taxation	70,970		(18,710)		52,260	
Tax at the statutory tax rate	17,743	25.0	(3,087)	(16.5)	14,656	28.0
Tax effect of income not taxable and expenses not deductible for tax purpose	844	1.2	–	–	844	1.6
Tax effect of under-provision	320	0.5	–	–	320	0.6
Tax loss not recognised	513	0.7	3,087	16.5	3,600	6.9
Tax charge for the year	19,420	27.4	–	–	19,420	37.1

For the year ended 31 March 2012

	The PRC		Hong Kong		Total	
	HK$'000	*%*	*HK$'000*	*%*	*HK$'000*	*%*
Profit/(loss) before taxation	82,175		(13,633)		68,542	
Tax at the statutory tax rate	20,544	25.0	(2,250)	(16.5)	18,294	26.7
Tax effect of income not taxable and expenses not deductible for tax purpose	(22)	0.0	–	–	(22)	0.0
PRC withholding tax paid	–	–	2,688	19.7	2,688	3.9
Tax loss not recognised	–	–	2,250	16.5	2,250	3.3
Tax charge for the year	20,522	25.0	2,688	19.7	23,210	33.9

For the year ended 31 March 2013

	The PRC		Hong Kong		Total	
	HK$'000	*%*	*HK$'000*	*%*	*HK$'000*	*%*
Profit/(loss) before taxation	78,315		(17,638)		60,677	
Tax at the statutory tax rate	19,579	25.0	(2,910)	(16.5)	16,669	27.5
Tax effect of income not taxable and expenses not deductible for tax purpose	(195)	(0.2)	1,055	6.0	860	1.4
PRC withholding tax refund	–	–	(612)	(3.5)	(612)	(1.0)
Tax loss not recognised	–	–	1,855	10.5	1,855	3.0
Tax charge/(credit) for the year	19,384	24.8	(612)	(3.5)	18,772	30.9

14. Dividends

No dividend has been paid or declared by the Company during the Track Record Period.

15. Earnings per share

The calculation of basic earnings per share for the Track Record Period is based on the profit attributable to owners of the Company for the Track Record Period and on the assumptions that the proposed 648,405,300 ordinary shares in issue as at the date of listing of the Company's shares on the Stock Exchange as described in the sub-section headed "Written resolutions of the sole shareholder dated 24 September 2013" under the section headed "Statutory and General Information" in Appendix VI to the Listing Document, as if the shares were outstanding throughout the entire Track Record Periods.

Diluted earnings per share were same as the basic earnings per share as there were no potential dilutive ordinary shares in existence during the Track Record Period.

16. Property, plant and equipment

The Group

	Leasehold improvement *HK$'000*	Office equipment *HK$'000*	Motor vehicle *HK$'000*	Total *HK$'000*
Cost				
As at 1 April 2010	1,748	9,556	1,910	13,214
Additions	1,061	1,406	381	2,848
Disposal	(46)	(345)	(397)	(788)
Exchange realignment	102	484	83	669
As at 31 March 2011 and 1 April 2011	2,865	11,101	1,977	15,943
Additions	844	2,792	315	3,951
Acquisition of subsidiaries	–	271	116	387
Disposal	(133)	(377)	(104)	(614)
Exchange realignment	128	496	86	710
As at 31 March 2012 and 1 April 2012	3,704	14,283	2,390	20,377
Additions	324	1,467	425	2,216
Disposal	(231)	(556)	(110)	(897)
Exchange realignment	31	117	19	167
As at 31 March 2013	3,828	15,311	2,724	21,863
Accumulated depreciation				
As at 1 April 2010	28	147	25	200
Charge for the year	603	2,485	413	3,501
Disposal	(19)	(133)	(204)	(356)
Exchange realignment	49	180	23	252
As at 31 March 2011 and 1 April 2011	661	2,679	257	3,597
Charge for the year	725	2,895	402	4,022
Disposal	(134)	(237)	(35)	(406)
Exchange realignment	57	224	29	310
As at 31 March 2012 and 1 April 2012	1,309	5,561	653	7,523
Charge for the year	892	2,650	390	3,932
Disposal	(231)	(336)	(54)	(621)
Exchange realignment	20	73	10	103
As at 31 March 2013	1,990	7,948	999	10,937
Carrying amounts				
As at 31 March 2013	1,838	7,363	1,725	10,926
As at 31 March 2012	2,395	8,722	1,737	12,854
As at 31 March 2011	2,204	8,422	1,720	12,346

17. Prepaid lease payments

The Group

	As at 31 March 2011	As at 31 March 2012	As at 31 March 2013
	HK$'000	*HK$'000*	*HK$'000*
The Group's prepaid lease payments for land use rights comprise:			
Leasehold land in the PRC:			
– Medium-term lease	4,400	4,886	4,796
Analysed for reporting purpose as:			
– Current assets *(Note 21)*	165	181	184
– Non-current assets	4,235	4,705	4,612
	4,400	4,886	4,796

During the years ended 31 March 2012 and 2013, the Group has acquired prepaid lease payments of approximately HK$510,000 and HK$60,000 respectively.

The Group's prepaid lease payments amounts represent the payments for land use rights situated in the PRC. The leasehold lands have lease term of 35 years and the Group has processed the land use rights of the leasehold land during the lease term.

As at 31 March 2011 and 2012, prepaid lease payments for land use rights of approximately HK$4,400,000 and HK$4,390,000 respectively have been pledged as security credit facilities granted to an independent third party.

Amortisation on prepaid lease payments of approximately HK$161,000, HK$179,000 and HK$182,000 have been charged to the administrative expenses in the combined statements of comprehensive income for the years ended 31 March 2011, 2012 and 2013 respectively.

18. Investment properties

The Group

	As at 31 March 2011	As at 31 March 2012	As at 31 March 2013
	HK$'000	*HK$'000*	*HK$'000*
Completed investment properties	6,045	7,611	8,157
At fair value			
At beginning of the year	5,586	6,045	7,611
Exchange realignment	228	231	54
Fair value change	231	1,335	492
At end of the year	6,045	7,611	8,157

The fair values of the Group's investment properties at 31 March 2011 have been arrived at on the basis of valuation carried out at that date by BMI Appraisals Limited, and as at 31 March 2012 and 2013, by Asset Appraisals Limited, independent qualified professional valuers not connected to the Group. The valuation was arrived at by reference to market evidence of transaction prices for similar properties.

All of the Group's property interests held under operating leases to earn rentals are measured using the fair value model and are classified and accounted for as investment properties.

The carrying amount of investment properties shown above comprises:

	As at 31 March 2011	As at 31 March 2012	As at 31 March 2013
	HK$'000	*HK$'000*	*HK$'000*
Land outside Hong Kong:			
Medium-term lease	6,045	7,611	8,157

At 31 March 2011 and 2012, investment properties with a carrying amount of approximately HK$6,045,000 and HK$7,611,000 have been pledged to secure credit facilities granted to an independent third party respectively.

For the years ended 31 March 2011, 2012 and 2013 property rental income less outgoing earned during the year were approximately HK$314,000, HK$382,000 and HK$436,000 respectively. The properties held had committed tenants for the next two (31 March 2012: three and 31 March 2011: three) years. At the end of the reporting period, the Group contracted with tenants for the following future minimum lease receivables:

	As at 31 March 2011	As at 31 March 2012	As at 31 March 2013
	HK$'000	*HK$'000*	*HK$'000*
Within one year	271	466	457
In the second to the fifth years inclusive	1,156	777	300
	1,427	1,243	757

19. Goodwill

The Group

	HK$'000
Cost	
As at 1 April 2010, 31 March 2011 and 1 April 2011	785,169
Arising from acquisition of a subsidiary *(Note 32)*	338
Exchange realignment	12
As at 31 March 2012 and 1 April 2012	785,519
Exchange realignment	2
As at 31 March 2013	785,521
Impairment	
As at 1 April 2010, 31 March 2011, 1 April 2011, 31 March 2012, 1 April 2012 and 31 March 2013	–
Carrying value	
As at 31 March 2013	785,521
As at 31 March 2012	785,519
As at 31 March 2011	785,169

As at 31 March 2011, 2012 and 2013, the Group assessed the recoverable amount of goodwill, and determined that no impairment loss on goodwill is recognised in the combined statements of comprehensive income during the years ended 31 March 2011, 2012 and 2013.

Impairment testing on goodwill

The recoverable amount of this cash generating unit ("CGU") is determined based on a value in use calculation which uses cash flow projections based on financial budgets approved by management covering a five-year period and with discount rates of 9.01%, 12.78% and 9.74% per annum for the years ended 31 March 2011, 2012 and 2013 respectively. Cash flow projections during the budgeted period are based on the same expected gross margins throughout the budget period. The management considers that it is prudent and appropriate to adopt a steady 1% annual growth rate of cash flows projections for each flows beyond the budgeted period. This growth rate does not exceed the long-term average growth rate for the market. Management believes that any reasonably possible change in the other key assumptions on which recoverable amount is based would not cause the aggregate carrying amount to exceed the aggregate recoverable amount of this CGU. Management determined the budgeted gross margin based on past performance and its expectations for the market development.

The discount rate used reflects specific risks relating to the relevant business and consistent with external sources of information. Assuming the growth rate decreases by 150 basis points or discount rate increase by 150 basis points there is still sufficient headroom and no impairment charge is required for goodwill as at 31 March 2013.

20. Inventories

The Group

	As at 31 March 2011	As at 31 March 2012	As at 31 March 2013
	HK$'000	*HK$'000*	*HK$'000*
Finished goods	104,378	106,215	119,570

21. Trade and other receivables and deposits

The Group

	As at 31 March 2011 *HK$'000*	As at 31 March 2012 *HK$'000*	As at 31 March 2013 *HK$'000*
Trade receivables	198,614	241,507	345,800
Bill receivables	–	3,206	7,490
Prepayments and deposit paid	13,111	37,107	58,181
Prepaid lease payments *(Note 17)*	165	181	184
Other receivables	24,551	21,019	16,976
	236,441	303,020	428,631
Less: Impairment loss recognised in respect of other receivables	(229)	(1,095)	(1,232)
	236,212	301,925	427,399

Payment terms with customers from the pharmaceutical wholesale and distribution business and pharmaceutical retail chain business are mainly on credit. Invoices are normally payable from 30 to 90 days of issuance. The following is an aged analysis of trade receivables at the end of the reporting period:

	As at 31 March 2011 *HK$'000*	As at 31 March 2012 *HK$'000*	As at 31 March 2013 *HK$'000*
0 – 90 days	184,267	209,982	284,759
91 – 180 days	10,113	23,120	56,130
181 – 365 days	4,234	8,194	3,489
Over 365 days	1,530	1,255	2,859
	200,144	242,551	347,237
Less: Impairment loss recognised in respect of trade receivables	(1,530)	(1,044)	(1,437)
	198,614	241,507	345,800

Trade receivables disclosed above include amounts which are past due at the end of the reporting period but against which the Group has not recognised an allowance for doubtful receivables because there has not been a significant change in credit quality and the amounts are still considered recoverable. The Group does not hold any collateral or other credit enhancements over these balances nor does it have a legal right of offset against any amounts owed by the Group to the counterparty. The individually impaired receivables related to customers that were in financial difficulties and the Directors assessed that the amounts are not expected to be recovered.

Ageing of past due but not impaired

	As at 31 March 2011 *HK$'000*	As at 31 March 2012 *HK$'000*	As at 31 March 2013 *HK$'000*
Overdue by:			
1 – 90 days	10,113	23,120	56,130
91 – 180 days	4,234	8,194	3,489
Over 180 days	–	211	1,422
	14,347	31,525	61,041

Movement in the provision for impairment loss recognised in respect of trade receivables is summarised as follows:

	As at 31 March 2011 *HK$'000*	As at 31 March 2012 *HK$'000*	As at 31 March 2013 *HK$'000*
Balance at beginning of the year	–	1,530	1,044
Impairment losses recognised	1,497	30	859
Impairment losses reversed	–	(564)	(476)
Exchange realignment	33	48	10
Balance at end of the year	1,530	1,044	1,437

Movement in the provision for impairment loss recognised in respect of other receivables is summarised as follows:

	As at 31 March 2011	As at 31 March 2012	As at 31 March 2013
	HK$'000	*HK$'000*	*HK$'000*
Balance at beginning of the year	220	229	1,095
Impairment losses recognised	–	848	130
Exchange realignment	9	18	7
Balance at end of the year	229	1,095	1,232

22. Amount due from a fellow subsidiary

The Group

	As at 31 March 2011	As at 31 March 2012	As at 31 March 2013
	HK$'000	*HK$'000*	*HK$'000*
Name of a fellow subsidiary			
Edward Hospital Company Limited	3,122	3,419	448

The maximum amount due from a fellow subsidiary outstanding during the years ended 31 March 2011, 2012 and 2013 are as follows:

	2011	2012	2013
	HK$'000	*HK$'000*	*HK$'000*
Name of a fellow subsidiary			
Edward Hospital Company Limited	3,122	3,419	3,419

The amount due from a fellow subsidiary is unsecured, interest-free and recoverable on demand.

23. Amount due from the immediate holding company

The Group

	As at 31 March 2011	As at 31 March 2012	As at 31 March 2013
	HK$'000	*HK$'000*	*HK$'000*
Name of the immediate holding company			
Greatly Wealth	–	–	5

The maximum amount due from the immediate holding company outstanding during the years ended 31 March 2011, 2012 and 2013 are as follows:

	2011	2012	2013
	HK$'000	*HK$'000*	*HK$'000*
Name of the immediate holding company			
Greatly Wealth	–	–	5

The amount due from the immediate holding company is unsecured, interest-free and recoverable on demand.

24. Cash and bank balances

The Group

As at 31 March 2011, 2012 and 2013, cash at banks and in hand of approximately HK$41,143,000, HK$48,264,000 and HK$30,501,000 respectively are denominated in RMB. Cash at banks earns interest at floating rates based on daily bank deposit rates. The bank balances are deposited with creditworthy banks with no recent history of default.

The RMB is not freely convertible into other currencies. However, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorisation to conduct foreign exchange business.

25. Trade and other payables

The Group

	As at 31 March 2011	As at 31 March 2012	As at 31 March 2013
	HK$'000	*HK$'000*	*HK$'000*
Trade payables	166,088	207,776	278,309
Bills payable	26,486	45,693	4,350
Accruals and other payables	18,477	17,772	21,083
Receipt in advance	3,350	3,806	3,016
	214,401	275,047	306,758

The following is an aged analysis of trade payables at the end of the reporting period:

	As at 31 March 2011	As at 31 March 2012	As at 31 March 2013
	HK$'000	*HK$'000*	*HK$'000*
0 to 90 days	136,227	145,068	157,368
91 to 180 days	19,873	38,831	56,640
181 to 365 days	5,445	16,500	51,350
Over 365 days	4,543	7,377	12,951
	166,088	207,776	278,309

The credit period on purchases of certain goods is range from 30 to 90 days.

Bill payables were secured by certain pledged bank deposit.

26. Amount due to the ultimate holding company

The Company and the Group

Amount due to the ultimate holding company is unsecured, interest free and repayable on demand.

27. Amounts due to a subsidiary/fellow subsidiaries

The Company and the Group

Amounts due to a subsidiary/fellow subsidiaries are unsecured, interest free and repayable on demand.

28. Bank borrowings

The Group

	As at 31 March 2011	As at 31 March 2012	As at 31 March 2013
	HK$'000	*HK$'000*	*HK$'000*
Bank borrowings	49,194	36,582	50,672
Secured *(Note (a))*	37,933	36,582	50,672
Unsecured *(Note (b))*	11,261	–	–
	49,194	36,582	50,672
Carrying amount repayable:			
On demand or within one year shown under current liabilities	49,194	36,582	50,672

Notes:

(a) At 31 March 2013, the secured bank borrowings of approximately HK$12,359,000 were secured by personal guarantee by Mr. Weng and an independent third party and secured bank borrowings of approximately HK$37,077,000 were secured by corporate guarantee by independent third parties and inter-group company, carries fixed interest rate at 7.57% to 7.80% per annum.

As at 31 March 2013, the secured bank borrowings of approximately HK$1,236,000 were secured by corporate guarantee by inter-group company, carries variable interest rate at 130% lending rate of The People's Bank of China per annum.

At 31 March 2012, the secured bank borrowings were secured by land and buildings owned by an independent third party and the personal guarantee by Mr. Yung. Secured bank borrowings of approximately HK$24,552,000 (2011: HK$23,708,000) carries fixed interest rate at 8.53% (2011: 5.56%) per annum. Secured bank borrowings of approximately HK$12,030,000 (2011: HK$14,225,000) carries variable interest rate at 130%, 115% and (2011: 115% and 2010: 105% to 115%) lending rate of The People's Bank of China per annum.

(b) As at 31 March 2011, the unsecured bank borrowings carries variables interest rate at 115% lending rate of The People's Bank of China per annum. The weighted average effective interest rate on the unsecured bank borrowings is 6.4% per annum.

(c) The secured and unsecured bank borrowings were denominated in Renminbi.

29. Share capital

The Company

	As at 31 March 2013 *HK$'000*
Authorised share capital:	
38,000,000 ordinary shares of HK$0.01 each	380
Issued and paid up share capital:	
1 ordinary share of HK$0.01 each	–

The Group

For the purpose of the presentation of the combined statements of financial position, the balance of share capital of the Group as at 31 March 2011 and 2012 represents the issued share capital of Timely Hero prior to the completion of Reorganisation. As at 31 March 2013, the share capital of the Group represents the issued share capital of the Company, Luxuriant Expand and Timely Hero prior to the completion of Reorganisation.

30. Reserves

The Company

	Accumulated loss *HK$'000*
As at 9 July 2012 (the date of incorporation)	–
Loss for the period	(7,423)
As at 31 March 2013	(7,423)

The Group

The movement in reserves of the Group during the Track Record Period was shown in the combined statements of changes in equity on page I-8.

(a) Distribution of reserves

As at 31 March 2011, 2012 and 2013, the aggregate amount of reserves attributable for distribution to owners of the Company were approximately HK$29,422,000, HK$66,448,000 and HK$102,480,000 respectively.

(b) Translation reserve

The translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations. The reserve is dealt with in accordance with the accounting policies set out in Note 3.

(c) Statutory reserve

As stipulated by the relevant PRC laws and regulations, the subsidiaries of the Company establishing in the PRC shall set aside 10% of its net profit after taxation for the statutory surplus reserve fund (except where the reserve balances has reached 50% of the subsidiaries' paid up capital). The reserve fund can only be used, upon approval by the board of Directors and by the relevant authority, to offset accumulated losses or increase capital.

31. Deferred taxation

The Group

No deferred tax liabilities or assets are recognised in the combined financial statements as the Group did not have material temporary difference arising between the tax bases of liabilities or assets and their carrying amounts at 31 March 2011, 2012 and 2013.

32. Acquisition of subsidiaries

Acquisition of Quanzhou Huihao

On 1 April 2011, Fuzhou Huihao entered into an agreement with two independent third parties to acquire 100% of the entire issued share capital of Quanzhou Huihao and identifiable asset and liabilities of Quanzhou Huihao for a total contracted consideration of RMB1,860,000 (equivalent to approximately HK$2,206,000). The aggregate amount of goodwill arising as a result of the acquisition is approximately HK$338,000. The acquisition was completed on 1 April 2011.

	HK$'000
Fair value of net assets acquired:	
Property, plant and equipment	387
Trade and other receivables	3,320
Inventories	1,394
Cash and bank balances	742
Trade and other payables	(3,944)
Tax payables	(31)
	1,868
Goodwill *(Note 19)*	338
	2,206
Total consideration at fair value satisfied by:	
Cash	2,206
Net cash inflow arising on acquisition:	
Cash and bank balances acquired	742

Quanzhou Huihao was acquired so as to continue the expansion of the Group's pharmaceutical wholesale and distribution and pharmaceutical retail chain business.

