New Ray Medicine
新 銳 醫 藥

New Ray Medicine International Holding Limited
新銳醫藥國際控股有限公司

(Incorporated in Bermuda with limited liability)

(Stock Code: 6108)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2017

2017 FINANCIAL HIGHLIGHTS

- The Group recorded a revenue of approximately HK$235.2 million for the year ended 31 December 2017 (2016: approximately HK$225.4 million), representing an increase of approximately 4.4% as compared to 2016.

- The Group's gross profit for the year ended 31 December 2017 was approximately HK$47.3 million (2016: approximately HK$34.4 million), representing an increase of approximately 37.5% as compared to 2016.

- Net loss attributable to owners of the Company for the year ended 31 December 2017 was approximately HK$105.0 million while the net loss attributable to owners of the Company for the year ended 31 December 2016 was approximately HK$20.5 million.

- The Board does not recommend the payment of dividend for the year ended 31 December 2017.

- The Group had a gearing ratio (defined as total bank and other borrowings divided by total equity) of zero as at 31 December 2017 (2016: 3.5%).

The board (the "Board") of directors (the "Directors") of New Ray Medicine International Holding Limited (the "Company") is pleased to announce the audited consolidated results of the Company and its subsidiaries (collectively, the "Group") for the year ended 31 December 2017 (the "Year") together with the comparative figures for 2016, as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2017

	NOTES	**2017** ***HK$'000***	2016 *HK$'000*
Revenue	3	**235,248**	225,388
Cost of sales		**(187,923)**	(190,987)
		47,325	34,401
Other income, gains and losses	5	**(117,714)**	(19,055)
Selling and distribution expenses		**(23,220)**	(21,779)
Administrative expenses		**(20,118)**	(19,606)
Finance costs		**(162)**	(110)
Share of profit of associates		**19,500**	12,441
Loss before tax		**(94,389)**	(13,708)
Income tax expense	6	**(10,623)**	(6,750)
Loss for the year	7	**(105,012)**	(20,458)
Other comprehensive income (expense) for the year			
Items that will not be reclassified to profit or loss:			
Exchange difference arising on translation of functional currency to presentation currency		**25,362**	(27,545)
Share of exchange difference of associates		**2,588**	(1,449)
		27,950	(28,994)
Items that may be subsequently reclassified to profit or loss:			
Fair value loss on available-for-sale investments		**(118,886)**	(24,313)
Reclassification adjustment upon impairment on available-for-sale investments		**131,799**	15,366
Released on disposal of available-for-sale investments		**(12,913)**	6,018
		–	(2,929)
Other comprehensive income (expense) for the year		**27,950**	(31,923)
Total comprehensive expense for the year		**(77,062)**	(52,381)

	NOTES	2017 HK$'000	2016 HK$'000
Loss for the year attributable to owners of the Company		**(105,012)**	(20,458)
Total comprehensive expense for the year attributable to owners of the Company		**(77,062)**	(52,381)
			(Restated)
Loss per share	9		
Basic *(HK cents)*		**(7.22)**	(5.45)
Diluted *(HK cents)*		**(7.22)**	(5.45)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2017

	NOTES	2017 HK$'000	2016 HK$'000
Non-current assets			
Property, plant and equipment		**10,712**	11,860
Prepaid lease payments		**20,059**	19,220
Prepayment for a distribution right		**26,797**	28,619
Intangible asset		**14,515**	15,353
Club debenture		**598**	559
Available-for-sale investments		**89,373**	67,226
Financial asset at fair value through profit or loss		**3,066**	–
Interests in associates		**204,974**	125,958
Interest in a joint venture		**–**	–
Amount due from a joint venture		**–**	–
		370,094	268,795
Current assets			
Inventories		**130,551**	11,291
Trade and other receivables	10	**235,208**	178,999
Prepaid lease payments		**508**	475
Prepayment for a distribution right		**3,828**	3,577
Bank balances and cash		**90,195**	71,599
		460,290	265,941
Current liabilities			
Trade and other payables	11	**92,709**	38,685
Tax payable		**1,121**	473
Bank borrowings	12	**–**	16,769
		93,830	55,927
Net current assets		**366,460**	210,014
Total assets less current liabilities		**736,554**	478,809
Non-current liability			
Deferred tax liabilities		**9,729**	7,122
		726,825	471,687
Capital and reserves			
Share capital	13	**83,592**	20,822
Share premium and reserves		**643,233**	450,865
Equity attributable to owners of the Company		**726,825**	471,687

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

1. GENERAL

New Ray Medicine International Holding Limited was incorporated on 9 August 2012 and registered as an exempted company with limited liability in Bermuda.

The shares of the Company were listed on GEM of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") with effect from 25 October 2013. On 16 June 2015, the Company transferred the listing of its shares from GEM to the Main Board of the Stock Exchange. The Company's registered office is located at Clarendon House, 2 Church Street, Hamilton HM11, Bermuda and its principal place of business in Hong Kong is located at Room 517, 5th Floor, Town Health Technology Centre, 10–12 Yuen Shun Circuit, Siu Lek Yuen, Shatin, New Territories, Hong Kong.

The Company is an investment holding company. Its principal subsidiaries are principally engaged in trading of pharmaceutical products and the provision of marketing and promotion services in the People's Republic of China ("PRC").

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

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

Amendments to HKFRSs that are mandatorily effective for the current year

The Group has applied the following amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") for the first time in the current year:

Amendments to HKAS 7	Disclosure Initiative
Amendments to HKAS 12	Recognition of Deferred Tax Assets for Unrealised Losses
Amendments to HKFRS 12	As part of the Annual Improvements to HKFRSs 2014–2016 Cycle

Except as described below, the application of the amendments to HKFRSs in the current year has had no material impact on the Group's financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

Amendments to HKAS 7 *Disclosure Initiative*

The Group has applied these amendments for the first time in the current year. The amendments require an entity to provide disclosures that enable users of consolidated financial statements to evaluate changes in liabilities arising from financing activities, including both cash and non-cash changes. In addition, the amendments also require disclosures on changes in financial assets if cash flows from those financial assets were, or future cash flows will be, included in cash flows from financing activities.

Specifically, the amendments require the following to be disclosed: (i) changes from financing cash flows; (ii) changes arising from obtaining or losing control of subsidiaries or other businesses; (iii) the effect of changes in foreign exchange rates; (iv) changes in fair values; and (v) other changes.

A reconciliation between the opening and closing balances of these items is provided in the consolidated financial statements. Consistent with the transition provisions of the amendments, the Group has not disclosed comparative information for the prior year. Apart from the additional disclosure, the application of these amendments has had no impact on the Group's consolidated financial statements.

New and amendments to HKFRSs issued but not yet effective

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

HKFRS 9	Financial Instruments[1]
HKFRS 15	Revenue from Contracts with Customers and the related Amendments[1]
HKFRS 16	Leases[2]
HKFRS 17	Insurance Contracts[4]
HK(IFRIC) – Int 22	Foreign Currency Transactions and Advance Consideration[1]
HK(IFRIC) – Int 23	Uncertainty over Income Tax Treatments[2]
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions[1]
Amendments to HKFRS 4	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contract[1]
Amendments to HKFRS 9	Prepayment Features with Negative compensation[2]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venure[3]
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures[2]
Amendments to HKAS 40	Transfers of Investment Property[1]
Amendments to HKAS 28	As part of the Annual Improvements to HKFRSs 2014–2016 Cycle[1]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2015–2017[2]

[1] Effective for annual periods beginning on or after 1 January 2018
[2] Effective for annual periods beginning on or after 1 January 2019
[3] Effective for annual periods beginning on or after a date to be determined
[4] Effective for annual periods beginning on or after 1 January 2021

3. REVENUE

Revenue represents the aggregate of the net amounts received and receivable for the year. An analysis of the Group's revenue for the year is as follows:

	2017	2016
	HK$'000	*HK$'000*
Trading of pharmaceutical products	**231,979**	225,388
Provision of marketing and promotion services	**3,269**	–
	235,248	225,388

4. SEGMENT INFORMATION

The Group is principally engaged in trading of pharmaceutical products and the provision of marketing and promotion services in the PRC. Information reported to the chief operating decision maker (the "CODM"), being the executive Directors of the Company, for the purposes of resources allocation and assessment of segment performance focuses on types of goods delivered.

Specifically, the Group's reportable and operating segments are as follows:

(i) Injection drugs – trading of injection drugs

(ii) Capsule and granule drugs – trading of capsule and granule drugs

(iii) Tablet drugs – trading of tablet drugs

(iv) Marketing and promotion services – provision of marketing and promotion services of drugs

(v) Others – trading of miscellaneous types of goods and drugs, other than injection drugs, capsule and granule drugs and tablet drugs

In prior year, there were four reporting and operating segments, namely injection drugs, capsule and granule drugs, tablet drugs and others. During the year, the CODM reassessed the current business segments.

During the year, the Group engaged in the provision of marketing and promotion service of drugs to the drug suppliers. The CODM considered it as a separate reporting and operating segment, taking into account the Group's future business development. Therefore, the provision of marketing and promotion service becomes the new reporting and operating segment.

Comparative figures have been restated to conform with the current year's presentation.

Segment profit represents the gross profit attributable to each segment. This is the measure reported to the CODM for the purposes of resource allocation and assessment of segment performance.