Notes:

(i) Acquisition related costs amounting to approximately HK$1,000 have been excluded from the consideration transferred and have been recognised as expense in the period.

(ii) Goodwill arose in the acquisition of Quanzhou Huihao because the cost of the combination included a control premium. In addition, the consideration paid for the combination effectively included amounts in relation to the benefits of expected synergies, revenue growth, future market development and the assembled workforce of Quanzhou Huihao. These benefits are not recognised separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets.

(iii) Included in the profit for the year ended 31 March 2012 is approximately HK$268,000 and revenue for the year ended 31 March 2012 is approximately HK$79,509,000 attributable to the additional business generated by Quanzhou Huihao.

33. Material related party transactions

Save as disclosed elsewhere in the Listing Document the Group had entered into the following related party transactions, which in the opinion of the Directors, were carried out on normal commercial terms and in the ordinary course of the Group.

(a) Compensation of key management personnel of the Group, including Directors' remuneration as detailed in Note 12 above.

	For the year ended 31 March 2011 *HK$'000*	For the year ended 31 March 2012 *HK$'000*	For the year ended 31 March 2013 *HK$'000*
Salaries, allowances and benefits in kind	183	173	392
Provident fund contributions	11	13	11
Pension scheme contributions	–	–	–
Total compensation paid to key management personnel	194	186	403

(b) The transactions with related parties during the Track Record Period are as follows:

	For the year ended 31 March 2011 *HK$'000*	For the year ended 31 March 2012 *HK$'000*	For the year ended 31 March 2013 *HK$'000*
Sales to fellow subsidiaries			
– Edward Hospital Company Limited	9,317	10,320	5,335
– Jiaxing City Shuguang Western and Chinese Composite Hospital Company Limited	79	555	970
Administrative service fee paid to the ultimate holding company			
– Hua Xia	18,717	13,524	9,379
Rental expenses paid to the ultimate holding company			
– Hua Xia	–	–	224

(c) Mr. Yung has entered into a personal guarantee agreement on 30 November 2011 with Shanghai Pudong Development Bank to secure short-term banking facilities and bills payable on behalf of the Group in aggregate amount of RMB50,000,000 for the period from 14 November 2011 to 14 November 2012.

Mr. Weng has entered into a personal guarantee agreement on 30 October 2012 with Industrial and Commercial Bank of China Limited to secure banking facilities on behalf of the Group in an aggregate amount of RMB10,000,000 for two years.

34. Commitments

As at 31 March 2011, 2012 and 2013, the Group were committed to make the following future minimum lease payments in respect of land and buildings rented under non-cancellable operating leases which fall due as follows:

	As at 31 March 2011 *HK$'000*	As at 31 March 2012 *HK$'000*	As at 31 March 2013 *HK$'000*
Within one year	10,119	11,055	12,795
In the second to fifth years, inclusive	15,991	14,545	21,050
Over five years	689	475	229
	26,799	26,075	34,074

As at 31 March 2011, 2012 and 2013, the Group and the Company did not have any significant capital commitments.

35. Contingent liabilities

Please refer to section headed "Business – Legal Proceedings" in the Listing Document.

III. SUBSEQUENT EVENTS

Save as disclose elsewhere in the Listing Document, the Group's subsequent events included the followings:

(a) The companies not comprising the Group underwent and completed the Reoganisation on 3 September 2013 in preparation for the listing of the Shares on the Stock Exchange. Further details of the Reorganisation are set out in the section headed "Corporate reorganisation" in Appendix VI to the Listing Document. As a result of the Reorganisation, the Company became the holding company of the subsidiaries now comprising the Group.

(b) Upon listing, approximately HK$9,500,000 and HK$10,600,000 would be charged to the consolidated statements of comprehensive income and capitalised in share premium of the Group respectively for the year ending 31 March 2014.

(c) The Company has conditionally adopted the Share Option Scheme, which was approved by written resolutions passed by the sole Shareholder on 24 September 2013.

(d) As at 3 September 2013, the Group entered into a loan capitalisation agreement with Hua Xia whereby the amount due to Hua Xia by the Group which relates to non-trading nature was capitalised.

(e) Mr. Wong Hon Kit was appointed as an independent non-executive Director on 11 April 2013.

(f) The Group entered into a tenancy agreement dated 31 May 2013 with Mrs. Yung Muk Ying, the spouse of Mr. Yung, particulars of which are set forth under the section headed "Connected transactions" of the Listing Document.

(g) On 8 April 2013, the Company, as licensee, entered into a licence agreement with Hua Xia, as licensor, pursuant to which Hua Xia granted a licence to the Company for using the designated area of the head office of Hua Xia in Hong Kong, as the principal place of business of the Company in Hong Kong.

(h) The Group entered into a new purchase agreement with Fujian Huihao Pharmaceutical Company Limited ("FHP Company") on 19 September 2013 (the "Purchase Agreement") which superseded the remaining term of the previous purchase agreement. Pursuant to the Purchase Agreement, the Group have agreed to purchase agreed to purchase certain pharmaceutical products from FHP Company for a term of two years ending 31 March 2015.

IV. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Company or any of the companies now comprising the Group in respect of any period subsequent to 31 March 2013.

Yours faithfully
HLB Hodgson Impey Cheng
Certified Public Accountants
Hong Kong

For illustrative purpose only, the unaudited pro forma financial information prepared in accordance with Rule 4.29 of the Listing Rules is set forth below to provide the prospective investors with further information on how the proposed listing and loan capitalisation for the amount due to Hua Xia Group might have affected the financial position of the Group after the completion of the Listing and loan capitalisation for the amount due to Hua Xia Group as at 31 March 2013.

The unaudited pro forma financial information is derived according to a number of adjustments. Although reasonable care has been exercised in preparing such information, prospective investors who read the information should bear in mind that these figures are inherently subject to adjustments and may not give a complete picture of the actual financial performance and condition of the Group during the Track Record Period or any further date.

The information set forth in this appendix does not form part of the accountants' report prepared by HLB Hodgson Impey Cheng, Certified Public Accountants, Hong Kong, the reporting accountants of the Company, as set forth in Appendix I to this listing document, and is included herein for illustrative purposes only. The unaudited pro forma financial information should be read in conjunction with the section headed "Financial Information" in this listing document and the accountants' report set forth in Appendix I to this listing document.

A. UNAUDITED PRO FORMA ADJUSTED NET TANGIBLE ASSETS

The following unaudited pro forma statement of our adjusted net tangible assets prepared in accordance with Rule 4.29 of the Listing Rules and with reference to AG 7, "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" is for illustration purposes only, and is set forth here to illustrate the effect of the Listing on our net tangible assets as of 31 March 2013 as if it had taken place on 31 March 2013.

The unaudited pro forma statement of adjusted net tangible assets has been prepared for illustrative purpose only and because of its hypothetical nature it may not give a true picture of our net tangible liabilities as of 31 March 2013 as derived from our financial statements set forth in the accountants' report in Appendix I, and adjusted as described below. The unaudited pro forma statement of net tangible assets does not form part of the accountants' report as set forth in Appendix I to this listing document.

	Audited net tangible liabilities attributable to owners of our Company as at 31 March 2013	**Pro forma adjustments**	**Unaudited pro forma adjusted net tangible assets**	**Unaudited pro forma adjusted net tangible assets per Share**
	HK$'000 *(Note 1)*	*HK$'000* *(Note 2)*	*HK$'000*	*HK$* *(Note 3)*
Based on 648,405,300 Shares in issue	(652,759)	869,380	216,621	0.33

Notes:

(1) The audited net tangible liabilities attributable to owners of our Company as at 31 March 2013 is based on the net assets attributable to owners of our Company of approximately HK$132,762,000 less the goodwill of approximately HK$785,521,000 as at 31 March 2013 extracted from the accountants' report set out in Appendix I to this listing document.

(2) The pro forma adjustments combined the net effect of (i) the loan capitalisation of the amount due to Hua Xia Group as at 31 March 2013 of approximately HK$889,480,000 and (ii) the estimated outstanding Listing expenses recognised by our Company of approximately HK$20,100,000. The capitalisation of the loan amount due to Hua Xia Group of approximately HK$889,480,000 represented by the amount due to the ultimate holding company of approximately HK$889,426,000, the amount due to a fellow subsidiary of approximately HK$59,000 and deducted from the amount due from the immediate holding company of approximately HK$5,000. The loan captalisation of the amount due to Hua Xia Group is non-trading in nature.

(3) The unaudited pro forma adjusted net tangible assets per Share is calculated based on 648,405,300 Shares in issue immediately following the Listing.

B. LETTERS FROM THE REPORTING ACCOUNTANTS ON UNAUDITED PRO FORMA FINANCIAL INFORMATION

The following is the text of a report received from the independent reporting accounts, HLB Hodgson Impey Cheng, Certified Public Accountants, Hong Kong.

HLB 國衛會計師事務所 Hodgson Impey Cheng

31/F, Gloucester Tower
The Landmark
11 Pedder Street
Central
Hong Kong

30 September 2013

The Board of Directors
Wanjia Group Holdings Limited

INDEPENDENT REPORTING ACCOUNTANTS' ASSURANCE REPORT ON THE COMPILATION OF PRO FORMA FINANCIAL INFORMATION INCLUDED IN AN INVESTMENT CIRCULAR

TO THE DIRECTORS OF WANJIA GROUP HOLDINGS LIMITED

We have completed our assurance engagement to report to the unaudited pro forma financial information (the "**Unaudited Pro Forma Financial Information**") of Wanjia Group Holdings Limited (the "**Company**") and its subsidiaries (collectively the "**Group**") by the directors for illustrative purposes only. The Unaudited Pro Forma Financial Information consists of the pro forma net tangible assets statement as at 31 March 2013 and related notes as set out on pages II-1 to II-2 of the listing document dated on 30 September 2013 issued by the Company (the "**Listing Document**"). The applicable criteria on the basis of which the directors have compiled the Unaudited Pro Forma Financial Information are set out in Appendix II of the Listing Document.

The Unaudited Pro Forma Financial Information has been compiled by the directors to illustrate the impact on the Group's financial position as at 31 March 2013 as if the listing by way of introduction of the entire issued share capital of the Company had taken place at 31 March 2013 and if the loan capitalisation for the amount due to Hua Xia Healthcare Holdings Limited and its subsidiaries ("**Hua Xia Group**") had taken place at 31 March 2013. As part of this process, information about the Group's financial position has been extracted by the directors from the Group's financial statements for the year ended 31 March 2013, on which an accountants' report has been published.

DIRECTORS' RESPONSIBILITY FOR THE PRO FORMA FINANCIAL INFORMATION

The directors are responsible for compiling the Unaudited Pro Forma Financial Information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**") and with reference to AG 7, 'Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars' issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**").

REPORTING ACCOUNTANTS' RESPONSIBILITIES

Our responsibility is to express an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the Unaudited Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Unaudited Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements (HKSAE) 3420, 'Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus', issued by the HKICPA. This standard requires that the reporting accountants comply with ethical requirements and plan and perform procedures to obtain reasonable assurance about whether the directors have compiled the Unaudited Pro Forma Financial Information in accordance with paragraph 4.29 of the Listing Rules and with reference to AG 7, 'Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars' issued by the HKICPA.

For purposes of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the Unaudited Pro Forma Financial Information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the Unaudited Pro Forma Financial Information.

The purpose of the Unaudited Pro Forma Financial Information included in the Listing Document is solely to illustrate the impact of a significant event or transaction on unadjusted financial information of the Group as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the event or transaction at 31 March 2013 would have been as presented.

A reasonable assurance engagement to report on whether the Unaudited Pro Forma Financial Information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the directors in the compilation of the Unaudited Pro Forma Financial Information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

- The related pro forma adjustments give appropriate effect to those criteria; and
- The Unaudited Pro Forma Financial Information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountants' judgment, having regard to the reporting accountants' understanding of the nature of the Group, the event or transaction in respect of which the pro forma financial information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the Unaudited Pro Forma Financial Information.

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

OPINION

In our opinion:

(a) the Unaudited Pro Forma Financial Information has been properly compiled on the basis stated;

(b) such basis is consistent with the accounting policies of the Group; and

(c) the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

Yours faithfully
HLB Hodgson Impey Cheng
Certified Public Accountants
Hong Kong

Since Hua Xia released unaudited condensed consolidated results for the three months ended 30 June 2013 prior to the date of this listing document, we have prepared unaudited condensed combined results of our Group for the three months ended 30 June 2013 which was reviewed by the reporting accountants of the Company, HLB Hodgson Impey Cheng, Certified Public Accountants, Hong Kong, in accordance with the Hong Kong Standards on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" and have incorporated such report in this listing document.

A. FINANCIAL INFORMATION

I. CONDENSED COMBINED STATEMENTS OF COMPREHENSIVE INCOME

	Note	For the three months ended 30 June 2013 HK$'000 (unaudited)	For the three months ended 30 June 2012 HK$'000 (unaudited)
Turnover	*3*	563,578	452,142
Cost of sales		(517,805)	(413,725)
Gross profit		45,773	38,417
Other revenue		2,151	3,659
Selling and distribution expenses		(16,237)	(15,082)
Administrative expenses		(10,332)	(9,785)
Finance costs		(1,084)	(1,428)
Profit before taxation		20,271	15,781
Taxation	*4*	(6,417)	(4,588)
Profit for the period		13,854	11,193
Other comprehensive income/(loss) for the period, net of tax:			
Exchange difference on translation of foreign operations		3,047	(316)
Total comprehensive income for the period, net of tax		16,901	10,877
Profit attributable to:			
Owners of the Company		13,820	11,163
Non-controlling interests		34	30
		13,854	11,193

	Note	For the three months ended 30 June 2013 HK$'000 (unaudited)	For the three months ended 30 June 2012 HK$'000 (unaudited)
Total comprehensive income attributable to:			
Owners of Company		16,861	10,865
Non-controlling interests		40	12
		16,901	10,877
Earnings per share attributable to owners of the Company – Basic and diluted (HK cents)	*5*	2.13	1.72

The accompany notes form an integral part of these condensed combined financial statements.

II. NOTES TO THE CONDENSED COMBINED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)

For the three months ended 30 June 2013

1. Corporate information

The Company was an exempted company incorporated with limited liability in the Cayman Islands on 9 July 2012. Its ultimate controlling shareholder is Mr. Yung Kwok Leong ("Mr. Yung"). The registered office of the Company is located at Cricket Square, Hutchin Drive, PO Box 2681, Grand Cayman, KY1-1111, Cayman Islands and the principal place of business of the Company is located at Room 1902, 19th Floor, No. 101 King's Road, Hong Kong.

In the opinion of the directors, the Company's ultimate holding company is Hua Xia Healthcare Holdings Limited ("Hua Xia"), a company incorporated in the Cayman Islands on 28 May 2001 as an exempted company with limited liability, of which its shares are listed on the Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The Company acts as an investment holding company while its subsidiaries are principally engaged in pharmaceutical wholesale and distribution and pharmaceutical retail chain business in the PRC.

2. Basis of preparation and principal accounting policies

The condensed combined financial results for the three months ended 30 June 2013 have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs"), which is a collective term includes all applicable Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations (the "Interpretations") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance.

The unaudited condensed combined financial results have been prepared under the historical cost except for certain financial instruments and investment properties, which are measured at fair value. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

The accounting policies adopted in preparing the unaudited condensed combined financial results for the three months ended 30 June 2013 are consistent with those used in the preparation of this listing document.

3. Turnover

The principal activities of the Group are the pharmaceutical wholesale and distribution business and pharmaceutical retail chain business in the PRC.

The Group's turnover represents the net invoiced value of goods sold, after allowances for returns and trade discounts. The turnover for the period is as follows:

	Three months ended 30 June	
	2013	**2012**
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
Turnover		
Retail of pharmaceutical products	55,285	50,759
Wholesale and distribution of pharmaceutical products	508,293	401,383
	563,578	452,142

4. Taxation

No provision for Hong Kong profits tax has been made in the combined financial statements as the Group had no assessable profits arising in Hong Kong during the period (2012: Nil).

Corporate income tax of 25% has been provided for the profit generated from the pharmaceutical wholesale and distribution and pharmaceutical retail chain business in the PRC (2012: 25%).

5. Earnings per share

The calculation of basic earnings per share for the three months ended 30 June 2013 is based on the profit attributable to owners of the Company of approximately HK$13.820 million (2012: approximately HK$11.163 million) and on the assumptions that and the proposed 648,405,300 ordinary shares in issue as at the date of listing of the Company's shares on the Stock Exchange as described in the sub-section headed "Written resolutions of the sole Shareholder dated 24 September 2013" under the section headed "Statutory and General Information" in Appendix VI to this listing document, as if the shares were outstanding throughout the entire period for the three months ended 30 June 2013 and 2012.

Diluted earnings per share were same as the basic earnings per share as there were no potential dilutive ordinary shares in existence during the three months ended 30 June 2013 and 2012.

6. Capital and reserve (unaudited)

	Share capital	Translation reserve	Statutory reserve	Retained earnings	Subtotal	Non-controlling interests	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	(Note (a))						
At 1 April 2012	–	9,972	13,079	66,448	89,499	294	89,793
Profit for the period	–	–	–	11,163	11,163	30	11,193
Other comprehensive income/(loss) for the period	–	(298)	–	–	(298)	(18)	(316)
Total comprehensive income/(loss) for the period	–	(298)	–	11,163	10,865	12	10,877
Issue of shares	1	–	–	–	1	–	1
At 30 June 2012	1	9,674	13,079	77,611	100,365	306	100,671
1 April 2013	1	11,471	18,810	102,480	132,762	439	133,201
Profit for the period	–	–	–	13,820	13,820	34	13,854
Other comprehensive income for the period	–	3,041	–	–	3,041	6	3,047
Total comprehensive Income for the period	–	3,041	–	13,820	16,861	40	16,901
At 30 June 2013	1	14,512	18,810	116,300	149,623	479	150,102

Notes:

(a) The share capital of the Group as at 30 June 2012 represents the issued share capital of Luxuriant Expand and Timely Hero prior to the completion of Reorganisation. As at 30 June 2013, the share capital of the Group represents the issued share capital of the Company, Luxuriant Expand the Timely Hero prior to the completion of Reorganisation.

B. REPORT FROM THE REPORTING ACCOUNTANT

The following is a text of report, prepared for the purpose of incorporation in this listing document, received from our reporting accountants, HLB Hodgson Impey Cheng, Certified Public Accountants, Hong Kong.

HLB 國衛會計師事務所 Hodgson Impey Cheng

31/F, Gloucester Tower
The Landmark
11 Pedder Street
Central
Hong Kong

30 September 2013

INDEPENDENT REVIEW REPORT
TO THE BOARD OF DIRECTORS OF WANJIA GROUP HOLDINGS LIMITED
(incorporated in Cayman Islands with limited liability)

We have reviewed the interim financial information set out on pages III-1 to III-6, which comprise the condensed combined statement of comprehensive income of Wanjia Group Holdings Limited (the "**Company**") and its subsidiaries (collectively referred to as the "**Group**") for the three months ended 30 June 2013 and a summary of significant accounting policies and other explanatory notes. The directors of the Company are responsible for the preparation and presentation of this interim financial information in accordance with the Group's accounting policies which are in conformity with the Hong Kong Financial Reporting Standards ("**HKFRSs**") issued by the Hong Kong Institute of Certified Public Accountants. Our responsibility is to express a conclusion on this interim financial information based on our review, and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

SCOPE OF REVIEW

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly we do not express an audit opinion.

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the interim financial information is not prepared, in all material respects, in accordance with the accounting policies of the Group which are in conformity with the HKFRSs.

Yours faithfully
HLB Hodgson Impey Cheng
Certified Public Accountants
Hong Kong

The forecast of the combined profit attributable to owners of our Company for the year ending 31 March 2014 is set out in the section headed "Financial Information – Profit forecast for the year ending 31 March 2014" in this listing document.