Segment information about these reportable and operating segments is presented below.

Year ended 31 December 2017

	Injection drugs *HK$'000*	**Capsule and granule drugs** *HK$'000*	**Tablet drugs** *HK$'000*	**Marketing and promotion services** *HK$'000*	**Others** *HK$'000*	**Total** *HK$'000*
REVENUE						
External sales and segment revenue	**227,335**	**1,525**	**3,119**	**3,269**	**–**	**235,248**
RESULT						
Segment profit	**43,718**	**244**	**344**	**3,019**	**–**	**47,325**
Other income, gains and losses						**(117,714)**
Selling and distribution expenses						**(23,220)**
Administrative expenses						**(20,118)**
Share of profit of associates						**19,500**
Finance costs						**(162)**
Loss before tax						**(94,389)**

Year ended 31 December 2016

	Injection drugs *HK$'000*	Capsule and granule drugs *HK$'000*	Tablet drugs *HK$'000*	Marketing and promotion services *HK$'000*	Others *HK$'000*	Total *HK$'000*
REVENUE						
External sales and segment revenue	207,031	15,656	305	–	2,396	225,388
RESULT						
Segment profit	32,598	1,728	18	–	57	34,401
Other income, gains and losses						(19,055)
Selling and distribution expenses						(21,779)
Administrative expenses						(19,606)
Share of profit of an associate						12,441
Finance costs						(110)
Loss before tax						(13,708)

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

Geographical information

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

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

Revenue from major products and services

No analysis of revenue from external customers for each type of products and services is presented as the management of the Group considers the cost to develop it would be excessive.

5. OTHER INCOME, GAINS AND LOSSES

	2017	2016
	HK$'000	*HK$'000*
Incentives received from government grants *(note)*	**138**	836
Dividend income from available-for-sale investments	**740**	583
Compensation from Targeted Profit Requirement	**–**	522
Bank interest income	**526**	376
Other interest income	**173**	–
Sundry income	**532**	14
Impairment loss on available-for-sale investments	**(131,799)**	(15,366)
Realised gain (loss) on disposal of available-for-sale investments	**12,913**	(6,018)
Fair value change on financial asset at fair value through profit or loss	**(2,271)**	–
Exchange gain	**1,335**	–
Loss on disposal of property, plant and equipment	**(1)**	(2)
	(117,714)	(19,055)

Note: During the year ended 31 December 2017, the Group was granted incentives of RMB120,000 (equivalent to approximately HK$138,000) (2016: RMB724,000 (equivalent to approximately HK$836,000)) by local government in Hangzhou, the PRC for the purpose of enhancing the development of the Group. The incentives were recognised in profit or loss immediately as all conditions attached to the incentives had been fulfilled.

6. INCOME TAX EXPENSE

	2017	2016
	HK$'000	*HK$'000*
Current tax:		
PRC Enterprise Income Tax ("EIT")	**8,336**	5,859
Underprovision in prior year:		
PRC EIT	**251**	32
Deferred tax	**2,036**	859
	10,623	6,750

Under the Law of the People's Republic of China on Enterprise Income Tax (the "EIT Law") and Implementation Regulations of the EIT Law, the tax rate of the PRC subsidiaries was 25% for the years ended 31 December 2017 and 2016.

No provision for Hong Kong Profits Tax has been made in these consolidated financial statements as the Group had no assessable profits in Hong Kong for both years.

7. LOSS FOR THE YEAR

	2017	2016
	HK$'000	*HK$'000*
Loss for the year has been arrived at after charging:		
Directors' emoluments, including contributions to retirement benefits scheme and equity-settled share-based payment expenses	**10,079**	10,290
Other staff costs	**10,982**	10,044
Contributions to retirement benefits scheme, excluding directors	**675**	586
Equity-settled share-based payment expenses, excluding directors	**–**	613
Total staff costs	**21,736**	21,533
Depreciation of property, plant and equipment	**1,989**	2,085
Amortisation of prepaid lease payment	**491**	282
Amortisation of prepayment for a distribution right (included in cost of sales)	**3,698**	3,695
Amortisation of intangible assets (included in cost of sales)	**1,849**	1,848
Minimum lease payment under operating leases in respect of rented premises	**655**	894
Auditor's remuneration	**1,500**	1,880
Legal and professional fees (included in administrative expenses)	**7,152**	5,488
Donations	**58**	140
Loss on disposal of property, plant and equipment	**1**	2
Cost of inventories recognised as an expense	**182,376**	185,444

8. DIVIDENDS

No dividend was paid or proposed by the Company for the years ended 31 December 2017 and 2016, nor has any dividend been proposed since the end of the reporting year.