A. BASES AND ASSUMPTIONS

The Directors have prepared the forecast of the Group's combined profit attributable to the owners of the Company for the year ending 31 March 2014 based on the combined results shown in the unaudited management accounts of the Group for the four months ended 31 July 2013 and a forecast of the Group's combined results for the remaining eight months of the financial year ending 31 March 2014. The profit forecast has been prepared on the basis of the accounting policies being consistent in all material respects with those currently adopted by our Group as summarized in the Accountants' Report, the text of which is set out in Appendix I to this listing document.

The Directors have prepared the forecast of the combined profit attributable to the owners of the Company for the year ending 31 March 2014, based on the unaudited combined profit attributable to owners of the Group for the four months ended 31 July 2013 and a forecast of the combined results of the Group for the remaining eight months ending 31 March 2014 (the "**Forecast Period**").

The forecast has been prepared on a basis consistent in all material respects with the accounting policies normally adopted by the Group as set out in note 3 of the Accountants' Report dated 30 September 2013, the text of which is set forth in Appendix I to this listing document.

Summarised in the Accountants' Report set out in Appendix I to this listing document, the forecast has been prepared on the following principal assumptions:

- It is assumed that the Group will be able to continue in business and will not be materially interrupted by any unforeseeable factors or any unforeseeable reasons that are beyond the control of our Directors, including the occurrence of natural disasters or catastrophes.

- It is assumed that there will be no material changes in existing government policies or political, legal (including changes in legislation or regulations or rules), fiscal or economic conditions in the PRC and Hong Kong during the Forecast Period.

- It is assumed that there will be no significant changes in the bases and rates of taxation, surcharges or other government levies in the countries or territories in which the Group operates except as otherwise disclosed in this listing document.

- It is assumed that there will be no material changes in inflation or interest rates from those currently prevailing in the PRC and Hong Kong during the Forecast Period.

- It is assumed that no abnormal or extraordinary items will occur during the Forecast Period.

- It is assumed that the Group will be able to retain its key management and personnel during the Forecast Period.

- It is assumed that the Group will be able to recruit sufficient qualified personnel to achieve its planned expansion and that staffing level will be sufficient for the operation requirements of the Group during the Forecast Period.

- It is assumed that there will be no material change in the credit policies offered to customers and granted by suppliers of the Group.

- It is assumed that the Group's operations, results and financial position will not be adversely affected by the occurrence of any of the events described in the section headed "Risk Factors" in this listing document.

- It is assumed that the currently available banking facilities will continuously be available throughout the Forecast Period.

- A total of 30 new retail pharmacies was scheduled to open for the year ending 31 March 2014.

- The Reorganisation will be completed prior to the Listing.

- It is assumed that no impairment loss on goodwill will be recognised during the Forecast Period.

- It is assumed that no fair value gain or loss will be recognised during the Forecast Period.

B. LETTER FROM THE REPORTING ACCOUNTANTS ON THE PROFIT FORECAST

The following sets out the text of the letter received from the reporting accountants, HLB Hodgson Impey Cheng, Certified Public Accountants, Hong Kong, in connection with the profit forecast for the year ending 31 March 2014 and for the purpose of incorporation in this listing document.



31/F, Gloucester Tower
The Landmark
11 Pedder Street
Central
Hong Kong

30 September 2013

The Board of Directors
Wanjia Group Holdings Limited

The Directors
Messis Capital Limited

Dear Sirs,

We have reviewed the calculations of and accounting policies adopted in arriving at the estimate of the combined profit attributable to owners of Wanjia Group Holdings Limited (the "**Company**", together with its subsidiaries, hereinafter collectively referred to as the "**Group**") for the year ending 31 March 2014 (the "**Profit Forecast**") as set out in the section headed "Financial Information — Profit forecast for the year ending 31 March 2014" in the listing document of the Company dated 30 September 2013 (the "**Listing Document**").

We conducted our work in accordance with the Auditing Guideline 3.341 "Accountants' report on profit forecasts" issued by the Hong Kong Institute of Certified Public Accountants.

The Profit Forecast, for which the directors of the Company are solely responsible, has been prepared by them based on the results shown in the unaudited management accounts of the Group for the four months ended 31 July 2013 and a forecast of the combined results of the Group for the remaining eight months ending 31 March 2014.

In our opinion, the Profit Forecast, so far as the calculations and accounting policies are concerned, has been properly complied in accordance with the bases and assumptions adopted by the directors of the Company as set out in Appendix IV to the Listing Document, and is presented on a basis consistent in all material respects with the accounting policies currently adopted by the Group as set out in note 3 of the Accountants' Report dated 30 September 2013, the text of which is set forth in Appendix I to the Listing Document.

Yours faithfully
HLB Hodgson Impey Cheng
Certified Public Accountants
Hong Kong

C. LETTER FROM THE SPONSOR

The following sets out the text of the letter received from the Sponsor in connection with the profit forecast for the year ending 31 March 2014 and for the purpose of incorporation in this listing document.

大有融資有限公司
MESSIS CAPITAL LIMITED

The Board of Directors
Wanjia Group Holdings Limited

30 September 2013

Dear Sirs,

We refer to the forecast of the combined profit attributable to owners of Wanjia Group Holdings Limited (the "**Company**", together with its subsidiaries, hereinafter collectively referred to as the "**Group**") for the year ending 31 March 2014 (the "**Profit Forecast**") as set out in the sub-section headed "Profit Forecast for the year ending 31 March 2014" in the section headed "Financial Information" of the listing document of the Company dated 30 September 2013.

The Profit Forecast, for which the directors of the Company (the "**Directors**") are solely responsible, has been prepared by the Directors based on the unaudited combined results of the Group shown in the management accounts for the four months ended 31 July 2013 and a forecast of the combined results of the Group for the remaining eight months ending 31 March 2014.

We have discussed with the Directors the bases and assumptions upon which the Profit Forecast has been made. We have also considered the letter dated 30 September 2013 addressed to the Company and us from HLB Hodgson Impey Cheng, Certified Public Accountants, Hong Kong, regarding the accounting policies and calculations upon which the Profit Forecast has been made.

On the basis of the foregoing and on the bases and assumptions made by the Company and the accounting policies and calculations adopted by the Company and reviewed by HLB Hodgson Impey Cheng, Certified Public Accountants, Hong Kong, we are of the opinion that the Profit Forecast, for which the Directors are solely responsible, has been made after due and careful enquiry.

Yours faithfully,
For and on behalf of
Messis Capital Limited
Kinson Li
Managing Director

Set out below is a summary of certain provisions of the Memorandum and Articles of Association of the Company and of certain aspects of Cayman company law.

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 9 July 2012 under the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands (the "Companies Law"). The Memorandum of Association (the "Memorandum") and the Articles of Association (the "Articles") comprise its constitution.

1. MEMORANDUM OF ASSOCIATION

(a) The Memorandum states, inter alia, that the liability of members of the Company is limited to the amount, if any, for the time being unpaid on the Shares respectively held by them and that the objects for which the Company is established are unrestricted (including acting as an investment company), and that the Company shall have and be capable of exercising all the functions of a natural person of full capacity irrespective of any question of corporate benefit, as provided in section 27(2) of the Companies Law and in view of the fact that the Company is an exempted company that the Company will not trade in the Cayman Islands with any person, firm or corporation except in furtherance of the business of the Company carried on outside the Cayman Islands.

(b) The Company may by special resolution alter its Memorandum with respect to any objects, powers or other matters specified therein.

2. ARTICLES OF ASSOCIATION

The Articles were adopted on 24 September 2013. The following is a summary of certain provisions of the Articles:

(a) Directors

(i) Power to allot and issue shares and warrants

Subject to the provisions of the Companies Law and the Memorandum and Articles and to any special rights conferred on the holders of any shares or class of shares, any share may be issued with or have attached thereto such rights, or such restrictions, whether with regard to dividend, voting, return of capital, or otherwise, as the Company may by ordinary resolution determine (or, in the absence of any such determination or so far as the same may not make specific provision, as the board may determine). Subject to the Companies Law, the rules of any Designated Stock Exchange (as defined in the Articles) and the Memorandum and Articles, any share may be issued on terms that, at the option of the Company or the holder thereof, they are liable to be redeemed.

The Board may issue warrants conferring the right upon the holders thereof to subscribe for any class of shares or securities in the capital of the Company on such terms as it may from time to time determine.

Subject to the provisions of the Companies Law and the Articles and, where applicable, the rules of any Designated Stock Exchange (as defined in the Articles) and without prejudice to any special rights or restrictions for the time being attached to any shares or any class of shares, all unissued shares in the Company shall be at the disposal of the Board, which may offer, allot, grant options over or otherwise dispose of them to such persons, at such times, for such consideration and on such terms and conditions as it in its absolute discretion thinks fit, but so that no shares shall be issued at a discount.

Neither the Company nor the Board shall be obliged, when making or granting any allotment of, offer of, option over or disposal of shares, to make, or make available, any such allotment, offer, option or shares to members or others with registered addresses in any particular territory or territories being a territory or territories where, in the absence of a registration statement or other special formalities, this would or might, in the opinion of the Board, be unlawful or impracticable. Members affected as a result of the foregoing sentence shall not be, or be deemed to be, a separate class of members for any purpose whatsoever.

(ii) Power to dispose of the assets of the Company or any subsidiary

There are no specific provisions in the Articles relating to the disposal of the assets of the Company or any of its subsidiaries. The Directors may, however, exercise all powers and do all acts and things which may be exercised or done or approved by the Company and which are not required by the Articles or the Companies Law to be exercised or done by the Company in general meeting.

(iii) Compensation or payments for loss of office

Pursuant to the Articles, payments to any Director or past Director of any sum by way of compensation for loss of office or as consideration for or in connection with his retirement from office (not being a payment to which the Director is contractually entitled) must be approved by the Company in general meeting.

(iv) Loans and provision of security for loans to Directors

There are provisions in the Articles prohibiting the making of loans to Directors.

(v) Disclosure of interests in contracts with the Company or any of its subsidiaries

A Director may hold any other office or place of profit with the Company (except that of the auditor of the Company) in conjunction with his office of Director for such period and, subject to the Articles, upon such terms as the Board may determine, and may be paid such extra remuneration therefor (whether by way of salary, commission, participation in profits or otherwise) in addition to any remuneration provided for by or pursuant to any other Articles. A Director may be or become a director or other officer of, or otherwise interested in, any company promoted by the Company or any other company in which the Company may be interested, and shall not be liable to account to the Company or the members for any remuneration, profits or other benefits received by him as a director, officer or member of, or from his interest in, such other company. Subject as otherwise provided by the Articles, the Board may also cause the voting power conferred by the shares in any other company held or owned by the Company to be exercised in such manner in all respects as it thinks fit, including the exercise thereof in favour of any resolution appointing the Directors or any of them to be directors or officers of such other company, or voting or providing for the payment of remuneration to the directors or officers of such other company.

Subject to the Companies Law and the Articles, no Director or proposed or intended Director shall be disqualified by his office from contracting with the Company, either with regard to his tenure of any office or place of profit or as vendor, purchaser or in any other manner whatsoever, nor shall any such contract or any other contract or arrangement in which any Director is in any way interested be liable to be avoided, nor shall any Director so contracting or being so interested be liable to account to the Company or the members for any remuneration, profit or other benefits realised by any such contract or arrangement by reason of such Director holding that office or the fiduciary relationship thereby established. A Director who to his knowledge is in any way, whether directly or indirectly, interested in a contract or arrangement or proposed contract or arrangement with the Company shall declare the nature of his interest at the meeting of the Board at which the question of entering into the contract or arrangement is first taken into consideration, if he knows his interest then exists, or in any other case, at the first meeting of the Board after he knows that he is or has become so interested.

A Director shall not vote (nor be counted in the quorum) on any resolution of the Board approving any contract or arrangement or other proposal in which he or any of his associates is materially interested, but this prohibition shall not apply to any of the following matters, namely:

(aa) any contract or arrangement for giving to such Director or his associate(s) any security or indemnity in respect of money lent by him or any of his associates or obligations incurred or undertaken by him or any of his associates at the request of or for the benefit of the Company or any of its subsidiaries;

(bb) any contract or arrangement for the giving of any security or indemnity to a third party in respect of a debt or obligation of the Company or any of its subsidiaries for which the Director or his associate(s) has himself/themselves assumed responsibility in whole or in part whether alone or jointly under a guarantee or indemnity or by the giving of security;

(cc) any contract or arrangement concerning an offer of shares or debentures or other securities of or by the Company or any other company which the Company may promote or be interested in for subscription or purchase, where the Director or his associate(s) is/are or is/are to be interested as a participant in the underwriting or subunderwriting of the offer;

(dd) any contract or arrangement in which the Director or his associate(s) is/are interested in the same manner as other holders of shares or debentures or other securities of the Company by virtue only of his/their interest in shares or debentures or other securities of the Company; or

(ee) any proposal or arrangement concerning the adoption, modification or operation of a share option scheme, a pension fund or retirement, death, or disability benefits scheme or other arrangement which relates both to Directors, his associates and employees of the Company or of any of its subsidiaries and does not provide in respect of any Director, or his associate(s), as such any privilege or advantage not accorded generally to the class of persons to which such scheme or fund relates.

(vi) Remuneration

The ordinary remuneration of the Directors shall from time to time be determined by the Company in general meeting, such sum (unless otherwise directed by the resolution by which it is voted) to be divided amongst the Directors in such proportions and in such manner as the Board may agree or, failing agreement, equally, except that any Director holding office for part only of the period in respect of which the remuneration is payable shall only rank in such division in proportion to the time during such period for which he held office. The Directors shall also be entitled to be prepaid or repaid all travelling, hotel and incidental expenses reasonably expected to be incurred or incurred by them in attending any board meetings, committee meetings or general meetings or separate meetings of any class of shares or of debentures of the Company or otherwise in connection with the discharge of their duties as Directors.

Any Director who, by request, goes or resides abroad for any purpose of the Company or who performs services which in the opinion of the Board go beyond the ordinary duties of a Director may be paid such extra remuneration (whether by way of salary, commission, participation in profits or otherwise) as the Board may determine and such extra remuneration shall be in addition to or in substitution for any ordinary remuneration as a Director. An executive Director appointed to be a managing director, joint managing director, deputy managing director or other executive officer shall receive such remuneration (whether by way of salary, commission or participation in profits or otherwise or by all or any of those modes) and such other benefits (including pension and/or gratuity and/or other benefits on retirement) and allowances as the Board may from time to time decide. Such remuneration may be either in addition to or in lieu of his remuneration as a Director.

The Board may establish or concur or join with other companies (being subsidiary companies of the Company or companies with which it is associated in business) in establishing and making contributions out of the Company's monies to any schemes or funds for providing pensions, sickness or compassionate allowances, life assurance or other benefits for employees (which expression as used in this and the following paragraph shall include any Director or ex-Director who may hold or have held any executive office or any office of profit with the Company or any of its subsidiaries) and ex-employees of the Company and their dependents or any class or classes of such persons.

The Board may pay, enter into agreements to pay or make grants of revocable or irrevocable, and either subject or not subject to any terms or conditions, pensions or other benefits to employees and ex-employees and their dependents, or to any of such persons, including pensions or benefits additional to those, if any, to which such employees or ex-employees or their dependents are or may become entitled under any such scheme or fund as is mentioned in the previous paragraph. Any such pension or benefit may, as the Board considers desirable, be granted to an employee either before and in anticipation of, or upon or at any time after, his actual retirement.

(vii) Retirement, appointment and removal

At each annual general meeting, one third of the Directors for the time being (or if their number is not a multiple of three, then the number nearest to but not less than one third) will retire from office by rotation provided that every Director shall be subject to retirement at an annual general meeting at least once every three years. The Directors to retire in every year will be those who have been longest in office since their last re-election or appointment but as between persons who became or were last re-elected Directors on the same day those to retire will (unless they otherwise agree among themselves) be determined by lot. There are no provisions relating to retirement of Directors upon reaching any age limit.

The Directors shall have the power from time to time and at any time to appoint any person as a Director either to fill a casual vacancy on the Board or as an addition to the existing board. Any Director appointed to fill a casual vacancy shall hold office until the first general meeting of members after his appointment and be subject to re-election at such meeting and any Director appointed as an addition to the existing board shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election. Neither a Director nor an alternate Director is required to hold any shares in the Company by way of qualification.

A Director may be removed by an ordinary resolution of the Company before the expiration of his period of office (but without prejudice to any claim which such Director may have for damages for any breach of any contract between him and the Company) and may by ordinary resolution appoint another in his place. Unless otherwise determined by the Company in general meeting, the number of Directors shall not be less than two (2). There is no maximum number of Directors.

The office of director shall be vacated:

(aa) if he resigns his office by notice in writing delivered to the Company at the registered office of the Company for the time being or tendered at a meeting of the Board;

(bb) becomes of unsound mind or dies;

(cc) if, without special leave, he is absent from meetings of the Board (unless an alternate director appointed by him attends) for six (6) consecutive months, and the Board resolves that his office is vacated;

(dd) if he becomes bankrupt or has a receiving order made against him or suspends payment or compounds with his creditors;

(ee) if he is prohibited from being a director by law;

(ff) if he ceases to be a director by virtue of any provision of law or is removed from office pursuant to the Articles.

The Board may from time to time appoint one or more of its body to be managing director, joint managing director, or deputy managing director or to hold any other employment or executive office with the Company for such period and upon such terms as the board may determine and the Board may revoke or terminate any of such appointments. The Board may delegate any of its powers, authorities and discretions to committees consisting of such Director or Directors and other persons as the Board thinks fit, and it may from time to time revoke such delegation or revoke the appointment of and discharge any such committees either wholly or in part, and either as to persons or purposes, but every committee so formed shall, in the exercise of the powers, authorities and discretions so delegated, conform to any regulations that may from time to time be imposed upon it by the Board.

(viii) Borrowing powers

The Board may exercise all the powers of the Company to raise or borrow money, to mortgage or charge all or any part of the undertaking, property and assets (present and future) and uncalled capital of the Company and, subject to the Companies Law, to issue debentures, bonds and other securities of the Company, whether outright or as collateral security for any debt, liability or obligation of the Company or of any third party.

Note: These provisions, in common with the Articles in general, can be varied with the sanction of a special resolution of the Company.

(ix) Proceedings of the Board

The Board may meet for the despatch of business, adjourn and otherwise regulate their meetings as they think fit. Questions arising at any meeting shall be determined by a majority of votes. In the case of an equality of votes, the chairman of the meeting shall have an additional or casting vote.

(x) Register of Directors and Officers

The Companies Law and the Articles provide that the Company is required to maintain at its registered office a register of directors and officers which is not available for inspection by the public. A copy of such register must be filed with the Registrar of Companies in the Cayman Islands and any change must be notified to the Registrar within thirty (30) days of any change in such directors or officers.

(b) Alterations to constitutional documents

The Articles may be rescinded, altered or amended by the Company in general meeting by special resolution. The Articles state that a special resolution shall be required to alter the provisions of the Memorandum, to amend the Articles or to change the name of the Company.

(c) Alteration of capital

The Company may from time to time by ordinary resolution in accordance with the relevant provisions of the Companies Law:

(i) increase its capital by such sum, to be divided into shares of such amounts as the resolution shall prescribe;

(ii) consolidate and divide all or any of its capital into shares of larger amount than its existing shares;

(iii) divide its shares into several classes and without prejudice to any special rights previously conferred on the holders of existing shares attach thereto respectively any preferential, deferred, qualified or special rights, privileges, conditions or restrictions as the Company in general meeting or as the directors may determine;

(iv) sub-divide its shares or any of them into shares of smaller amount than is fixed by the Memorandum, subject nevertheless to the provisions of the Companies Law, and so that the resolution whereby any share is sub-divided may determine that, as between the holders of the shares resulting from such sub-division, one or more of the shares may have any such preferred or other special rights, over, or may have such deferred rights or be subject to any such restrictions as compared with the others as the Company has power to attach to unissued or new shares; or

(v) cancel any shares which, at the date of passing of the resolution, have not been taken, or agreed to be taken, by any person, and diminish the amount of its capital by the amount of the shares so cancelled.

The Company may subject to the provisions of the Companies Law reduce its share capital or any capital redemption reserve or other undistributable reserve in any way by special resolution.

(d) Variation of rights of existing shares or classes of shares

Subject to the Companies Law, all or any of the special rights attached to the shares or any class of shares may (unless otherwise provided for by the terms of issue of that class) be varied, modified or abrogated either with the consent in writing of the holders of not less than three-fourths in nominal value of the issued shares of that class or with the sanction of a special resolution passed at a separate general meeting of the holders of the shares of that class. To every such separate general meeting the provisions of the Articles relating to general meetings will *mutatis mutandis* apply, but so that the necessary quorum (other than at an adjourned meeting) shall be two persons holding or representing by proxy not less than one-third in nominal value of the issued shares of that class and at any adjourned meeting two holders present in person or by proxy whatever the number of shares held by them shall be a quorum. Every holder of shares of the class shall be entitled to one vote for every such share held by him.

The special rights conferred upon the holders of any shares or class of shares shall not, unless otherwise expressly provided in the rights attaching to the terms of issue of such shares, be deemed to be varied by the creation or issue of further shares ranking pari passu therewith.

(e) Special resolution

Pursuant to the Articles, a special resolution of the Company must be passed by a majority of not less than three-fourths of the votes cast by such members as, being entitled so to do, vote in person or, in the case of such members as are corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting of which notice of not less than twenty-one (21) clear days and not less than ten (10) clear business days specifying the intention to propose the resolution as a special resolution, has been duly given. Provided that if permitted by the Designated Stock Exchange (as defined in the Articles), except in the case of an annual general meeting, if it is so agreed by a majority in number of the members having a right to attend and vote at such meeting, being a majority together holding not less than ninety-five per cent. (95%) in nominal value of the shares giving that right and, in the case of an annual general meeting, if so agreed by all Members entitled to attend and vote thereat, a resolution may be proposed and passed as a special resolution at a meeting of which notice of less than twenty-one (21) clear days and less than ten (10) clear business days has been given.

A copy of any special resolution must be forwarded to the Registrar of Companies in the Cayman Islands within fifteen (15) days of being passed.

An ordinary resolution is defined in the Articles to mean a resolution passed by a simple majority of the votes of such members of the Company as, being entitled to do so, vote in person or, in the case of corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting held in accordance with the Articles.

(f) Voting rights

Subject to any special rights or restrictions as to voting for the time being attached to any shares by or in accordance with the Articles, at any general meeting on a poll every member present in person or by proxy or, in the case of a member being a corporation, by its duly authorised representative shall have one vote for every fully paid share of which he is the holder but so that no amount paid up or credited as paid up on a share in advance of calls or installments is treated for the foregoing purposes as paid up on the share. A member entitled to more than one vote need not use all his votes or cast all the votes he uses in the same way.

At any general meeting a resolution put to the vote of the meeting is to be decided by way of a poll save that the chairman of the meeting may in good faith, allow a resolution which relates purely to a procedural or administrative matter to be voted on by a show of hands in which case every member present in person (or being a corporation, is present by a duly authorized representative), or by proxy(ies) shall have one vote provided that where more than one proxy is appointed by a member which is a clearing house (or its nominee(s)), each such proxy shall have one vote on a show of hands.

If a recognised clearing house (or its nominee(s)) is a member of the Company it may authorise such person or persons as it thinks fit to act as its representative(s) at any meeting of the Company or at any meeting of any class of members of the Company provided that, if more than one person is so authorised, the authorisation shall specify the number and class of shares in respect of which each such person is so authorised. A person authorised pursuant to this provision shall be deemed to have been duly authorised without further evidence of the facts and be entitled to exercise the same powers on behalf of the recognised clearing house (or its nominee(s)) as if such person was the registered holder of the shares of the Company held by that clearing house (or its nominee(s)) including, where a show of hands is allowed, the right to vote individually on a show of hands.

Where the Company has any knowledge that any shareholder is, under the rules of the Designated Stock Exchange (as defined in the Articles), required to abstain from voting on any particular resolution of the Company or restricted to voting only for or only against any particular resolution of the Company, any votes cast by or on behalf of such shareholder in contravention of such requirement or restriction shall not be counted.

(g) Requirements for annual general meetings

An annual general meeting of the Company must be held in each year, other than the year of adoption of the Articles (within a period of not more than fifteen (15) months after the holding of the last preceding annual general meeting or a period of eighteen (18) months from the date of adoption of the Articles, unless a longer period would not infringe the rules of any Designated Stock Exchange (as defined in the Articles)) at such time and place as may be determined by the Board.

(h) Accounts and audit

The Board shall cause true accounts to be kept of the sums of money received and expended by the Company, and the matters in respect of which such receipt and expenditure take place, and of the property, assets, credits and liabilities of the Company and of all other matters required by the Companies Law or necessary to give a true and fair view of the Company's affairs and to explain its transactions.

The accounting records shall be kept at the registered office or at such other place or places as the Board decides and shall always be open to inspection by any Director. No member (other than a Director) shall have any right to inspect any accounting record or book or document of the Company except as conferred by law or authorised by the Board or the Company in general meeting.

A copy of every balance sheet and profit and loss account (including every document required by law to be annexed thereto) which is to be laid before the Company at its general meeting, together with a printed copy of the Directors' report and a copy of the auditors' report, shall not less than twenty-one (21) days before the date of the meeting and at the same time as the notice of annual general meeting be sent to every person entitled to receive notices of general meetings of the Company under the provisions the Articles; however, subject to compliance with all applicable laws, including the rules of the Designated Stock Exchange (as defined in the Articles), the Company may send to such persons summarised financial statements derived from the Company's annual accounts and the directors' report instead provided that any such person may by notice in writing served on the Company, demand that the Company sends to him, in addition to summarised financial statements, a complete printed copy of the Company's annual financial statement and the directors' report thereon.

Auditors shall be appointed and the terms and tenure of such appointment and their duties at all times regulated in accordance with the provisions of the Articles. The remuneration of the auditors shall be fixed by the Company in general meeting or in such manner as the members may determine.

The financial statements of the Company shall be audited by the auditors in accordance with generally accepted auditing standards. The auditors shall make a written report thereon in accordance with generally accepted auditing standards and the report of the auditors shall be submitted to the members in general meeting. The generally accepted auditing standards referred to herein may be those of a country or jurisdiction other than the Cayman Islands. If so, the financial statements and the report of the auditors should disclose this fact and name such country or jurisdiction.

(i) Notices of meetings and business to be conducted thereat

An annual general meeting shall be called by notice of not less than twenty-one (21) clear days and not less than twenty (20) clear business days and any extraordinary general meeting at which it is proposed to pass a special resolution shall (save as set out in sub-paragraph (e) above) be called by notice of at least twenty-one (21) clear days and not less than ten (10) clear business days. All other extraordinary general meetings shall be called by notice of at least fourteen (14) clear days and not less than ten (10) clear business days. The notice must specify the time and place of the meeting and, in the case of special business, the general nature of that business. In addition, notice of every general meeting shall be given to all members of the Company other than such as, under the provisions of the Articles or the terms of issue of the shares they hold, are not entitled to receive such notices from the Company, and also to the auditors for the time being of the Company.

Notwithstanding that a meeting of the Company is called by shorter notice than that mentioned above if permitted by the rules of the Designated Stock Exchange, it shall be deemed to have been duly called if it is so agreed:

(i) in the case of a meeting called as an annual general meeting, by all members of the Company entitled to attend and vote thereat; and

(ii) in the case of any other meeting, by a majority in number of the members having a right to attend and vote at the meeting, being a majority together holding not less than ninety-five per cent. (95%) in nominal value of the issued shares giving that right.

All business shall be deemed special that is transacted at an extraordinary general meeting and also all business shall be deemed special that is transacted at an annual general meeting with the exception of the following, which shall be deemed ordinary business:

(aa) the declaration and sanctioning of dividends;

(bb) the consideration and adoption of the accounts and balance sheet and the reports of the directors and the auditors;

(cc) the election of directors in place of those retiring;

(dd) the appointment of auditors and other officers;

(ee) the fixing of the remuneration of the directors and of the auditors;

(ff) the granting of any mandate or authority to the directors to offer, allot, grant options over or otherwise dispose of the unissued shares of the Company representing not more than twenty per cent. (20%) in nominal value of its existing issued share capital; and

(gg) the granting of any mandate or authority to the directors to repurchase securities of the Company.

(j) Transfer of shares

All transfers of shares may be effected by an instrument of transfer in the usual or common form or in a form prescribed by the Designated Stock Exchange (as defined in the Articles) or in such other form as the Board may approve and which may be under hand or, if the transferor or transferee is a clearing house or its nominee(s), by hand or by machine imprinted signature or by such other manner of execution as the Board may approve from time to time. The instrument of transfer shall be executed by or on behalf of the transferor and the transferee provided that the Board may dispense with the execution of the instrument of transfer by the transferee in any case in which it thinks fit, in its discretion, to do so and the transferor shall be deemed to remain the holder of the share until the name of the transferee is entered in the register of members in respect thereof. The Board may also resolve either generally or in any particular case, upon request by either the transferor or the transferee, to accept mechanically executed transfers.

The Board in so far as permitted by any applicable law may, in its absolute discretion, at any time and from time to time transfer any share upon the principal register to any branch register or any share on any branch register to the principal register or any other branch register.

Unless the Board otherwise agrees, no shares on the principal register shall be transferred to any branch register nor may shares on any branch register be transferred to the principal register or any other branch register. All transfers and other documents of title shall be lodged for registration and registered, in the case of shares on a branch register, at the relevant registration office and, in the case of shares on the principal register, at the registered office in the Cayman Islands or such other place at which the principal register is kept in accordance with the Companies Law.

The Board may, in its absolute discretion, and without assigning any reason, refuse to register a transfer of any share (not being a fully paid up share) to a person of whom it does not approve or any share issued under any share incentive scheme for employees upon which a restriction on transfer imposed thereby still subsists, and it may also refuse to register any transfer of any share to more than four joint holders or any transfer of any share (not being a fully paid up share) on which the Company has a lien.

The Board may decline to recognise any instrument of transfer unless a fee of such maximum sum as any Designated Stock Exchange (as defined in the Articles) may determine to be payable or such lesser sum as the Directors may from time to time require is paid to the Company in respect thereof, the instrument of transfer, if applicable, is properly stamped, is in respect of only one class of share and is lodged at the relevant registration office or registered office or such other place at which the principal register is kept accompanied by the relevant share certificate(s) and such other evidence as the Board may reasonably require to show the right of the transferor to make the transfer (and if the instrument of transfer is executed by some other person on his behalf, the authority of that person so to do).

The registration of transfers may be suspended and the register closed on giving notice by advertisement in a relevant newspaper and, where applicable, any other newspapers in accordance with the requirements of any Designated Stock Exchange (as defined in the Articles), at such times and for such periods as the Board may determine and either generally or in respect of any class of shares. The register of members shall not be closed for periods exceeding in the whole thirty (30) days in any year.

(k) Power for the Company to purchase its own shares

The Company is empowered by the Companies Law and the Articles to purchase its own Shares subject to certain restrictions and the Board may only exercise this power on behalf of the Company subject to any applicable requirements imposed from time to time by any Designated Stock Exchange (as defined in the Articles).

(l) Power for any subsidiary of the Company to own shares in the Company and financial assistance to purchase shares of the Company

There are no provisions in the Articles relating to ownership of shares in the Company by a subsidiary.

Subject to compliance with the rules and regulations of the Designated Stock Exchange (as defined in the Articles) and any other relevant regulatory authority, the Company may give financial assistance for the purpose of or in connection with a purchase made or to be made by any person of any shares in the Company.

(m) Dividends and other methods of distribution

Subject to the Companies Law, the Company in general meeting may declare dividends in any currency to be paid to the members but no dividend shall be declared in excess of the amount recommended by the Board.

The Articles provide dividends may be declared and paid out of the profits of the Company, realised or unrealised, or from any reserve set aside from profits which the directors determine is no longer needed. With the sanction of an ordinary resolution dividends may also be declared and paid out of share premium account or any other fund or account which can be authorised for this purpose in accordance with the Companies Law.

Except in so far as the rights attaching to, or the terms of issue of, any share may otherwise provide, (i) all dividends shall be declared and paid according to the amounts paid up on the shares in respect whereof the dividend is paid but no amount paid up on a share in advance of calls shall for this purpose be treated as paid up on the share and (ii) all dividends shall be apportioned and paid pro rata according to the amount paid up on the shares during any portion or portions of the period in respect of which the dividend is paid. The Directors may deduct from any dividend or other monies payable to any member or in respect of any shares all sums of money (if any) presently payable by him to the Company on account of calls or otherwise.

Whenever the Board or the Company in general meeting has resolved that a dividend be paid or declared on the share capital of the Company, the Board may further resolve either (a) that such dividend be satisfied wholly or in part in the form of an allotment of shares credited as fully paid up, provided that the shareholders entitled thereto will be entitled to elect to receive such dividend (or part thereof) in cash in lieu of such allotment, or (b) that shareholders entitled to such dividend will be entitled to elect to receive an allotment of shares credited as fully paid up in lieu of the whole or such part of the dividend as the Board may think fit. The Company may also upon the recommendation of the Board by an ordinary resolution resolve in respect of any one particular dividend of the Company that it may be satisfied wholly in the form of an allotment of shares credited as fully paid up without offering any right to shareholders to elect to receive such dividend in cash in lieu of such allotment.

Any dividend, interest or other sum payable in cash to the holder of shares may be paid by cheque or warrant sent through the post addressed to the holder at his registered address, or in the case of joint holders, addressed to the holder whose name stands first in the register of members of the Company in respect of the shares at his address as appearing in the register or addressed to such person and at such addresses as the holder or joint holders may in writing direct. Every such cheque or warrant shall, unless the holder or joint holders otherwise direct, be made payable to the order of the holder or, in the case of joint holders, to the order of the holder whose name stands first on the register in respect of such shares, and shall be sent at his or their risk and payment of the cheque or warrant by the bank on which it is drawn shall constitute a good discharge to the Company. Any one of two or more joint holders may give effectual receipts for any dividends or other moneys payable or property distributable in respect of the shares held by such joint holders.

Whenever the Board or the Company in general meeting has resolved that a dividend be paid or declared the Board may further resolve that such dividend be satisfied wholly or in part by the distribution of specific assets of any kind.

All dividends or bonuses unclaimed for one year after having been declared may be invested or otherwise made use of by the Board for the benefit of the Company until claimed and the Company shall not be constituted a trustee in respect thereof. All dividends or bonuses unclaimed for six years after having been declared may be forfeited by the Board and shall revert to the Company.

No dividend or other monies payable by the Company on or in respect of any share shall bear interest against the Company.

(n) Proxies

Any member of the Company entitled to attend and vote at a meeting of the Company is entitled to appoint another person as his proxy to attend and vote instead of him. A member who is the holder of two or more shares may appoint more than one proxy to represent him and vote on his behalf at a general meeting of the Company or at a class meeting. A proxy need not be a member of the Company and shall be entitled to exercise the same powers on behalf of a member who is an individual and for whom he acts as proxy as such member could exercise. In addition, a proxy shall be entitled to exercise the same powers on behalf of a member which is a corporation and for which he acts as proxy as such member could exercise if it were an individual member. Votes may be given either personally (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy.

(o) Call on shares and forfeiture of shares

Subject to the Articles and to the terms of allotment, the Board may from time to time make such calls upon the members in respect of any monies unpaid on the shares held by them respectively (whether on account of the nominal value of the shares or by way of premium). A call may be made payable either in one lump sum or by installments. If the sum payable in respect of any call or installment is not paid on or before the day appointed for payment thereof, the person or persons from whom the sum is due shall pay interest on the same at such rate not exceeding twenty per cent. (20%) per annum as the Board may agree to accept from the day appointed for the payment thereof to the time of actual payment, but the Board may waive payment of such interest wholly or in part. The Board may, if it thinks fit, receive from any member willing to advance the same, either in money or money's worth, all or any part of the monies uncalled and unpaid or installments payable upon any shares held by him, and upon all or any of the monies so advanced the Company may pay interest at such rate (if any) as the Board may decide.

If a member fails to pay any call on the day appointed for payment thereof, the Board may serve not less than fourteen (14) clear days' notice on him requiring payment of so much of the call as is unpaid, together with any interest which may have accrued and which may still accrue up to the date of actual payment and stating that, in the event of non-payment at or before the time appointed, the shares in respect of which the call was made will be liable to be forfeited.

If the requirements of any such notice are not complied with, any share in respect of which the notice has been given may at any time thereafter, before the payment required by the notice has been made, be forfeited by a resolution of the Board to that effect. Such forfeiture will include all dividends and bonuses declared in respect of the forfeited share and not actually paid before the forfeiture.

A person whose shares have been forfeited shall cease to be a member in respect of the forfeited shares but shall, notwithstanding, remain liable to pay to the Company all monies which, at the date of forfeiture, were payable by him to the Company in respect of the shares, together with (if the Board shall in its discretion so require) interest thereon from the date of forfeiture until the date of actual payment at such rate not exceeding twenty per cent. (20%) per annum as the Board determines.

(p) Inspection of register of members

Pursuant to the Articles the register and branch register of members shall be open to inspection for at least two (2) hours during business hours by members without charge, or by any other person upon a maximum payment of HK$2.50 or such lesser sum specified by the Board, at the registered office or such other place at which the register is kept in accordance with the Companies Law or, upon a maximum payment of HK$1.00 or such lesser sum specified by the Board, at the Registration Office (as defined in the Articles), unless the register is closed in accordance with the Articles.

(q) Quorum for meetings and separate class meetings

No business shall be transacted at any general meeting unless a quorum is present when the meeting proceeds to business, but the absence of a quorum shall not preclude the appointment of a chairman.

Save as otherwise provided by the Articles the quorum for a general meeting shall be two members present in person (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy and entitled to vote. In respect of a separate class meeting (other than an adjourned meeting) convened to sanction the modification of class rights the necessary quorum shall be two persons holding or representing by proxy not less than one-third in nominal value of the issued shares of that class.

A corporation being a member shall be deemed for the purpose of the Articles to be present in person if represented by its duly authorised representative being the person appointed by resolution of the directors or other governing body of such corporation to act as its representative at the relevant general meeting of the Company or at any relevant general meeting of any class of members of the Company.

(r) Rights of the minorities in relation to fraud or oppression

There are no provisions in the Articles relating to rights of minority shareholders in relation to fraud or oppression. However, certain remedies are available to shareholders of the Company under Cayman Islands law, as summarised in paragraph 3(f) of this Appendix.

(s) Procedures on liquidation

A resolution that the Company be wound up by the court or be wound up voluntarily shall be a special resolution.

Subject to any special rights, privileges or restrictions as to the distribution of available surplus assets on liquidation for the time being attached to any class or classes of shares (i) if the Company shall be wound up and the assets available for distribution amongst the members of the Company shall be more than sufficient to repay the whole of the capital paid up at the commencement of the winding up, the excess shall be distributed pari passu amongst such members in proportion to the amount paid up on the shares held by them respectively and (ii) if the Company shall be wound up and the assets available for distribution amongst the members as such shall be insufficient to repay the whole of the paid-up capital, such assets shall be distributed so that, as nearly as may be, the losses shall be borne by the members in proportion to the capital paid up, or which ought to have been paid up, at the commencement of the winding up on the shares held by them respectively.

If the Company shall be wound up (whether the liquidation is voluntary or by the court) the liquidator may, with the authority of a special resolution and any other sanction required by the Companies Law divide among the members in specie or kind the whole or any part of the assets of the Company whether the assets shall consist of property of one kind or shall consist of properties of different kinds and the liquidator may, for such purpose, set such value as he deems fair upon any one or more class or classes of property to be divided as aforesaid and may determine how such division shall be carried out as between the members or different classes of members. The liquidator may, with the like authority, vest any part of the assets in trustees upon such trusts for the benefit of members as the liquidator, with the like authority, shall think fit, but so that no contributory shall be compelled to accept any shares or other property in respect of which there is a liability.