9. LOSS PER SHARE

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

	2017	2016
	HK$'000	*HK$'000*
Loss for the year attributable to owners of the Company for the purposes of basic and diluted loss per share	**(105,012)**	(20,458)

	Number of ordinary shares	
	2017	2016
	'000	*'000*
		(Restated)
Number of shares		
Weighted average number of ordinary shares for the purposes of basic and diluted loss per share	**1,454,383**	375,210

The weighted average number of ordinary shares for the purpose of basic loss per share for the years ended 31 December 2017 and 2016 has been adjusted for the rights issue of 1,249,344,000 ordinary shares ("Rights Shares") on the basis of three Rights Shares for every one existing share in issue held on the record date at the subscription price of HK$0.275 per Rights Share ("Rights Issue"). The completion of the Rights Issue took place on 6 March 2017.

The weighted average number of ordinary shares for the purpose of basic loss per share for the year ended 31 December 2016 was adjusted for the consolidation of shares of the Company effective on 15 March 2016 as disclosed in note 13(a).

The computation of diluted loss per share for the year ended 31 December 2017 and 2016 did not assume the conversion of the Company's outstanding share options since their assumed exercise would result in a decrease in loss per share.

10. TRADE AND OTHER RECEIVABLES

	2017	2016
	HK$'000	*HK$'000*
Trade receivables	**49,280**	51,927
Compensation from Targeted Profit Requirement	**–**	522
Services income receivable from an associate	**1,787**	–
Other prepayments	**1,434**	718
Other deposits	**1,196**	–
Prepayments to suppliers	**359**	20,163
Deposits paid to an associate	**79,302**	–
Deposits paid to suppliers	**83,741**	105,428
Value-added tax recoverable	**17,790**	–
Others	**319**	241
	235,208	178,999

The Group allows an average credit period ranging from 30 days to 90 days to its trade customers. The following is an aged analysis of trade receivables presented based on the dates of goods delivery notes, which approximated the respective revenue recognition dates, at the end of the reporting period.

	2017	2016
	HK$'000	*HK$'000*
Trade receivables:		
0–30 days	**28,007**	23,202
31–60 days	**7,726**	22,093
61–90 days	**550**	4,269
91–180 days	**4,170**	2,363
181–365 days	**8,439**	–
Over 365 days	**388**	–
	49,280	51,927

Before accepting any new customers, the Group assesses the potential customer's credit quality and defines credit limits granted to the customer. Limits attributed to customers are reviewed periodically. Majority of the trade receivables that are neither past due nor impaired have no default payment history. The average age of these receivables as at 31 December 2017 is 79 days (2016: 76 days).

Included in the Group's trade receivable balance are debtors with aggregate carrying amount of approximately HK$12,997,000 (2016: HK$2,363,000) which are past due but not impaired as at 31 December 2017. The Group has not provided for impairment loss because management is of the opinion the credit quality of these customers has not deteriorated. The Group does not hold any collateral over these balances.

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

	2017	2016
	HK$'000	*HK$'000*
91–180 days	**4,170**	2,363
181–365 days	**8,439**	–
Over 365 days	**388**	–
	12,997	2,363

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

11. TRADE AND OTHER PAYABLES

	2017	2016
	HK$'000	*HK$'000*
Trade payables	**82,054**	25,671
Deposits received	**3,813**	2,786
Receipts in advance	**3,231**	3,659
Value-added tax payables	**–**	1,366
Other tax payables	**285**	354
Accruals	**3,326**	4,849
	92,709	38,685

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

	2017	2016
	HK$'000	*HK$'000*
0–30 days	**–**	16,704
31–60 days	**19,588**	180
61–90 days	**33,428**	3,794
Over 90 days	**29,038**	4,993
	82,054	25,671

The credit period on purchase of goods ranges from 30 days to 60 days. For certain suppliers, the Group is required to make prepayments and/or pay deposits to the suppliers based on the supplier agreements for purchase of goods.

12. BANK BORROWINGS

	2017	2016
	HK$'000	*HK$'000*
Secured bank loans	–	16,322
Unsecured bank loan	–	447
	–	16,769
The carrying amounts of the above borrowings are repayable within one year	–	16,769

For the year ended 31 December 2016, the bank borrowings carried fixed interest rates ranged from 5.00% to 7.10% per annum. The borrowings of RMB14,600,000 (equivalent to approximately HK$16,322,000) were secured by buildings and prepaid lease payments with aggregate carrying amounts of HK$26,935,000 as at 31 December 2016. The amount is fully repaid during the year ended 31 December 2017.

All bank borrowings are denominated in the functional currency of the relevant group entity.

13. SHARE CAPITAL OF THE COMPANY

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

	Number of shares	**Amount**
	'000	*HK$'000*
Ordinary shares		
Authorised:		
At 1 January 2016	2,000,000	20,000
Share consolidation *(note a)*	(1,600,000)	–
Increased on 15 June 2016 *(note b)*	400,000	20,000
At 31 December 2016	800,000	40,000
Increased on 26 January 2017 *(note c)*	2,200,000	110,000
At 31 December 2017	**3,000,000**	**150,000**
Issued and fully paid:		
At 1 January 2016	1,446,000	14,460
Share consolidation *(note a)*	(1,156,800)	–
Issue of shares *(notes d & e)*	127,248	6,362
At 31 December 2016	416,448	20,822
Rights issue of shares *(note f)*	1,249,344	62,467
Issue of shares upon exercise of share options *(note g)*	6,055	303
At 31 December 2017	**1,671,847**	**83,592**

Notes:

(a) On 29 January 2016, the Board of Directors proposed that every five issued and unissued existing ordinary shares of par value of HK$0.01 each in the share capital of the Company be consolidated into one consolidated share of par value of HK$0.05 each in the share capital of the Company (the "Share Consolidation"). The Share Consolidation was approved by the shareholders of the Company at the special general meeting of the Company on 14 March 2016. As all the conditions precedent to the Share Consolidation have been fulfilled, the Share Consolidation became effective on 15 March 2016.

(b) On 15 June 2016, the authorised share capital of the Company was increased from HK$20,000,000 to HK$40,000,000 divided into 800,000,000 shares by the creation of additional 400,000,000 new ordinary shares of par value of HK$0.05 each.

(c) On 26 January 2017, the authorised share capital of the Company was increased from HK$40,000,000 to HK$150,000,000 divided into 3,000,000,000 shares by the creation of additional 2,200,000,000 new ordinary shares of par value of HK$0.05 each.

(d) On 28 April 2016, the Company issued 57,840,000 new ordinary shares of par value of HK$0.05 each at the subscription price of HK$0.400 per share by way of placing. The net proceeds from the placing were approximately HK$22,104,000.

(e) On 22 September 2016, the Company issued 69,408,000 new ordinary shares of par value of HK$0.05 each at the subscription price of HK$0.340 per share by way of placing. The net proceeds from the placing were approximately HK$22,551,000.

(f) On 6 March 2017, the Company issued 1,249,344,000 Rights Shares of par value HK$0.05 each at a subscription price of HK$0.275 per Rights Share on the basis of three Rights Shares for every one then existing ordinary share held. The Company raised net proceeds after deduction of expenses of approximately HK$330 million.

Details of the Rights Issue are disclosed in the announcements of the Company dated 9 December 2016, 26 January 2017, 27 January 2017 and 3 March 2017, the circular of the Company dated 10 January 2017, the prospectus of the Company dated 10 February 2017 and the section headed "Rights Issue" in this announcement.

(g) During the year ended 31 December 2017, a former Director and an employee of the Company exercised share options which entitled them to subscribe for an aggregate of 6,054,657 ordinary shares, at an exercise price of HK$0.372 per share (after adjustment for the Rights Issue).

All ordinary shares issued during the year ended 31 December 2017 ranked *pari passu* with the then existing ordinary shares in all respects.

MANAGEMENT DISCUSSION AND ANALYSIS

OVERVIEW

Year 2017 was full of challenges. The macro-economy of the PRC was undergoing a structural reform on the supply side and a milder economic growth was recorded. The pharmaceutical industry in which the Group operates was challenged by the release of a series of policies by the Chinese government to reform its healthcare system, such as the public hospital reform which promotes price cut for drug, the "Two-Invoice System" (兩票制) which aims to reduce and simplify the chain and layers of drug circulation and to control usage of drugs. In particular, the "Two-Invoice" System had been implemented in most of the areas in the PRC in 2017, including our major market, Zhejiang Province. The aforesaid policies put the pharmaceutical enterprises including the Group into a challenging position and affect the profitability of the industry.

Facing the market challenges, the Group has been actively tightening the cooperation with other pharmaceutical distribution companies to acquire new distribution rights and endeavouring to improve its sales and marketing capabilities and make effort to expand its distribution network in order to minimise the impact of unfavourable external factors on the Group.