(t) Untraceable members

Pursuant to the Articles, the Company may sell any of the shares of a member who is untraceable if (i) all cheques or warrants in respect of dividends of the shares in question (being not less than three in total number) for any sum payable in cash to the holder of such shares have remained uncashed for a period of 12 years; (ii) upon the expiry of the 12 year period, the Company has not during that time received any indication of the existence of the member; and (iii) the Company has caused an advertisement to be published in accordance with the rules of the Designated Stock Exchange (as defined in the Articles) giving notice of its intention to sell such shares and a period of three (3) months, or such shorter period as may be permitted by the Designated Stock Exchange (as defined in the Articles), has elapsed since the date of such advertisement and the Designated Stock Exchange (as defined in the Articles) has been notified of such intention. The net proceeds of any such sale shall belong to the Company and upon receipt by the Company of such net proceeds, it shall become indebted to the former member of the Company for an amount equal to such net proceeds.

(u) Subscription rights reserve

The Articles provide that to the extent that it is not prohibited by and is in compliance with the Companies Law, if warrants to subscribe for shares have been issued by the Company and the Company does any act or engages in any transaction which would result in the subscription price of such warrants being reduced below the par value of a share, a subscription rights reserve shall be established and applied in paying up the difference between the subscription price and the par value of a share on any exercise of the warrants.

3. CAYMAN ISLANDS COMPANY LAW

The Company is incorporated in the Cayman Islands subject to the Companies Law and, therefore, operates subject to Cayman Islands law. Set out below is a summary of certain provisions of Cayman company law, although this does not purport to contain all applicable qualifications and exceptions or to be a complete review of all matters of Cayman company law and taxation, which may differ from equivalent provisions in jurisdictions with which interested parties may be more familiar:

(a) Operations

As an exempted company, the Company's operations must be conducted mainly outside the Cayman Islands. The Company is required to file an annual return each year with the Registrar of Companies of the Cayman Islands and pay a fee which is based on the amount of its authorised share capital.

(b) Share capital

The Companies Law provides that where a company issues shares at a premium, whether for cash or otherwise, a sum equal to the aggregate amount of the value of the premiums on those shares shall be transferred to an account, to be called the "share premium account". At the option of a company, these provisions may not apply to premiums on shares of that company allotted pursuant to any arrangement in consideration of the acquisition or cancellation of shares in any other company and issued at a premium. The Companies Law provides that the share premium account may be applied by the company subject to the provisions, if any, of its memorandum and articles of association in (a) paying distributions or dividends to members; (b) paying up unissued shares of the company to be issued to members as fully paid bonus shares; (c) the redemption and repurchase of shares (subject to the provisions of section 37 of the Companies Law); (d) writing-off the preliminary expenses of the company; and (e) writing-off the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the company.

No distribution or dividend may be paid to members out of the share premium account unless immediately following the date on which the distribution or dividend is proposed to be paid, the company will be able to pay its debts as they fall due in the ordinary course business.

The Companies Law provides that, subject to confirmation by the Grand Court of the Cayman Islands (the "Court"), a company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, by special resolution reduce its share capital in any way.

The Articles includes certain protections for holders of special classes of shares, requiring their consent to be obtained before their rights may be varied. The consent of the specified proportions of the holders of the issued shares of that class or the sanction of a resolution passed at a separate meeting of the holders of those shares is required.

(c) Financial assistance to purchase shares of a company or its holding company

Subject to all applicable laws, the Company may give financial assistance to Directors and employees of the Company, its subsidiaries, its holding company or any subsidiary of such holding company in order that they may buy Shares in the Company or shares in any subsidiary or holding company. Further, subject to all applicable laws, the Company may give financial assistance to a trustee for the acquisition of Shares in the Company or shares in any such subsidiary or holding company to be held for the benefit of employees of the Company, its subsidiaries, any holding company of the Company or any subsidiary of any such holding company (including salaried Directors).

There is no statutory restriction in the Cayman Islands on the provision of financial assistance by a company to another person for the purchase of, or subscription for, its own or its holding company's shares. Accordingly, a company may provide financial assistance if the directors of the company consider, in discharging their duties of care and acting in good faith, for a proper purpose and in the interests of the company, that such assistance can properly be given. Such assistance should be on an arm's-length basis.

(d) Purchase of shares and warrants by a company and its subsidiaries

Subject to the provisions of the Companies Law, a company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, issue shares which are to be redeemed or are liable to be redeemed at the option of the company or a shareholder and the Companies Law expressly provides that it shall be lawful for the rights attaching to any shares to be varied, subject to the provisions of the company's articles of association, so as to provide that such shares are to be or are liable to be so redeemed. In addition, such a company may, if authorised to do so by its articles of association, purchase its own shares, including any redeemable shares. However, if the articles of association do not authorise the manner and terms of purchase, a company cannot purchase any of its own shares unless the manner and terms of purchase have first been authorised by an ordinary resolution of the company. At no time may a company redeem or purchase its shares unless they are fully paid. A company may not redeem or purchase any of its shares if, as a result of the redemption or purchase, there would no longer be any issued shares of the company other than shares held as treasury shares. A payment out of capital by a company for the redemption or purchase of its own shares is not lawful unless immediately following the date on which the payment is proposed to be made, the company shall be able to pay its debts as they fall due in the ordinary course of business.

Shares purchased by a company shall be treated as cancelled unless, subject to the memorandum and articles of association of the company, the directors of the company resolve to hold such shares in the name of the company as treasury shares prior to the purchase. Where shares of a company are held as treasury shares, the company shall be entered in the register of members as holding those shares, however, notwithstanding the foregoing, the company shall not be treated as a member for any purpose and shall not exercise any right in respect of the treasury shares, and any purported exercise of such a right shall be void, and a treasury share shall not be voted, directly or indirectly, at any meeting of the company and shall not be counted in determining the total number of issued shares at any given time, whether for the purposes of the company's articles of association or the Companies Law. Further, no dividend may be declared or paid, and no other distribution (whether in cash or otherwise) of the company's assets (including any distribution of assets to members on a winding up) may be made to the company, in respect of a treasury share.

A company is not prohibited from purchasing and may purchase its own warrants subject to and in accordance with the terms and conditions of the relevant warrant instrument or certificate. There is no requirement under Cayman Islands law that a company's memorandum or articles of association contain a specific provision enabling such purchases and the directors of a company may rely upon the general power contained in its memorandum of association to buy and sell and deal in personal property of all kinds.

Under Cayman Islands law, a subsidiary may hold shares in its holding company and, in certain circumstances, may acquire such shares.

(e) Dividends and distributions

With the exception of section 34 of the Companies Law, there is no statutory provisions relating to the payment of dividends. Based upon English case law, which is regarded as persuasive in the Cayman Islands, dividends may be paid only out of profits. In addition, section 34 of the Companies Law permits, subject to a solvency test and the provisions, if any, of the company's memorandum and articles of association, the payment of dividends and distributions out of the share premium account (see paragraph 2(m) above for further details).

(f) Protection of minorities

The Cayman Islands courts ordinarily would be expected to follow English case law precedents which permit a minority shareholder to commence a representative action against or derivative actions in the name of the company to challenge (a) an act which is ultra vires the company or illegal, (b) an act which constitutes a fraud against the minority and the wrongdoers are themselves in control of the company, and (c) an irregularity in the passing of a resolution which requires a qualified (or special) majority.

In the case of a company (not being a bank) having a share capital divided into shares, the Court may, on the application of members holding not less than one-fifth of the shares of the company in issue, appoint an inspector to examine into the affairs of the company and to report thereon in such manner as the Court shall direct.

Any shareholder of a company may petition the Court which may make a winding up order if the Court is of the opinion that it is just and equitable that the company should be wound up or, as an alternative to a winding up order, (a) an order regulating the conduct of the company's affairs in the future, (b) an order requiring the company to refrain from doing or continuing an act complained of by the shareholder petitioner or to do an act which the shareholder petitioner has complained it has omitted to do, (c) an order authorising civil proceedings to be brought in the name and on behalf of the company by the shareholder petitioner on such terms as the Court may direct, or (d) an order providing for the purchase of the shares of any shareholders of the company by other shareholders or by the company itself and, in the case of a purchase by the company itself, a reduction of the company's capital accordingly.

Generally claims against a company by its shareholders must be based on the general laws of contract or tort applicable in the Cayman Islands or their individual rights as shareholders as established by the company's memorandum and articles of association.

(g) Management

The Companies Law contains no specific restrictions on the power of directors to dispose of assets of a company. However, as a matter of general law, every officer of a company, which includes a director, managing director and secretary, in exercising his powers and discharging his duties must do so honestly and in good faith with a view to the best interests of the company and exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances.

(h) Accounting and auditing requirements

A company shall cause proper books of account to be kept with respect to (i) all sums of money received and expended by the company and the matters in respect of which the receipt and expenditure takes place; (ii) all sales and purchases of goods by the company; and (iii) the assets and liabilities of the company.

Proper books of account shall not be deemed to be kept if there are not kept such books as are necessary to give a true and fair view of the state of the company's affairs and to explain its transactions.

(i) Exchange control

There are no exchange control regulations or currency restrictions in the Cayman Islands.

(j) Taxation

Pursuant to section 6 of the Tax Concessions Law (1999 Revision) of the Cayman Islands, the Company has obtained an undertaking from the Governor-in-Cabinet:

(1) that no law which is enacted in the Cayman Islands imposing any tax to be levied on profits, income, gains or appreciation shall apply to the Company or its operations; and

(2) that the aforesaid tax or any tax in the nature of estate duty or inheritance tax shall not be payable on or in respect of the shares, debentures or other obligations of the Company.

The undertaking for the Company is for a period of twenty years from 24 July 2012.

The Cayman Islands currently levy no taxes on individuals or corporations based upon profits, income, gains or appreciations and there is no taxation in the nature of inheritance tax or estate duty. There are no other taxes likely to be material to the Company levied by the Government of the Cayman Islands save certain stamp duties which may be applicable, from time to time, on certain instruments executed in or brought within the jurisdiction of the Cayman Islands. The Cayman Islands are not party to any double tax treaties.

(k) Stamp duty on transfers

No stamp duty is payable in the Cayman Islands on transfers of shares of Cayman Islands companies except those which hold interests in land in the Cayman Islands.

(l) Loans to directors

There is no express provision in the Companies Law prohibiting the making of loans by a company to any of its directors.

(m) Inspection of corporate records

Members of the Company will have no general right under the Companies Law to inspect or obtain copies of the register of members or corporate records of the Company. They will, however, have such rights as may be set out in the Company's Articles.

An exempted company may maintain its principal register of members and any branch registers at such locations, whether within or without the Cayman Islands, as the directors may, from time to time, think fit. A branch register shall be kept in the same manner in which a principal register is by the Companies Law required or permitted to be kept. The company shall cause to be kept at the place where the company's principal register is kept a duplicate of any branch register duly entered up from time to time. There is no requirement under the Companies Law for an exempted company to make any returns of members to the Registrar of Companies of the Cayman Islands. The names and addresses of the members are, accordingly, not a matter of public record and are not available for public inspection.

(n) Winding up

A company may be wound up compulsorily by order of the Court voluntarily; or, under supervision of the Court. The Court has authority to order winding up in a number of specified circumstances including where it is, in the opinion of the Court, just and equitable to do so.

A company may be wound up voluntarily when the members so resolve in general meeting by special resolution, or, in the case of a limited duration company, when the period fixed for the duration of the company by its memorandum or articles expires, or the event occurs on the occurrence of which the memorandum or articles provides that the company is to be dissolved, or, the company does not commence business for a year from its incorporation (or suspends its business for a year), or, the company is unable to pay its debts. In the case of a voluntary winding up, such company is obliged to cease to carry on its business from the time of passing the resolution for voluntary winding up or upon the expiry of the period or the occurrence of the event referred to above.

For the purpose of conducting the proceedings in winding up a company and assisting the Court, there may be appointed one or more than one person to be called an official liquidator or official liquidators; and the Court may appoint to such office such qualified person or persons, either provisionally or otherwise, as it thinks fit, and if more persons than one are appointed to such office, the Court shall declare whether any act hereby required or authorised to be done by the official liquidator is to be done by all or any one or more of such persons. The Court may also determine whether any and what security is to be given by an official liquidator on his appointment; if no official liquidator is appointed, or during any vacancy in such office, all the property of the company shall be in the custody of the Court. A person shall be qualified to accept an appointment as an official liquidator if he is duly qualified in terms of the Insolvency Practitioners Regulations. A foreign practitioner may be appointed to act jointly with a qualified insolvency practitioner.

In the case of a members' voluntary winding up of a company, the company in general meeting must appoint one or more liquidators for the purpose of winding up the affairs of the company and distributing its assets. A declaration of solvency must be signed by all the directors of a company being voluntarily wound up within twenty-eight (28) days of the commencement of the liquidation, failing which, its liquidator must apply to Court for an order that the liquidation continue under the supervision of the Court.

Upon the appointment of a liquidator, the responsibility for the company's affairs rests entirely in his hands and no future executive action may be carried out without his approval. A liquidator's duties are to collect the assets of the company (including the amount (if any) due from the contributories), settle the list of creditors and, subject to the rights of preferred and secured creditors and to any subordination agreements or rights of set-off or netting of claims, discharge the company's liability to them (pari passu if insufficient assets exist to discharge the liabilities in full) and to settle the list of contributories (shareholders) and divide the surplus assets (if any) amongst them in accordance with the rights attaching to the shares.

As soon as the affairs of the company are fully wound up, the liquidator must make up an account of the winding up, showing how the winding up has been conducted and the property of the company has been disposed of, and thereupon call a general meeting of the company for the purposes of laying before it the account and giving an explanation thereof. At least twenty-one (21) days before the final meeting, the liquidator shall send a notice specifying the time, place and object of the meeting to each contributory in any manner authorised by the company's articles of association and published in the Gazette in the Cayman Islands.

(o) Reconstructions

There are statutory provisions which facilitate reconstructions and amalgamations approved by a majority in number representing seventy-five per cent. (75%) in value of shareholders or class of shareholders or creditors, as the case may be, as are present at a meeting called for such purpose and thereafter sanctioned by the Court. Whilst a dissenting shareholder would have the right to express to the Court his view that the transaction for which approval is sought would not provide the shareholders with a fair value for their shares, the Court is unlikely to disapprove the transaction on that ground alone in the absence of evidence of fraud or bad faith on behalf of management.

(p) Compulsory acquisition

Where an offer is made by a company for the shares of another company and, within four (4) months of the offer, the holders of not less than ninety per cent. (90%) of the shares which are the subject of the offer accept, the offeror may at any time within two (2) months after the expiration of the said four (4) months, by notice in the prescribed manner require the dissenting shareholders to transfer their shares on the terms of the offer. A dissenting shareholder may apply to the Court within one (1) month of the notice objecting to the transfer. The burden is on the dissenting shareholder to show that the Court should exercise its discretion, which it will be unlikely to do unless there is evidence of fraud or bad faith or collusion as between the offeror and the holders of the shares who have accepted the offer as a means of unfairly forcing out minority shareholders.

(q) Indemnification

Cayman Islands law does not limit the extent to which a company's articles of association may provide for indemnification of officers and directors, except to the extent any such provision may be held by the court to be contrary to public policy (e.g. for purporting to provide indemnification against the consequences of committing a crime).

4. GENERAL

Conyers Dill & Pearman (Cayman) Limited, the Company's special legal counsel on Cayman Islands law, have sent to the Company a letter of advice summarising certain aspects of Cayman Islands company law. This letter, together with a copy of the Companies Law, is available for inspection as referred to in Appendix VII – Documents available for inspection to this listing document. Any person wishing to have a detailed summary of Cayman Islands company law or advice on the differences between it and the laws of any jurisdiction with which he is more familiar is recommended to seek independent legal advice.

(A) FURTHER INFORMATION ABOUT OUR COMPANY AND OUR SUBSIDIARIES

1. Incorporation of our Company

Our Company was incorporated in the Cayman Islands under the Companies Law as an exempted company with limited liability on 9 July 2012. The Company has established its principal place of business in Hong Kong at Room 1902, 19th Floor, 101 King's Road, Hong Kong and was registered as a non-Hong Kong company under Part XI of the Companies Ordinance on 24 August 2012. In connection with such registration, Mr. Weng has been appointed as the agent of our Company for the acceptance of service of process and notices on behalf of our Company in Hong Kong.

As our Company was incorporated in the Cayman Islands, it operates subject to the Companies Law and its constitution, which comprises the Memorandum and the Articles. A summary of various parts of the constitution and relevant aspects of the Companies Law is set out in Appendix V to this listing document.

2. Changes in share capital of our Company

(a) Our Company was incorporated on 9 July 2012 with an authorised share capital of HK$380,000 divided into 38,000,000 Shares of par value HK$0.01 each.

(b) On 9 July 2012, one (1) Share was allotted and issued in nil paid form (the "**Incorporation Share**") to Codan Trust Company (Cayman) Limited as subscriber, which was then transferred by Codan Trust Company (Cayman) Limited to Greatly Wealth at nil consideration on the same date.

(c) Pursuant to the written resolutions of our sole Shareholder passed on 3 September 2013, the authorised share capital of our Company was increased from HK$380,000 to HK$20,000,000 by the creation of a further 1,962,000,000 Shares.

(d) On 3 September 2013, our Company acquired the entire issued share capital of Luxuriant Expand from Hua Xia in consideration of our Company allotting and issuing 648,405,299 fully paid up Shares (all credited as fully paid) to Greatly Wealth and the crediting as fully paid at par of the Incorporation Share registered in the name of Greatly Wealth.

(e) Immediately following the completion of the Spin-off, without taking into account of any Shares which may be issued upon the exercise of any options which may be granted under the Share Option Scheme, the authorised share capital of the Company will be HK$20,000,000 divided into 2,000,000,000 Shares, of which 648,405,300 Shares have been allotted and issued, fully paid or credited as fully paid and 1,351,594,700 Shares remain unissued. Other than the Shares issuable pursuant to the exercise of any options which may fall to be granted under the Share Option Scheme, or the exercise of the general mandate referred to in the paragraph headed "Written resolutions of our sole Shareholder dated 24 September 2013" under this section of this Appendix, the Directors have no present intention to issue any part of the authorised but unissued capital of our Company, and without the prior approval of the members of our Company in general meeting, no issue of Shares will be made which would effectively alter the control of our Company.

(f) Save as aforesaid, there has been no alteration in the share capital of our Company since its incorporation.

3. Changes in share capital or registered capital of the subsidiaries of our Company

Our Company's subsidiaries are listed in the Accountants' Report, the text of which is set out in Appendix I to this listing document.

The following alterations in the share capital or registered capital of the subsidiaries of our Company have taken place within the two years immediately preceding the date of this listing document.

(a) Luxuriant Expand

(i) On 10 April 2012, Luxuriant Expand was incorporated under the laws of BVI with an authorised share capital of US$50,000 divided into 50,000 shares of US$1 each, of which 100 shares were allotted and issued to Hua Xia on 4 July 2012.

(ii) On 3 September 2013, a share swap agreement was entered into between Hua Xia and Luxuriant Expand pursuant to which a total of 200 shares of US$1 each in the share capital of Luxuriant Expand were allotted and issued to Hua Xia, all credited as fully paid up, for the acquisition of 1 share in Timely Hero, representing its then entire issued share capital, from Hua Xia.

(iii) On 3 September 2013, a loan capitalisation agreement was entered into among Hua Xia, Luxuriant Expand and Timely Hero pursuant to which Hua Xia agreed to capitalise the outstanding amount of HK$866,810,761 due from Timely Hero to Hua Xia in consideration of (i) the allotment and issue of 1 share of US$1 in the share capital of Timely Hero to Luxuriant Expand, credited as fully paid up, at the direction of Hua Xia; and (ii) the allotment and issue of 100 shares of US$1.00 each in the share capital of Luxuriant Expand, all credited as fully paid up, to Hua Xia in consideration of its receipt of 1 share in Timely Hero at the direction of Hua Xia.