For the Year, the total revenue of the Group was approximately HK$235.2 million, representing an increase of approximately 4.4% as compared to 2016, the increase in revenue was mainly attributable to the increased sales of products such as Cefamandole Nafate for injection (注射用頭孢孟多酯鈉). Due to the higher proportion of contribution from sale of the pharmaceutical products which had a higher profit margin, the Group's gross profit margin for the Year was approximately 20.1%, which has increased by 4.8 percentage points when compared to 2016. In order to tackle the challenges in the industry, the Group deployed more resources to product promotion and marketing which increased its selling and distribution expenses as compared to 2016. On the other hand, the Group recorded an impairment losses on its available-for-sale investments of approximately HK$131.8 million for the Year, which was mainly related to the investment of the Group in the shares of Town Health International Medical Group Limited ("Town Health"), the shares of which are listed on the Main Board of the Stock Exchange (stock code: 3886). As a result, the Group recorded a loss attributable to owners of the Company of approximately HK$105.0 million for the Year as compared to a loss of approximately HK$20.5 million for the year 2016.

FUTURE PROSPECTS

(i) Industry Outlook

The pharmaceutical distributors in the PRC are facing the headwind amid the healthcare industry reform. The "Two-Invoice System", which only allows a single layer of distributors between the sale of drugs from the manufacturers to the end customers (e.g. hospitals) for the purpose of reducing the drug circulation chain and layers between drug manufacturers and end user medical institutions, has been implemented in most of the provinces in the PRC during the Year. It will substantially increase industry concentration, and as a result, the Group will be in the unfavoured situation to compete with the national leading pharmaceutical distribution companies. In addition, in view of the released results of the price negotiation on the National Reimbursement Drug List (國家醫保藥品目錄) and the results of the provincial tendering in the PRC during the Year, the Group expects that the drug pricing pressure and reimbursement control measures on medical insurance will continue, which may result in loss of sales and drop in the average profit margin of the Group's products.

Although more stringent regulations may create short-term operating pressures, the Chinese government continues to commit resources to and invest in the healthcare sector as part of its long-term healthcare reform plan in the long run. Moreover, the aging population, urbanisation, increase in chronic diseases and household income and the wider coverage of medical insurance in the PRC will drive the demand for medical treatments and use of drugs. The Group believes that the pharmaceutical industry will be fueled with new opportunities and momentum for growth in the long term.

(ii) Growth Strategies

(a) Continue to diversify the existing product portfolio

During the Year, the Group acquired the distribution right of an imported prescription tablet drug, and the distribution right of a new product, namely Dutasteride Soft Capsules (度他雄胺軟膠囊). The Group will seek to acquire distribution rights of new products to enhance its product portfolio. Looking ahead to 2018, the Group will continue to enhance its product portfolio, distribution channels and marketing and promotion strategy in order to achieve a better and sustainable long term development of the Group.

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

The Group has actively identified and hired additional sales and marketing personnel during the Year to strengthen the Group's sales and marketing capabilities. In addition, after the transfer of the Company to the Main Board of The Stock Exchange of Hong Kong Limited ("Stock Exchange") in 2015, the Group is able to leverage on the Group's profile and brand recognition to approach various international pharmaceutical enterprises for business opportunities.

Meanwhile, in order to strengthen the competitive advantages over the Group's competitors in Zhejiang province, the Group will continue to enhance its local distribution network and sales and marketing capabilities in the future. In addition, the Group has been exploring different opportunities to enhance its distribution capabilities.

Besides, the Group will continue to seek potential merger and acquisition opportunities in medical-related industries to diversify its business and create synergy for its future development.

The Group is principally engaged in the trading of pharmaceutical products and the provision of marketing and promotion services in the PRC. The Group will continue to maintain its leading position in the distribution of the prescription drug market in Zhejiang province with its unremitting efforts in business development.

BUSINESS REVIEW

During the Year, the revenue of the Group was mainly contributed by the revenue of (i) the distribution and trading of pharmaceutical products; and (ii) the provision of marketing and promotion services, in the PRC. The pharmaceutical products distributed by the Group are primarily classified as (i) injection drugs; (ii) capsule and granule drugs; (iii) tablet drugs; and (iv) other drugs.

During the Year, the Group's injection drugs have generated a predominant portion of revenue. Other products of the Group include capsule and granule drugs, tablet drugs and other drugs. Those drugs are applied to various diseases or illness such as cardiovascular diseases, cerebrovascular diseases, digestive system illness, rheumatism, urinary system illness, essential hypertension or used as health supplements.

The table below sets out the revenue and gross profit margin of the Group (by form of products and services) for the two years ended 31 December 2017 respectively.