(b) Timely Hero

On 3 September 2013, a loan capitalisation agreement was entered into among Hua Xia, Luxuriant Expand and Timely Hero pursuant to which Hua Xia agreed to capitalise the outstanding amount of HK$866,810,761 due from Timely Hero to Hua Xia in consideration of Timely Hero allotting and issuing 1 share of US$1 in its share capital to Luxuriant Expand, credited as fully paid up, at the direction of Hua Xia.

Save as set out above, there has been no alteration in the share capital or registered capital of any of the subsidiaries of our Company within the two years immediately preceding the date of this listing document.

4. Written resolutions of our sole Shareholder dated 24 September 2013

Pursuant to the written resolutions of our sole Shareholder dated 24 September 2013, inter alia:

(a) the exercise by our Directors during the "relevant period" (as defined below in this paragraph) of all the powers of our Company to allot, issue and deal with additional Shares and to make or grant offers, agreements and options which will or might require the exercise of such powers during or after the end of the relevant period was approved, provided that the aggregate nominal amount of Shares allotted or agreed conditionally or unconditionally to be allotted (whether pursuant to an option or otherwise) by our Directors pursuant to the resolution other than pursuant to:

(i) a "rights issue" (as defined below in this paragraph); or

(ii) any scrip dividend or similar arrangement providing for the allotment of Shares in lieu of the whole or part of a dividend on Shares shall not exceed the aggregate of:

(I) 20% of the aggregate nominal amount of the Shares in issue as at the Listing Date; and

(II) (if our Directors are so authorised by a separate ordinary resolution of our Shareholders) the aggregate nominal amount of any Shares repurchased by our Company subsequent to the passing of the share allotment mandate (up to a maximum equivalent to 10% of the aggregate nominal amount of Shares in issue as at the Listing Date; and

for the purpose of this paragraph:

(i) "relevant period" means the period from the passing of the resolution until the earliest of:

a. the conclusion of the next annual general meeting of our Company; and

b. the expiration of the period within which the next annual general meeting of our Company is required by law to be held; and

c. the revocation or variation of the authority given under the resolution by an ordinary resolution of our Shareholders in general meeting; and

(ii) "rights issue" means an offer of Shares to holders of Shares on the register on a fixed record date in proportion to their then holdings of such Shares (subject to such exclusion or other arrangements as our Directors may deem necessary or expedient in relation to fractional entitlements or having regard to any restrictions or obligations under the laws of, or the requirements of any recognised regulatory body or any stock exchange in, any territory outside Hong Kong);

(b) the exercise by our Directors during the "relevant period" (as defined below in this paragraph) of all the powers of our Company to make on-market share repurchases (within the meaning of the Hong Kong Code on Share Repurchases) was approved, provided that the aggregate nominal amount of the Shares which may be repurchased pursuant to such approval shall not exceed 10% of the aggregate nominal amount of the Shares in issue as at the Listing Date; and

for the purpose of this paragraph:

(i) "relevant period" means the period from the passing of the resolution until the earliest of:

a. the conclusion of the next annual general meeting of our Company;

b. the expiration of the period within which the next annual general meeting of our Company is required by law to be held; and

c. the revocation or variation of the authority given under the resolution by an ordinary resolution of our Shareholders in general meeting; and

(ii) references to "Shares" include securities which carry a right to subscribe for or Purchase shares; and

(c) the exercise by our Directors of the powers of our Company referred to in paragraph 4(b) above in respect of the share capital of our Company referred to in sub-paragraph (II) of paragraph 4(a)(ii) above was approved.

5. Corporate reorganisation

The companies comprising our Group underwent a reorganisation in preparation for the Listing. Following the Reorganisation, our Company became the holding company of our Group.

A diagram showing our Group structure after the Reorganisation is set out in the section headed "History, Development and Reorganisation" in this listing document.

Details of the Reorganisation undertaken are as follows:

(a) incorporation of Luxuriant Expand on 10 April 2012 and allotment and issue of 100 ordinary shares of Luxuriant Expand to Hua Xia at par on 4 July 2012;

(b) incorporation of our Company on 9 July 2012 in the Cayman Islands and transfer of the Incorporation Share from Codan Trust Company (Cayman) Limited to Greatly Wealth at nil consideration as described in the section headed "History, Development and Reorganisation – Corporation Development – Our Company" in this listing document;

(c) acquisition of 1 ordinary share, representing the entire issued share capital in Timely Hero, by Luxuriant Expand from Hua Xia on 3 September 2013 in consideration of the allotment and issue of 200 shares of US$1 each in Luxuriant Expand, all credited as fully paid up, to Hua Xia;

(d) capitalisation of the outstanding amount of HK$866,810,761 due from Timely Hero to Hua Xia on 3 September 2013 in consideration of (i) the allotment and issue of 1 share of US$1 in the share capital of Timely Hero to Luxuriant Expand, credited as fully paid up, at the direction of Hua Xia; and (ii) the allotment and issue of a total of 100 shares of US$1 each in the share capital of Luxuriant Expand, all credited as fully paid up, to Hua Xia in consideration of its receipt of 1 share in Timely Hero at the direction of Hua Xia; and

(e) acquisition of 300 shares in Luxuriant Expand, representing its entire issued share capital by our Company from Hua Xia on 3 September 2013 in consideration of (i) the allotment and issue of 648,405,299 Shares, all credited as fully paid up, to Greatly Wealth at the direction of Hua Xia and the crediting as fully paid at par the Incorporation Share registered in the name of Greatly Wealth as described in the paragraph headed "Our Company" in the section

headed "History, Development and Reorganisation" in this listing document; and (ii) the allotment and issue of 100 shares of US$1 each in the share capital of Greatly Wealth, all credited as fully paid up, to Hua Xia in consideration of its receipt of 648,405,299 Shares from our Company at the direction of Hua Xia.

The Reorganisation complies with the applicable laws and regulations of Hong Kong and the Cayman Islands, and all necessary approvals from the relevant regulatory authorities required for the implementations of the Reorganisation have been obtained.

6. Repurchase by our Company of its own securities

This section includes the information required by the Stock Exchange to be included in this listing document concerning the repurchase by our Company of its own securities.

(a) Provisions of the Listing Rules

The Listing Rules permit companies whose primary listing is on the Main Board to repurchase their securities on the Main Board subject to certain restrictions, the most important of which are summarized below:

(i) Shareholders' approval

All proposed repurchases of Shares must be approved in advance by an ordinary resolution in a general meeting, either by way of general mandate or by specific approval in relation to a particular transaction.

Note: Pursuant to the written resolutions of our sole Shareholder dated 24 September 2013, a general unconditional mandate (the "**Repurchase Mandate**") was given to our Directors to exercise all powers of our Company to repurchase on the Main Board or on any other stock exchange on which the securities of our Company may be listed and which is recognized by the SFC and the Stock Exchange of up to 10% of the total nominal value of the share capital of our Company in issue as at the Listing Date, such mandate to expire at the earliest of: (a) at any time until the conclusion of the next annual general meeting of our Company; or (b) the expiration of the period within which the next annual general meeting of our Company is required by the Articles or any other applicable laws of the Cayman Islands to be held; or (c) the passing of an ordinary resolution by our Shareholders in general meeting revoking, varying or renewing such mandate, details of which have been described above in the paragraph headed "Written resolutions of our sole Shareholder dated 24 September 2013" in this Appendix.

(ii) Sources of funds

Repurchases must be financed out of funds legally available for the purpose in accordance with the Memorandum and the Articles and any applicable laws of the Cayman Islands. Any repurchase by our Company may be made out of profits or share premium of our Company or out of the proceeds of a fresh issue of shares made for the purpose of the repurchase or, if so authorised by the Articles and subject to the provisions of the Companies Law, out of capital. Any premium payable on a redemption or purchase over the par value of the shares to be purchased must be provided for out of the profits of our Company or from sums standing to the credit of the share premium account of our Company or, if authorised by the Articles and subject to the provisions of the Companies Law, out of capital.

(iii) Trading restrictions

A company is authorised to repurchase on the Main Board or on any other stock Exchange recognised by the SFC in Hong Kong and the Stock Exchange the total number of shares which represent up to a maximum of 10% of the aggregate nominal value of the existing issued share capital of that company or warrants to subscribe for shares in the company representing up to 10% of the amount of warrants then outstanding at the date of the passing of the relevant resolution granting the repurchase mandate. A company may not issue or announce an issue of new securities of the type that have been repurchased for a period of 30 days immediately following a repurchase of securities whether on the Main Board or otherwise (except pursuant to the exercise of warrants, share options or similar instruments requiring the company to issue securities which were outstanding prior to the repurchase) without the prior approval of the Stock Exchange. A company is also prohibited from making securities repurchase on the Main Board if the result of the repurchases would be that the number of the listed securities in hands of the public would be below the relevant prescribed minimum percentage for that company as required and determined by the Stock Exchange. A company shall not purchase its shares on the Main Board if the purchase price is higher by 5% or more than the average closing market price for the 5 preceding trading days on which its shares were traded on the Main Board.

(iv) Status of repurchased securities

The listing of all repurchased securities (whether on the Main Board or otherwise) is automatically cancelled and the relative certificates must be cancelled and destroyed. Under the Cayman Islands law, a company's repurchased shares shall be treated cancelled and the amount of the company's issued share capital shall be reduced by the aggregate nominal value of the repurchased shares accordingly although the authorised share capital of the company will not be reduced.

(v) Suspension of repurchase

Securities repurchases are prohibited after a price sensitive development has occurred or has been the subject of a decision until such time as the price sensitive information is made publicly available. In particular, during the period of one month immediately preceding either the preliminary announcement of a company's annual results or the publication of a company's interim report, a company may not purchase its securities on the Main Board unless the circumstances are exceptional. In addition, the Stock Exchange may prohibit repurchases of securities on the Main Board if a company has breached the Listing Rules.

(vi) Reporting requirements

Repurchases of securities on the Main Board or otherwise must be reported to the Stock Exchange not later than 9:00 a.m. (Hong Kong time) on the following business day. In addition, a company's annual report and accounts are required to include a monthly breakdown of securities repurchases made during the financial year under review, showing the number of securities repurchased each month (whether on the Main Board or otherwise), the purchase price per share or the highest and lowest prices paid for all such repurchases and the total prices paid. The directors' report is also required to contain reference to the purchases made during the year and the directors' reasons for making such purchases. The company shall make arrangements with its broker who effects the purchase to provide the company in a timely fashion the necessary information in relation to the purchase made on behalf of the company to enable the company to report to the Stock Exchange.

(vii) Connected parties

Under the Listing Rules, a company shall not knowingly repurchase shares from a connected person and a connected person shall not knowingly sell his shares to the company.

(b) Exercise of the Repurchase Mandate

Exercise in full of the Repurchase Mandate, on the basis of 648,405,300 Shares in issue immediately after listing of the Shares, could accordingly result in up to 64,840,530 Shares being repurchased by our Company during the period in which the Repurchase Mandate remains in force.

On the basis of the current financial position of our Group as disclosed in this listing document and taking into account the current working capital position of our Group, our Directors consider that, if the Repurchase Mandate were to be exercised in full, there might be a material adverse impact on the working capital and/or gearing position of our Group (as compared with the position disclosed in this listing document). However, our Directors do not propose to exercise the Repurchase Mandate to such an extent as would, in the circumstances, have a material adverse effect on the working capital requirements of our Group or the gearing levels which in the opinion of our Directors are from time to time appropriate for our Group.

(c) Reasons for repurchases

Repurchases of Shares will only be made when our Directors believe that such a repurchase is in the best benefit of our Company and Shareholders for our Directors to have a general authority from the Shareholders to enable our Company to repurchase Shares in the market. Such repurchases may, depending on market conditions and funding arrangements at the time, lead to an enhancement of the net asset value and/or earnings per Share.

(d) Funding of repurchases

In repurchasing Shares, our Company may only apply funds legally available for such purpose in accordance with the Memorandum and the Articles and the applicable laws and regulations of the Cayman Islands.

A listed company is prohibited from repurchasing its own securities on the Main Board for a consideration other than cash or for settlement otherwise than in accordance with the trading rules of the Stock Exchange from time to time.

Under the Cayman Islands law, any repurchases by our Company may be made out of profits of our Company or out of the proceeds of a fresh issue of share made for the purpose of the repurchase or, if authorised by the Articles and subject to the Companies Law, out of capital and, in case of any premium payable on the repurchase, out of profits of our Company or from sum standing to the credit of the share premium accounts of our Company, or if authorised by the Articles and subject to the Companies Law, out of capital.

(e) General

None of our Directors nor, to the best of their knowledge having made all reasonable enquiries, any of their associates currently intends to sell any Shares to our Company.

Our Directors have undertaken to the Stock Exchange that, so far as the same may be applicable, they will exercise the Repurchase Mandate in accordance with the Listing Rules, the Memorandum and the Articles and the applicable laws of the Cayman Islands.

No connected person of our Company has notified our Company that he or she has a present intention to sell Shares to our Company, or has undertaken not to do so, in the event that the Repurchase Mandate is exercised.

If as a result of a repurchase of Shares, a shareholder's proportionate interest in the voting rights of our Company is increased, such increase will be treated as an acquisition for the purpose of the Code. As a result, a Shareholder, or a group of Shareholders acting in concert, depending on the level of increase in the Shareholder's interest, could obtain or consolidate control of our Company and become(s) obliged to make a mandatory offer in accordance with Rule 26 of the Code. Save as aforesaid, our Directors are not aware of any consequence which would arise under the Code as a consequence of any repurchase made pursuant to the Repurchase Mandate immediately after the Listing.

Our Company has not made any repurchase of the Shares since its incorporation.

(B) FURTHER INFORMATION ABOUT THE BUSINESS OF OUR GROUP

1. Summary of material contracts

The following contracts (not being contracts entered into in the ordinary course of business) have been entered into by the members of our Group within the two years immediately preceding the date of this listing document and are or may be material in relation to the business of our Group taken as a whole:

(a) a share purchase agreement dated 3 September 2013 made between our Company as purchaser, Hua Xia as vendor and Greatly Wealth in relation to the acquisition of 300 shares in the share capital of Luxuriant Expand, representing its entire issued share capital and in consideration of which our Company allotted and issued 648,405,299 Shares, all credited as fully paid up, to Greatly Wealth at the direction of Hua Xia and credited as fully paid at par the Incorporation Share registered in the name of Greatly Wealth;

(b) a loan capitalisation agreement dated 3 September 2013 made among Hua Xia, Luxuriant Expand and Timely Hero pursuant to which Hua Xia agreed to capitalise the outstanding amount of HK$866,810,761 due from Timely Hero to Hua Xia in consideration of (i) the allotment and issue 1 share of US$1.00 in the share capital of Timely Hero to Luxuriant Expand, credited as fully paid up, at the direction of Hua Xia; and (ii) the allotment and issue of total of 100 shares of US$1.00 each in the share capital of Luxuriant Expand, all credited as fully paid up, to Hua Xia in consideration of its receipt of 1 share in Timely Hero at the direction of Hua Xia;

(c) a sale and purchase agreement dated 3 September 2013 made between Hua Xia and Luxuriant Expand in relation to the acquisition of 1 issued share in Timely Hero, representing its entire issued share capital, by Luxuriant Expand in consideration of Luxuriant Expand alloting and issuing 200 shares of US$1 each in its share capital, all credited as fully paid up, to Hua Xia;

(d) the Non-competition Deed; and

(e) a deed of indemnity dated 30 September 2013 executed by Hua Xia, Greatly Wealth, Marshal, Easeglory, Mr. Yung and Mrs. Yung in favour of the Group, containing indemnities more particularly referred to in the paragraph headed "Tax Indemnity" in the section headed "(E) Other Information" of this Appendix.

2. Intellectual Property Rights of our Group

(a) Trademarks

As at the Latest Practicable Date, our Group was the registered owner of the following trademarks in the PRC:

Trademark	Name of Owner	Class *(Note)*	Place of Registration	Registration no.	Duration
	Huihao Sihai	39	the PRC	4830087	14 February 2009 to 13 February 2019
	Huihao Sihai	42	the PRC	4830084	7 March 2009 to 6 March 2019
	Huihao Sihai	42	the PRC	4830086	28 March 2009 to 27 March 2019
	Huihao Sihai	44	the PRC	4830083	7 March 2009 to 6 March 2019
	Huihao Sihai	44	the PRC	4830085	28 March 2009 to 27 March 2019
	Huihao Sihai	10	the PRC	3870765	21 January 2006 to 20 January 2016
	Huihao Sihai	10	the PRC	3870763	21 January 2006 to 20 January 2016
	Huihao Sihai	30	the PRC	3870762	7 January 2006 to 6 January 2016
	Huihao Sihai	35	the PRC	3397997	14 July 2004 to 13 July 2014
	Huihao Sihai	35	the PRC	3405460	21 July 2004 to 20 July 2014
	Huihao Sihai	40	the PRC	3870764	7 April 2006 to 6 April 2016
	Huihao Sihai	5	the PRC	3689464	14 February 2006 to 13 February 2016

Note:

Class Specification of Goods/Services in the PRC

5 Pharmaceutical and veterinary preparations; sanitary preparations for medical purposes; medical nutritious food and supplies for human and animals, food for babies; dietary supplements for human and animals, plasters, materials for dressings; material for stopping teeth, dental wax; disinfectants; preparations for destroying vermin; fungicides, herbicides.

10	Surgical, medical, dental and veterinary apparatus and instruments, artificial limbs, eyes and teeth; orthopedic articles; suture materials.
30	Coffee, tea, cocoa and artificial coffee; rice; tapioca and sago; flour and preparations made from cereals; bread, pastry and confectionery; ices; sugar, honey, treacle; yeast, baking-powder; salt; mustard; vinegar, sauces (condiments); spices; ice.
35	Advertising; business management; business administration; office functions.
39	Transport; packaging and storage of goods; travel arrangement.
40	Treatment of materials.
42	Scientific and technological services and research and design relating thereto; industrial analysis and research; design and development of computer hardware and software.
44	Medical services; veterinary services; hygienic and beauty care for human beings or animals; agriculture, horticulture and forestry services.

As at the Latest Practicable Date, our Group was the registered owner of the following trademark in Hong Kong:

Trademark	Name of owner	Class *(Note)*	Place of Registration	Trademark no.	Duration
WANJIA GROUP 萬嘉集團	Our Company	5, 10, 16	Hong Kong	302393235	28 September 2012 to 27 September 2022

Class Specification of Goods/Services in Hong Kong

5	Pharmaceutical and veterinary preparations; sanitary preparations for medical purposes; dietetic food and substances adapted for medical or veterinary use, food for babies; dietary supplements for humans and animals; plasters, materials for dressings; material for stopping teeth, dental wax; disinfectants; preparations for destroying vermin; fungicides, herbicides.
10	Surgical, medical, dental and veterinary apparatus and instruments, artificial limbs, eyes and teeth; orthopaedic articles; suture materials.
16	Paper, cardboard and goods made from these materials, not included in other classes; printed matter; bookbinding material; photographs; stationery; adhesives for stationery or household purposes; artists' materials; paint brushes; typewriters and office requisites (except furniture); instructional and teaching material (except apparatus); plastic materials for packaging (not included in other classes); printers' type; printing blocks.

(b) Domain name

As at the Latest Practicable Date, our Group had registered the following domain name:

Domain Name	Date of Registration	Expiry Date	Place of Registration
wanjia-gp.com	18 September 2012	18 September 2014	Hong Kong

Information contained in the above website does not form part of this listing document.

Save as disclosed above, there are no other trademarks or other intellectual property rights which are or may be material in relation to the business of our Group.