	Revenue contributed from each business segment				**Gross Profit Margin**	
	2016		**2017**		2016	**2017**
	HK$'000	*%*	***HK$'000***	***%***	*%*	***%***
(1) Distribution and trading of pharmaceutical products:						
Injection drugs	207,031	91.9	**227,335**	**98.0**	15.7	**19.2**
Capsule and granule drugs	15,656	6.9	**1,525**	**0.7**	11.0	**16.0**
Tablet drugs	305	0.1	**3,119**	**1.3**	5.9	**11.0**
Other drugs	2,396	1.1	**–**	**–**	2.4	**–**
	225,388	100.0	**231,979**	**100.0**		
(2) Provision of marketing and promotion services	–		**3,269**		N/A	**N/A**
Total	225,388		**235,248**			

(1) Distribution and trading of pharmaceutical products

(i) Injection Drugs

The injection drugs segment generated a revenue of approximately HK$227.3 million for the Year (2016: HK$207.0 million), representing an increase of approximately 9.8% as compared to 2016. The increase was primarily due to the increased sales of products such as Cefamandole Nafate for Injection (注射用頭孢孟多酯鈉) as a result of the increasing effort in sales and marketing capabilities and expansion of the distribution network. However, the increase was partially offset by the decrease in revenue due to the cessation of sales of certain injection products under the impacts brought by the implementation of the Two-Invoice System during the Year. The gross profit margin of the injection drugs increased from 15.7% in 2016 to 19.2% in 2017. Such increase was primarily attributable to the higher proportion of contribution from the sale of the pharmaceutical products which had a higher profit margin during the Year.

(ii) Capsule and Granule Drugs

The capsule and granule drugs segment generated a revenue of approximately HK$1.5 million for the Year (2016: HK$15.7 million), representing a decrease of approximately 90.4% as compared to 2016. Such decrease was primarily attributable to the cessation of sales of the Group's capsule products with relatively low gross profit margin after the price cut for drugs in the public hospitals drug procurement list imposed by several city governments in Zhejiang province since the third quarter of 2015.

(iii) Tablet Drugs

The tablet drugs segment generated a revenue of approximately HK$3.1 million for the Year (2016: HK$0.3 million), which was over 9 times the revenue from the tablet drugs segment for 2016. Such increase was primarily due to the contribution from the sale of an imported prescription tablet drug which the Group obtained its distribution right during the Year.

(iv) Other Drugs

The other drugs segment generated an insignificant amount of revenue during the Year (2016: HK$2.4 million). The decrease was primarily due to the cessation of sales of several vitro diagnostic reagents during the Year.

(2) Provision of marketing and promotion services

The Group has been transforming its business model from the distribution agent model to the marketing and promotion model on certain products of the Group, e.g. the Levocarnitine Injection (左卡尼汀注射液), under the implementation of the "Two-Invoice System" during the Year. The Group's marketing and promotion model involve formulating marketing and promotion strategies and conducting academic promotion programs of the Group's products in return for service income from the suppliers.

Regarding the Group's distribution network, as of 31 December 2017, the Group procured pharmaceutical products throughout the PRC from 16 suppliers and sold pharmaceutical products through a network of 142 distributor customers, of which 24 distributor customers cover Zhejiang province with the remaining 118 distributor customers being spread over 19 regions in the PRC, including Shanghai, Chongqing, Anhui province, Sichuan province, Hebei province and Guangdong province. In addition, the Group successfully promoted its products to over 800 hospitals through the last tendering process in Zhejiang province in 2014. The Group assists its suppliers by providing (i) its industry and market expertise; (ii) the marketing intelligence of the products and the provincial market; and (iii) the competitive price suggestions in relation to the collective tendering process, to the suppliers. The Group's reliable supply network and extensive distributorship network allow its products to penetrate into different niche markets effectively. The Group believes that the assistance provided to the suppliers will strengthen the relationship between the Group and its suppliers and will increase the Group's exposure in China's pharmaceutical market in order to attract reputable suppliers and distributor customers.

FINANCIAL REVIEW

Revenue

The total revenue for the Year was approximately HK$235.2 million, representing an increase of approximately 4.4% from approximately HK$225.4 million for the year ended 31 December 2016. Such increase was mainly attributable to the increased sales of products such as Cefamandole Nafate for injection (注射用頭孢孟多酯鈉) as a result of the increasing effort in sales and marketing capabilities and expansion of the distribution network. However, the increase was partially offset by the decrease in revenue due to the cessation of sales of the Group's products with relatively low gross profit margin and the cessation of sales of certain Group's products under the impacts brought by implementation of the Two-Invoice System during the Year.

Cost of sales

The cost of sales for the Year was approximately HK$187.9 million, representing a decrease of approximately 1.6% from approximately HK$191.0 million for the year ended 31 December 2016. The decrease in cost of sales was mainly resulted from the increase in the proportion of revenue generated from products with relatively high gross profit margin during the Year.