3. Further information about the subsidiaries of our Company

(a) Offshore subsidiaries

(i) Luxuriant Expand

Place of incorporation	:	BVI
Date of incorporation	:	10 April 2012
Registered office	:	Sea Meadow House, Blackburne Highway, (P.O. Box 116), Road Town, Tortola, BVI
Authorised share capital	:	US$50,000
Issued share capital	:	US$300
Shareholder	:	our Company
Director(s)	:	Mr. Weng
General nature of business	:	Investment holding

(ii) Timely Hero

Place of incorporation	:	BVI
Date of incorporation	:	1 December 2006
Registered office	:	P.O. Box 957, Offshore Incorporations Centre, Road Town, Tortola, British Virgin Islands
Authorised share capital	:	US$50,000
Issued share capital	:	US$2
Shareholder	:	Luxuriant Expand
Director(s)	:	Mr. Yung and Mr. Zheng Gang
General nature of business	:	Investment holding

(iii) Nurture Fit

Place of incorporation	:	BVI
Date of incorporation	:	16 July 2009
Registered office	:	P.O. Box 957, Offshore Incorporations Centre, Road Town, Tortola, British Virgin Islands
Authorised share capital	:	US$50,000
Issued share capital	:	US$1
Shareholder	:	Timely Hero
Director(s)	:	Mr. Yung
General nature of business	:	Investment holding

(b) Hong Kong subsidiaries

(i) Huihao Hong Kong

Place of incorporation	:	Hong Kong
Date of incorporation	:	1 March 2004
Registered office	:	Room 1902, 19/F, 101 King's Road, Hong Kong
Authorised share capital	:	HK$1,000,000
Issued share capital	:	HK$1,000,000
Shareholder	:	Nurture Fit
Director(s)	:	Mr. Yung and Mr. Weng
General nature of business	:	Investment holding

(c) PRC subsidiaries

(i) Fuzhou Huihao

Economic nature	:	wholly foreign-owned enterprise
Total investment	:	RMB60,000,000
Total registered capital	:	RMB60,000,000
Equity holder	:	Huihao Hong Kong
Term	:	9 July 2008 to 8 July 2038
Date of establishment	:	9 July 2008
Attributable interest to our Group	:	100%
Principal activities	:	Pharmaceutical wholesale and distribution business in the PRC

(ii) Fujian Huiming

Economic nature	:	limited liability
Total investment	:	RMB20,000,000
Total registered capital	:	RMB20,000,000
Equity holder	:	Fuzhou Huihao
Term	:	10 July 2008 to 9 July 2038
Date of establishment	:	10 July 2008
Attributable interest to our Group	:	100%
Principal activities	:	Pharmaceutical wholesale and distribution business in the PRC

(iii) Putian Huihao

Economic nature	:	limited liability
Total investment	:	RMB10,000,000
Total registered capital	:	RMB10,000,000
Equity holder	:	Fuzhou Huihao
Term	:	11 July 2008 to 10 July 2038
Date of establishment	:	11 July 2008
Attributable interest to our Group	:	100%
Principal activities	:	Pharmaceutical wholesale and distribution business in the PRC

(iv) Quanzhou Huihao

Economic nature	:	limited liability
Total investment	:	RMB10,000,000
Total registered capital	:	RMB10,000,000
Equity holder	:	Fuzhou Huihao
Term	:	17 May 2007 to 16 May 2017
Date of establishment	:	17 May 2007
Attributable interest to our Group	:	100%
Principal activities	:	Pharmaceutical wholesale and distribution business in the PRC

(v) Huihao Sihai

Economic nature	:	Sino-foreign equity joint venture enterprise
Total investment	:	RMB15,856,350
Total registered capital	:	RMB15,856,350
Equity holder	:	Huihao Hong Kong
Term	:	30 November 2001 to 30 November 2021
Date of establishment	:	30 November 2001
Attributable interest to our Group	:	99.29%
Principal activities	:	Pharmaceutical retail chain business in the PRC

(C) FURTHER INFORMATION ABOUT THE DIRECTORS, SUBSTANTIAL SHAREHOLDERS AND EXPERTS

1. Directors

Disclosure of Interests

So far as our Directors are aware, immediately following completion of the Spin-off and taking no account of any Shares which may be allotted and issued upon the exercise of any options which may be granted under the Share Option Scheme or any Shares which may fall to be allotted and issued or repurchased by our Company pursuant to the mandates as referred to in the section headed "Further Information about our Company" of this Appendix, the interests and short positions of our Directors and chief executive of our Company in the Shares, underlying Shares and debentures of our Company or its associated corporations (within the meaning of Part XV of the SFO) which will have to be notified to our Company and the Stock Exchange under Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO), or which will be required, pursuant to section 352 of the SFO, to be entered in the register as referred to therein, or pursuant to the Model Code for Securities Transactions by Directors of Listed Companies set out in Appendix 10 to the Listing Rules to be notified to our Company and the Stock Exchange, will be as follows:

Name of Director	Nature of Interest	Position	Number of Shares held immediately after completion of the Spin-off	Approximate percentage of shareholding immediately after completion of the Spin-off
Mr. Weng	Beneficial owner	Long	281,250	0.04%
Mr. Chen Yong	Beneficial owner	Long	80,000	0.01%

Particulars of service contracts

(a) Each of our executive Directors has entered into a service contract with our Company. The terms and conditions of each of such service contracts are similar in all material aspects and are briefly described as follows:

(i) Each service contract is for an initial term of three years commencing on the Listing Date. Each of these service contracts may be terminated by either party thereto giving to the other not less than three months' prior notice in writing.

(ii) The annual remuneration (including director's fee, basic salary, allowance, non-cash benefit and retirement scheme contribution) payable to Mr. Weng and Mr. Chen Yong under their respective service contracts shall be HK$375,000 and HK$150,000 respectively.

(iii) Each of our executive Directors is entitled to a management bonus, the amount of which is determined with reference to the operating results of our Group and the performance of the executive Director; and

(iv) Each of our executive Directors shall abstain from voting and not be counted in the quorum in respect of any resolution of the Board regarding the amount of annual salary and management bonus payable to himself.

(b) Each of our independent non-executive Directors has entered into a letter of appointment with our Company under which each of them agreed to act as independent non-executive Director for a period of three years, commencing on the Listing Date, unless terminated in accordance with the terms and conditions specified therein. The annual director's fee payable to Mr. Liang Yichi, Mr. Zhu Donghai and Mr. Wong Hon Kit under their respective letters of appointment shall be approximately RMB60,000 (equivalent to approximately HK$75,000), RMB60,000 (equivalent to approximately HK$75,000) and HK$120,000 respectively. Save for the annual director's fees mentioned above, none of our independent non-executive Directors is expected to receive any other remuneration for holding his office as an independent non-executive Director.

(c) Save as disclosed above, none of our Directors has or is proposed to have any service contracts with our Company or any of our subsidiaries (other than contracts expiring or determinable by the employer within one year without payment of compensation other than statutory compensation).

Remuneration of Directors

(a) Our Company's policies concerning remuneration of our executive Directors and non-executive Directors are as follows:

(i) the amount of remuneration is determined by the Remuneration Committee and on the basis of the relevant Director's experience, responsibility, workload and the time devoted to our Group;

(ii) non-cash benefits may be provided to our executive Directors and non-executive Directors under their remuneration package; and

(iii) our Directors may be granted, at the discretion of our Board, options pursuant to the Share Option Scheme, as part of the remuneration package.

(b) During the financial year ended 31 March 2013, the aggregate emoluments (including director's fee, basic salary, allowance, non-cash benefit and retirement scheme contribution) paid by our Group to our Directors were approximately HK$403,000. Further information in respect of our Directors' remuneration is set out in Appendix I to this listing document.

(c) It is expected that an aggregate of approximately HK$795,000 will be paid as remuneration to our Directors by our Group in respect of the financial year ending 31 March 2014 pursuant to the present arrangement.

(d) Save as disclosed in Appendix I to this listing document, none of our Directors received any remuneration or benefits in kind from our Group during the Track Record Period.

2. Substantial Shareholders

So far as our Directors are aware, the following persons (not being a Director or chief executive of our Company) will, immediately following the completion of the Spin-off, have interests or short positions in the Shares or underlying Shares which would fall to be disclosed to our Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who are, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of our Group:

(i) Our Company

Name	Nature of Interest	Position	Number of Shares held immediately after completion of the Spin-off	Approximate percentage of shareholding immediately after completion of the Spin-off
Hua Xia *(Note 1)*	Interest in controlled corporation	Long	411,917,648	63.53%
Greatly Wealth *(Note 1)*	Beneficial owner	Long	411,917,648	63.53%
Mr. Yung *(Note 2)*	Interest in controlled corporation	Long	24,192,100	3.73%
	Beneficial owner	Long	47,009,375	7.25%
Marshal *(Note 2)*	Interest in controlled corporation	Long	24,192,100	3.73%
Easeglory *(Note 2)*	Beneficial owner	Long	24,192,100	3.73%
Mrs. Yung *(Note 3)*	Interest of spouse	Long	71,201,475	10.98%

Notes

1. Greatly Wealth is a company incorporated in the BVI with limited liability which is wholly and beneficially owned by Hua Xia. By virtue of the SFO, Hua Xia is deemed to be interested in the entire 411,917,648 Shares held by Greatly Wealth.

2. Easeglory is a company incorporated in the BVI with limited liability which is wholly and beneficially owned by Marshal, a company incorporated in the BVI with limited liability and is wholly and beneficially owned by Mr. Yung. By virtue of the SFO, both Marshal and Mr. Yung are deemed to be interested in the entire 24,192,100 Shares held by Easeglory.

3. Mrs. Yung, the spouse of Mr. Yung, is deemed to be interested in 71,201,475 Shares held by Mr. Yung in person or through his controlled corporations under the SFO.

(ii) Associated Corporation

Name of associated corporation	Name of registered owner	Capacity	Position	Number of shares in the associated corporation	Approximate percentage of shareholding in the associated corporation
Greatly Wealth	Hua Xia	Beneficial owner	Long	200 shares of US$1 each	100%

3. Disclaimers

Save as disclosed in this listing document:

(a) none of our Directors nor any of the persons whose names are listed in the paragraph headed "Consents of Experts" under the section headed "Other Information" in this Appendix is directly or indirectly interested in the promotion of any member of our Group or in any assets which have within the two years immediately preceding the issue of this listing document been acquired or disposed of by or leased to any member of our Group, or are proposed to be acquired or disposed of by or leased to any member of our Group;

(b) none of our Directors nor any of the persons whose names are listed in the paragraph headed "Consents of Experts" under the section headed "Other Information" in this Appendix is materially interested in any contract or arrangement subsisting at the date of this listing document which is significant in relation to the business of our Group;

(c) none of the persons whose names are listed in the paragraph headed "Consents of Experts" under the section headed "Other Information" in this Appendix has any shareholding in any member of our Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of our Group or is in the employment of an officer or servant of our Group;

(d) none of our Directors has entered or has proposed to enter into any service contract with our Company or any members of our Group (other than contracts expiring or determinable by the employer within one year without payment of compensation other than statutory compensation);

(e) no cash, securities or other benefit has been paid, allotted or given within the two years immediately preceding the date of this listing document to any promoter of our Company nor is any such cash, securities or benefit intended to be paid, allotted or related transaction as mentioned in this listing document; and

(f) none of our Directors, their respective associates or shareholders of our Company who are interested in 5% or more of the issued share capital of our Company have any interests in the five largest customers of our Group.

4. Agency fees or commissions received

Save as disclosed in this listing document, within the two years immediately preceding the date of this listing document, no commission, discounts, brokerages or other special terms have been granted in connection with the issue or sale of any share or loan capital of our Company and any of our subsidiaries.

Save as disclosed herein and in the section headed "Directors, Senior Management and Staff" and the Accountants' Report set out in Appendix I to this listing document, none of our Directors, or any associate of any of them is or will be entitled to receive any part of the brokerage charged to our Company, or re-allowance of other types on purchase charged to our Company.

5. Related party transactions

During the two years immediately preceding the date of this listing document, our Group was engaged in related party transactions as described in the Accountants' Report set out in Appendix I to this listing document.

(D) SHARE OPTION SCHEME

(a) Summary of terms of the Share Option Scheme

(i) Purpose of the Share Option Scheme

The purpose of the Share Option Scheme is to provide incentive or reward to eligible persons for their contribution to our Group and/or to enable our Group to recruit and retain high-calibre employees and attract human resources that are valuable to our Group or any entity in which our Group holds any equity interest ("**Invested Entity**").

(ii) Who may join

Subject to the provisions in the Share Option Scheme, our Board shall be entitled at any time and from time to time within the period of 10 years after the date of adoption of the Share Option Scheme to make an offer to any of the following classes of persons:

(1) any employee (whether full time or part time employee, including any executive director but not the non-executive directors) of our Company, its subsidiaries and any Invested Entity;

(2) any non-executive director (including independent non-executive directors) of our Company, any of its subsidiaries or any Invested Entity;

(3) any supplier of goods or services to any member of our Group or any Invested Entity;

(4) any customer of our Group or any Invested Entity; and

(5) any consultant, adviser, manager, officer or entity that provides research, development or other technological support to our Group or any Invested Entity.

(iii) Maximum number of Shares

(1) Notwithstanding anything to the contrary herein, the maximum number of Shares which may be issued upon the exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other share option schemes of our Company, must not, in aggregate, exceed 30% of the total number of Shares in issue from time to time.

(2) The total number of Shares in respect of which options may be granted under the Share Option Scheme and any other share option schemes of our Company shall not exceed 64,840,530 Shares, being 10% of the total number of Shares in issue as at the date of approval unless our Company obtains the approval of our Shareholders in general meeting for refreshing the 10% limit ("**Scheme Mandate Limit**") under the Share Option Scheme provided that options lapsed in accordance with the terms of the Share Option Scheme or any other share option schemes of our Company will not be counted for the purpose of calculating whether the Scheme Mandate Limit has been exceeded.

(3) Our Company may seek approval of our Shareholders in general meeting for refreshing the Scheme Mandate Limit such that the total number of Shares in respect of which options may be granted under the Share Option Scheme and any other share option schemes of our Company as "refreshed" shall not exceed 10% of the total number of Shares in issue as at the date of the approval of our Shareholders on the refreshment of the Scheme Mandate Limit provided that options previously granted under the Share Option Scheme or any other share option schemes of our Company (including options outstanding, cancelled, lapsed in accordance with the terms of the Share Option Scheme or any other share option scheme of our Company or exercised) will not be counted for the purpose of calculating the limit as "refreshed".

For the purpose of seeking the approval of our Shareholders, a circular containing the information as required under the Listing Rules must be sent to our Shareholders.

(4) Our Company may seek separate approval of our Shareholders in general meeting for granting options beyond the Scheme Mandate Limit provided that the proposed grantee(s) of such option(s) must be specifically identified by our Company before such approval is sought. For the purpose of seeking the approval of our Shareholders, our Company must send a circular to our Shareholders containing a generic description of the specified proposed grantees of such options, the number and terms of the options to be granted, the purpose of granting such options to the proposed grantees with an explanation as to how the terms of options serve such purpose and the information as required under the Listing Rules.

(iv) Maximum entitlement of each eligible person

No option shall be granted to any eligible person if any further grant of options would result in the Shares issued and to be issued upon exercise of all options granted and to be granted to such person (including exercised, cancelled and outstanding options) in the 12-month period up to and including such further grant would exceed 1% of the total number of Shares in issue, unless:

(1) such further grant has been duly approved, in the manner prescribed by the relevant provisions of Chapter 17 of the Listing Rules, by resolution of our Shareholders in general meeting, at which the eligible person and his associates shall abstain from voting;

(2) a circular regarding the further grant has been dispatched to our Shareholders in a manner complying with, and containing the information specified in, the relevant provisions of Chapter 17 of the Listing Rules (including the identity of the eligible person, the number and terms of the options to be granted and options previously granted to such eligible person); and

(3) the number and terms (including the subscription price) of such option are fixed before the general meeting of our Company at which the same are approved.

(v) Grant of options to connected persons

(1) The grant of options to a Director, chief executive or substantial shareholder of our Company or any of its subsidiaries or any of their respective associates requires ("**Connected Person**") the approval of all the independent non-executive Directors (excluding any independent non-executive Director who is a prospective grantee of the option) and shall comply with the relevant provisions of Chapter 17 of the Listing Rules.

(2) Where an option is to be granted to a substantial Shareholder or an independent non-executive Director (or any of their respective associates), and such grant will result in the Shares issued and to be issued upon exercise of all options already granted and to be granted (including options exercised, cancelled and outstanding) to such person in the 12-month period up to and including the date of such grant: (1) exceeding 0.1% of the total number of Shares in issue at the relevant time of grant; (2) exceeding an aggregate value (based on the closing price of the Shares on the Stock Exchange on the date of each grant) of HK$5 million, such grant shall not be valid unless (i) a circular containing the details of the grant has been dispatched to our Shareholders in a manner complying with, and containing the matters specified in, the relevant provisions of Chapter 17 of the Listing Rules (including, in particular, a recommendation from our independent non-executive Directors (excluding our independent non-executive Director who is the prospective grantee of the option) to the independent Shareholders as to voting); and (ii) the grant has been approved by our Shareholders in general meeting (taken on a poll), at which all Connected Persons of our Company shall abstain from voting in favour of the grant.

(3) Where any change is to be made to the terms of any option granted to a substantial Shareholder or an independent non-executive Director (or any of their respective associates), such change shall not be valid unless the change has been approved by our Shareholders by way of poll in general meeting.

(vi) Time of acceptance and exercise of an option

An offer of grant of an option may be accepted by an eligible person within the date as specified in the offer letter issued by our Company, being a date not later than 21 Business Days from the date upon which it is made, by which the eligible person must accept the offer or be deemed to have declined it, provided that such date shall not be more than ten years immediately after the date of adoption of the Share Option Scheme.

A consideration of HK$1 is payable on acceptance of the offer of grant of an option. Such consideration shall in no circumstances be refundable. An option may be exercised in whole or in part by the grantee (or his legal personal representatives) at anytime before the expiry of the period to be determined and notified by the Board to the grantee which in any event shall not be longer than ten years commencing on the date of the offer letter and expiring on the last day of such ten-year period subject to the provisions for early termination as contained in the Share Option Scheme.

(vii) Performance targets

There is no performance target that has to be achieved before the exercise of any option.

(viii) Subscription price for Shares

The subscription price of a Share in respect of any particular option granted under the Share Option Scheme shall be a price determined by the Board and notified to an eligible person, and shall be at least the highest of: (1) the closing price of the Shares as stated in the Stock Exchange's daily quotations sheet on the date (the "**Offer Date**"), which must be a trading day on which our Board passes a resolution approving the making of an offer of grant of an option to an eligible person; (2) the average of the closing price of the Shares as stated in the Stock Exchange's daily quotation sheets for the 5 trading days immediately preceding the date of the offer letter of the option; and (3) the nominal value of a Share on the Offer Date.

Where an option is to be granted, the date of our Board meeting at which the grant was proposed shall be taken to be the date of the offer of such option. For the purpose of calculating the subscription price, where an option is to be granted less than 5 Business Days after the listing of the Shares on the Stock Exchange, the offer price shall be taken to be the closing price for any Business Day before the Listing.

(ix) Ranking of Shares

The Shares to be issued and allotted upon the exercise of an option shall be subject to our Company's constitutional documents for the time being in force and shall rank pari passu in all respects with the fully-paid Shares in issue of our Company as at the date of allotment and will entitle the holders to participate in all dividends or other distributions declared or recommended or resolved to be paid or made in respect of a record date falling on or after the date of allotment.

(x) Restrictions on the time of grant of options

No option shall be granted after a price sensitive development concerning our Company or any subsidiary has occurred or a price sensitive matter concerning our Company or any subsidiary has been the subject of a decision until such price sensitive information has been announced pursuant to the requirements of the Listing Rules. In particular, during the period commencing one month immediately preceding the earlier of (1) the date of the meeting of our Board (as such date is first notified to the Stock Exchange in accordance with the Listing Rules) for the approval of our Company's result for any year, half-year, quarterly or any other interim period (whether or not required under the Listing Rules); and (2) the deadline for our Company to publish an announcement of its results for any year or half-year under the Listing Rules, or quarterly or any other interim period (whether or not required under the Listing Rules), and ending on the date of the results announcement, no option shall be granted.

(xi) Period of the Share Option Scheme

Subject to earlier termination by our Company in general meeting or by the Board, the Share Option Scheme shall be valid and effective for a period of 10 years commencing on the date of adoption of the Share Option Scheme, after which period no further option shall be granted.

(xii) Rights on cessation of employment

Where the grantee of an outstanding option ceases to be an employee of our Group for any reason other than his death or the termination of his employment on one or more of the grounds specified in (xxi)(e), the grantee may exercise the option up to his entitlement at the date of cessation in whole or in part (to the extent which has become exercisable and not already exercised) within the period of 1 month following the date of such cessation. The date of such cessation shall be his last actual working day at his work place with our Company or any subsidiary whether salary is paid in lieu of notice or not.

(xiii) Rights on death

Where the grantee of an outstanding option dies before exercising the option in full or at all, the option may be exercised in full or in part (to the extent not already exercised) by his personal representative(s) within 12 months from the date of death.

(xiv) Rights on a general offer

In the event of a general or partial offer, whether by way of take-over offer, share re-purchase offer, or scheme of arrangement or otherwise in like manner is made to all the holders of Shares, or all such holders other than the offeror and/or any person controlled by the offeror and/or any person acting in association or concert with the offeror, our Company shall use all reasonable endeavours to procure that such offer is extended to all the grantees on the same terms, mutatis mutandis, and assuming that they will become, by the exercise in full of the options granted to them, shareholders of our Company. If such offer becomes or is declared unconditional, a grantee shall be entitled to exercise his option (to the extent not already exercised) to its full extent or to the extent specified in the grantee's notice to our Company in exercise of his option within 14 days after the date on which the offer becomes or is declared unconditional.

(xv) Rights on winding-up

In the event that a notice is given by our Company to our Shareholders to convene a general meeting for the purposes of considering and, if thought fit, approving a resolution to voluntarily wind-up our Company, our Company shall on the same date as or soon after it despatches such notice to each Shareholder give notice thereof to all grantees (together with a notice of existence of this provision) and thereupon, each grantee (or his legal representative(s)) shall be entitled to exercise all or any of his options (to the extent which has become exercisable and not already exercised) at any time not later than 2 Business Days prior to the proposed general meeting of our Company by giving notice in writing to our Company, accompanied by a remittance for the full amount of the aggregate exercise price for the Shares in respect of which the notice is given, whereupon our Company shall as soon as possible and, in any event, no later than the Business Day immediately prior to the date of the proposed general meeting referred to above, allot the relevant Shares to the grantee credited as fully paid, which Shares shall rank pari passu with all other Shares in issue on the date prior to the passing of the resolution to wind-up our Company to participate in the distribution of assets of our Company available in liquidation.

(xvi) Rights on compromise or arrangement between our Company and our creditors

In the event of a compromise or arrangement between our Company and our creditors (or any class of them) or between our Company and our Shareholders (or any class of them), in connection with a scheme for the reconstruction or amalgamation of our Company, our Company shall give notice thereof to all grantees on the same day as it gives notice of the meeting to our Shareholders or creditors to consider such a scheme or arrangement, and thereupon any grantee (or his legal representative(s)) may forthwith and until the expiry of the period commencing with such date and ending with the earlier of the date falling 2 calendar months thereafter or the date on which such compromise or arrangement is sanctioned by Court be entitled to exercise his option (to the extent which has become exercisable and not already exercised), but the exercise of the option shall be conditional upon such compromise or arrangement being sanctioned by the Court and becoming effective. Our Company may thereafter require such grantee to transfer or otherwise deal with the Shares issued as a result of such exercise of his option so as to place the grantee in the same position as nearly as possible as would have been the case had such Shares been subject to such compromise or arrangement.

(xvii) Reorganisation of capital structure

In the event of any alteration in the capital structure of our Company whilst any option has been granted and remains exercisable, whether by way of capitalisation of profits or reserves, rights issue, consolidation, subdivision or reduction of the share capital of our Company (other than an issue of Shares as consideration in respect of a transaction), our Company shall (if applicable) make corresponding alterations (if any), in accordance with the Listing Rules and any applicable guidance/interpretation of the Listing Rules issued by the Stock Exchange from time to time (including but not limited to the supplementary guidance issued on 5 September 2005) to:

(1) the number and/or nominal amount of Shares subject to the options already granted so far as they remain exercisable; and/or

(2) the subscription price; and/or

(3) the maximum number of Shares referred to in paragraphs (iii) and (iv) above provided that:

(aa) no such alteration shall be made in respect of an issue of Shares or other securities by our Company as consideration in a transaction;

(bb) any such alterations must be made so that each grantee is given the same proportion of the equity capital of our Company as that to which he was previously entitled;

(cc) no such alterations shall be made which would result in the subscription price for a Share being less than its nominal value; and

(dd) any such alterations, save for those made on a capitalisation issue, shall be confirmed by an independent financial adviser or the auditors in writing to our Directors as satisfying the requirements of provisos paragraphs (bb) and (cc) above.

(xviii) Cancellation of options

Our Company may cancel an option granted but not exercised with the approval of our Board. Any options cancelled by approval of our Board cannot be re-granted to the same eligible person.

(xix) Termination of the Share Option Scheme

Our Company, by resolution in general meeting, or our Board may at any time terminate the operation of the Share Option Scheme and in such event no further option will be offered but in all other respects the provision of the Share Option Scheme shall remain in full force and effect. Options granted prior to such termination shall continue to be valid and exercisable in accordance with the Share Option Scheme.

(xx) Rights are personal to grantee

An option shall be personal to the grantee and shall not be assignable nor transferable, and no grantee shall in any way sell, transfer, charge, mortgage, encumber or create any interest (whether legal or beneficial) in favour of any third party over or in relation to any option.

(xxi) Lapse of option

The right to exercise an option (to the extent not already exercised) shall terminate immediately upon the earliest of:

(a) the expiry of the period to be determined and notified by our Board to the grantee;

(b) the expiry of the periods referred to in sub-paragraphs (xii) or (xiii);

(c) the date on which the offer referred to in sub-paragraph (xiv) closes;

(d) subject to the scheme of arrangement becoming effective, the expiry of the period referred to in sub-paragraph (xvi);

(e) the date on which the grantee ceases to be an eligible person by reason of summary dismissal for misconduct or other breach of the terms of his employment or other contract constituting him an eligible person, on which he begins to appear to be unable to pay or has no reasonable prospect of being able to pay his debts or has become insolvent or has made any arrangements or composition with his creditors generally or on which he has been convicted of any criminal offence involving his integrity or honesty;

(f) subject to sub-paragraph (xv), the date of the commencement of the winding-up of our Company;

(g) the date on which the grantee sells, transfers, charges, mortgages, encumbers or creates any interest (whether legal or beneficial) in favour of any third party over or in relation to any option or purport to do any of the foregoing in breach of the Share Option Scheme; and

(h) the date on which our Directors shall at their absolute discretion determine that the grantee (other than an eligible person) or his associate has committed any breach of any contract entered into between the grantee or his associate on the one part and our Group or any Invested Entity on the other part or that the grantee has committed any act of bankruptcy or has become insolvent or is subject to any winding-up, liquidation or analogous proceedings or has made any arrangement or composition with his or her creditors generally. In such event, his options will lapse automatically and will not in any event be exercisable on or after the date on which our Directors have so determined.

(xxii) Alterations to the Share Option Scheme

(1) The Share Option Scheme may be amended or altered in any respect to the extent allowed by the Listing Rules by resolution of our Board except that the following alteration must be approved by a resolution of our Shareholders in general meeting:

(aa) any changes to the definitions of eligible person, grantee and option period;

(bb) any changes to the terms and conditions of the Share Option Scheme to the advantage of the grantees of the options;

(cc) any alteration to the terms and conditions of the Share Option Scheme which are of a material nature;

(dd) any change to the terms of options granted; and

(ee) any change to the authority of our Board in relation to any alteration to the terms of the Share Option Scheme except where such alterations take effect automatically under the existing terms of the Share Option Scheme, provided that: (aa) the amended terms of the Share Option Scheme or the options must comply with Chapter 17 of the Listing Rules; and (bb) no such alteration shall operate to affect adversely the terms of issue of any option granted or agreed to be granted prior to such alteration except with the consent or sanction in writing of such number of grantees as shall together hold options in respect of not less than three-fourths in nominal value of all Shares then subject to the option granted under the Share Option Scheme.

(2) Notwithstanding the other provisions of the Share Option Scheme, the Share Option Scheme may be amended or altered in any respect by resolution of our Board without the approval of the Shareholders or the grantee(s) to the extent such amendment or alteration is required by the Listing Rules or any guidelines issued by the Stock Exchange from time to time.

(3) Our Company must provide to all grantees all details relating to changes in the terms of the Share Option Scheme during the life of the Share Option Scheme immediately upon such changes taking effect.

(xxiii) Conditions

(1) The Share Option Scheme is conditional on:

(aa) the Listing Committee granting approval of the listing of, and permission to deal in, the Shares in issue and any Shares which may fall to be issued pursuant to the exercise of any option;

(bb) the passing of the ordinary resolution by the Hua Xia Shareholders approving the Share Option Scheme; and

(cc) the commencement of dealings in the Shares on the Stock Exchange.

(b) Present status of the Share Option Scheme

(i) Approval and adoption of the rules of the Share Option Scheme

The rules of the Share Option Scheme were approved and adopted by the Hua Xia Shareholders at the extraordinary general meeting of Hua Xia held on 4 September 2013 and were approved and adopted by the written resolution of our sole Shareholder dated 24 September 2013.

(ii) Approval of the Listing Committee required

The Share Option Scheme is conditional, among other matters, on the Listing Committee granting the listing of, and permission to deal in, such number of Shares to be issued pursuant to the exercise of any options which may be granted under the Share Option Scheme.

(iii) Application for approval

Application has been made to the Listing Committee for the listing of and permission to deal in the Shares to be issued pursuant to the exercise of options which may be granted under the Share Option Scheme. The total number of Shares in respect of which options may be granted under the Share Option Scheme and any other share option schemes of our Company shall not exceed 64,840,530 Shares, being 10% of the total number of Shares in issue as at the Listing Date unless our Company obtains the approval of our Shareholders in general meeting for refreshing the said 10% limit under the Share Option Scheme provided that options lapsed in accordance with the terms of this scheme or any other share option schemes of our Company will not be counted for the purpose of calculating the 10% limit mentioned above.

(iv) Grant of options

As at the Latest Practicable Date, no options have been granted or agreed to be granted under the Share Option Scheme.

(v) Value of options

Our Directors consider it inappropriate to disclose the value of options which may be granted under the Share Option Scheme as if they had been granted as at the Latest Practicable Date. Any such valuation will have to be made on the basis of certain option pricing model or other methodology, which depends on various assumptions including, the exercise price, the exercise period, interest rate, expected volatility and other variables. As no options have been granted, certain variables are not available for calculating the value of options. Our Directors believe that any calculation of the value of options as at the Latest Practicable Date based on a number of speculative assumptions would not be meaningful and would be misleading to investors.

(E) OTHER INFORMATION

1. Tax indemnity

Each of Hua Xia, Greatly Wealth, Easeglory, Marshal, Mr. Yung and Mrs. Yung, pursuant to a deed of indemnity referred to the paragraph headed "Summary of material contracts" of this Appendix, has given joint and several indemnities in favour of our Company (for ourselves and as trustee for each of our present subsidiaries) in respect of, among other things, any tax liabilities which might be payable by any member of our Group in respect of any income, profits or gains earned, accrued or received or deemed to have been earned, accrued or received on or before the Listing Date, save:

(a) to the extent that full provision or allowance has been made for such taxation in the audited consolidated accounts of our Group for each of the three years ended 31 March 2013 as set out in Appendix I to this listing document;

(b) to the extent that such taxation arises or is incurred as a result of any retrospective change in law or retrospective increase in tax rates coming into force after the Listing Date;

(c) to the extent that the liability for such taxation is caused by the act or omission of, or transaction voluntarily effected by, any members of our Group which are carried out or effected in the ordinary course of business on or before the date on which the deed of indemnity becomes unconditional; or

(d) to the extent of any provisions or reserve made for taxation in the audited accounts of our Group up to 31 March 2013 which is finally established to be an over-provision or an excessive reserve.

Our Directors have been advised that no material liability for estate duty is likely to fall on our Company or any of its subsidiaries in the Cayman Islands or the BVI or the PRC or Hong Kong, being jurisdictions in which the companies comprising our Group are incorporated.

2. Litigation

Save as disclosed in the section headed "Business – Legal Proceedings" in this listing document, as at the Latest Practicable Date, no member of our Group was engaged in any litigation or arbitration of material importance and no litigation of claim of material importance is known to our Directors to be pending or threatened against any member of our Group.

3. Application for Listing of Shares

The Sponsor has made an application on behalf of our Company to the Stock Exchange for listing of, and permission to deal in, the Shares in issue and to be issued as mentioned herein and any Shares which may fall to be issued pursuant to the exercise of the options which may be granted under the Share Option Scheme.

4. Preliminary and listing expenses

The preliminary expenses relating to the incorporation of our Company are approximately HK$30,000 and are payable by our Company. The estimated expenses relating to the Listing which mainly include professional fees to professional parties are approximately HK$26.5 million and are payable by our Company.

5. Promoter

Our Company has no promoter.

6. Qualifications of experts

The following are the respective qualifications of the experts who have given their opinion or advice which is contained in this listing document:

Name	Qualification
Messis Capital Limited	A corporation licensed to conduct Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO
Conyers Dill & Pearman (Cayman) Limited	Cayman Islands attorney-at-law
HLB Hodgson Impey Cheng	Certified Public Accountants
Fujian Minjiang Lawyer Office	Legal advisers to our Company as to PRC laws
BMS Risk Advisory Services Limited	Internal control review adviser
Dr. William M.F. Wong, S.C.	Senior counsel, barrister-at-law

7. Consents of experts

Each of the experts named in the paragraph headed "Qualifications of experts" under this section in this Appendix has given and has not withdrawn its written consent to the issue of this listing document with the inclusion of its letter, report, and/or valuation certificate opinion and/or references to its name (as the case may be), all of which are dated the date of the listing document, in the form and context in which they respectively appear in the listing document.

None of the experts named in the paragraph headed "Qualifications of experts" under this section in this Appendix has any shareholding in any member of our Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of our Group.

8. Share Registrar

The principal register of members of our Company will be maintained in the Cayman Islands by Royal Bank of Canada Trust Company (Cayman) Limited and a branch register of members of our Company will be maintained in Hong Kong by Tricor Investor Services Limited. Save where our Directors otherwise agree, all transfers and other documents of title to Shares must be lodged for registration with, and registered by, our Company's branch share registrar in Hong Kong and may not be lodged in the Cayman Islands.

9. Taxation of holders of Shares

(a) Hong Kong

Dealings in Shares registered on our Hong Kong register of members will be subject to Hong Kong stamp duty, the current rate charged on each of the purchaser and seller is 0.1% of the consideration or, if higher, the fair value of the Shares being sold or transferred. Profits from dealings in the Shares arising in or derived from Hong Kong may also be subject to Hong Kong profits tax. The Shares are Hong Kong property for the purposes of the Estate Duty Ordinance (Chapter 111 of the Laws of Hong Kong) and, accordingly, Hong Kong estate duty may be payable in respect thereof on the death of an owner of Shares. The Revenue (Abolition of Estate Duty) Ordinance 2005 came into effect on 11 February 2006 in Hong Kong. No Hong Kong estate duty is payable and no estate duty clearance papers are needed for a grant of representation in respect of holders of the Shares whose death occurs on or after 11 February 2006.

(b) The Cayman Islands

Under present Cayman Islands law, transfers and other dispositions of Shares are exempted from Cayman Islands stamp duty.

(c) Consultation with professional advisers

Intending holders of Shares are recommended to consult their professional advisers if they are in any doubt as to the taxation implications of subscribing for, purchasing, holding or disposing of or dealing in Shares or exercising any rights attaching to them. It is emphasised that none of our Company, our Directors or the other parties involved in the Listing can accept responsibility for any tax effect on, or liabilities of, holders of Shares resulting from their subscription for, purchase, holding or disposal of or dealing in Shares or exercising any rights attaching to them.

10. Miscellaneous

(a) Save as disclosed in this listing document:

(i) within the two years immediately preceding the date of this listing document, no share or loan capital of our Company or any of its subsidiaries has been issued or agreed to be issued fully or partly paid either for cash or for a consideration other than cash;

(ii) no share or loan capital of our Company or any of our subsidiaries is under option or is agreed conditionally or unconditionally to be put under option;

(iii) no founders, management or deferred shares of our Company or any of our subsidiaries have been issued or agreed to be issued;

(iv) within the two years immediately preceding the date of this listing document, no commissions, discounts, brokerages or other special terms have been granted in connection with the issue or sale of any share or loan capital of our Company or any of our subsidiaries;

(v) within the two years immediately preceding the date of this listing document, no commission has been paid or payable for subscription agreeing to subscribe, procuring subscription or agreeing to procure subscription of any shares in our Company; and

(vi) there has been no material adverse change in the financial or trading position or prospect of our Group since 31 March 2013 (being the date to which the latest audited combined financial statements of our Group were made).

(b) None of the experts listed in the paragraph headed "Qualifications of experts" under this section in this Appendix:

(i) is interested beneficially or non-beneficially in any shares in any member of our Group; or

(ii) has any right or option (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for any shares in any member of our Group.

(c) No company within our Group is presently listed on any stock exchange or traded on any trading system.

(d) There has not been any interruption in the business of our Group which may have or have had a significant effect on the financial position of our Group in the 12 months immediately preceding the date of this listing document.

(e) Our Company has no outstanding convertible debt securities.

(f) All necessary arrangements have been made to enable the Shares to be admitted into CCASS for clearing and settlement.

Copies of the following documents will be available for inspection at the offices of Michael Li & Co. at 19th Floor, Prosperity Tower, No. 39 Queen's Road Central, Hong Kong during normal business hours up to and including the date which is 14 days from the date of this listing document:

(a) the Memorandum and the Articles;

(b) the Accountants' Report of our Group prepared by HLB Hodgson Impey Cheng, the text of which is set out in Appendix I to this listing document;

(c) the audited financial statements of the companies now comprising our Group for each of the three years ended 31 March 2013 (or for the period since their respective dates of incorporation/establishment where it is shorter);

(d) the letter on the unaudited pro forma financial information of our Group prepared by HLB Hodgson Impey Cheng, the text of which is set out in Appendix II to this listing document;

(e) the report on the unaudited financial information of our Group for the three months ended 30 June 2013 prepared by HLB Hodgson Impey Cheng, the text of which is set out in Appendix III to this listing document;

(f) the letters relating to the profit forecast from HLB Hodgson Impey Cheng and the Sponsor respectively, the texts of which are set out in Appendix IV to this listing document;

(g) the letter prepared by Conyers Dill & Pearman (Cayman) Limited summarising certain aspects of Cayman Islands company law referred to in Appendix V to this listing document;

(h) the Companies Law;

(i) the service contracts referred to in the paragraph headed "Particulars of service contracts" under the section headed "Further Information about the Directors, substantial Shareholders and experts" in Appendix VI to this listing document;

(j) the rules of the Share Option Scheme referred to in the section headed "Share Option Scheme" in Appendix VI to this listing document;

(k) the material contracts referred to in the paragraph headed "Summary of material contracts" under the section headed "Further information about the business of our Group" in Appendix VI to this listing document;

(l) the written consents referred to in the paragraph headed "Consents of experts" under the section headed "Other Information" in Appendix VI to this listing document;

(m) the PRC legal opinion issued by Fujian Minjiang Lawyer Office;

(n) the legal opinion issued by Dr. William M.F. Wong, S.C.; and

(o) the report on internal control review issued by BMS Risk Advisory Services Limited.