Gross profit and gross profit margin

Gross profit increased by approximately HK$12.9 million, or approximately 37.5%, from approximately HK$34.4 million for the year ended 31 December 2016 to approximately HK$47.3 million for the Year mainly due to the increase in revenue generated from the distribution of the Group's products and the increase in sales of the Group's products with relatively high gross profit margin during the Year. The Group's average gross profit margin increased from approximately 15.3% for the year ended 31 December 2016 to approximately 20.1% for the Year. The increase in gross profit margin was mainly attributable to the higher proportion of contribution from the sales of the injection drugs which had a higher profit margin during the Year.

Other income, gains and losses

The net other losses for the Year were approximately HK$117.7 million (2016: approximately HK$19.1 million). The increase in net other losses was primarily attributable to the increase in the impairment losses on the Group's available-for-sale investments of approximately HK$131.8 million during the Year (2016: HK$15.4 million), which was mostly related to the investment of the Group in the shares of Town Health, the shares of which are listed on the Main Board of the Stock Exchange, despite that the net other losses was partially offset by the exchange gain and realised gain on disposal of the Group's available-for-sale investments during the Year.

Selling and distribution expenses

Selling and distribution expenses for the Year were approximately HK$23.2 million, representing an increase of approximately HK$1.4 million from approximately HK$21.8 million for the year ended 31 December 2016. Such increase was mainly due to the Group's strategy on enhancing its brand name and expanding its market share, distribution network and marketing efforts through (i) increasing the salaries of the selling and marketing staff; (ii) participating in drugs fairs held by PharmChina, a national pharmaceutical trade exhibition, to promote the Group's brand name; (iii) organising and providing training programs and marketing materials to medical practitioners and the Group's distributor customers; and (iv) participating in various marketing activities on Group's products more frequently, especially those for promotion of the Group's products such as Cefamandole Nafate for Injection (注射用頭孢孟多酯鈉).

Administrative expenses

Administrative expenses for the Year were approximately HK$20.1 million, representing an increase of approximately 2.6% from approximately HK$19.6 million for the year ended 31 December 2016. Such increase was mainly due to the increase in legal and professional fees incurred for the Rights Issue and the acquisitions of interests in certain companies during the Year.

Share of profit of associates

Share of profit of associates was approximately HK$19.5 million for the Year, which was mainly contributed by Saike International Medical Group Limited ("Saike International"), and WinHealth International Company Limited ("WinHealth International") associate companies owned as to 50% and 15% by the Group, respectively.

Income tax expenses

Income tax expenses for the Year were approximately HK$10.6 million, representing an increase of approximately 55.9% from approximately HK$6.8 million in 2016. Such increase was primarily due to the increase in taxable profit and the increase in non-deductible expenses for tax purposes which was primarily attributable to the increase in impairment loss on the Group's available-for-sale investments during the Year.

Loss for the Year

Loss for the Year was approximately HK$105.0 million while the net loss attributable to owners of the Company was approximately HK$20.5 million for the year ended 31 December 2016. The increase in loss for the Year was primarily due to (i) the impairment losses on the Group's available-for-sale investments of approximately HK$131.8 million for the Year (2016: HK$15.4 million), which was mostly related to the investment of the Group in the shares of Town Health; (ii) the increase in selling and distribution expenses of the Group by approximately HK$1.4 million for the Year as compared to 2016; and (iii) the income tax expenses of approximately HK$10.6 million for the Year mainly due to the increase in taxable profit and the increase in non-deductible expenses for tax purpose, despite that the loss was partially offset by (i) the increase in gross profit due to the increased sales of products such as Cefamandole Nafate for injection (注射用頭孢孟多酯鈉); (ii) the increase in share of profit of associates of approximately HK$7.1 million as compared to 2016, which was mainly contributed by Saike International and WinHealth International associate companies owned as to 50% and 15% by the Group, respectively; and (iii) the realised gain on disposal of the Group's available-for-sale investments of approximately HK$12.9 million during the Year.

Available-for-sale investments

The Group's available-for-sale investments include (i) equity securities listed in Hong Kong as stated at fair value which have been determined based on the quoted market prices available on the Stock Exchange, and (ii) investments in unlisted equity securities issued by private entities incorporated in the Cayman Islands with limited liability. Investments in unlisted equity securities are measured at cost less impairment at the end of the reporting period because the range of reasonable fair value estimates is so significant that the Directors are of the opinion that their fair values cannot be measured reliably.

Equity securities listed in Hong Kong

As at 31 December 2017, the Group's securities investment in the shares of Town Health (a company whose shares are listed on the Main Board of the Stock Exchange with stock code: 3886) with a total carrying amount of HK$16.9 million, accounted for approximately 84% of the total carrying amount of the Group's listed available-for-sale investments. On 27 November 2017, the Securities and Futures Commission ("SFC") has, pursuant to Section 8(1) of the Securities and Futures (Stock Market Listing) Rules (Cap. 571V, the Laws of Hong Kong), directed the Stock Exchange to suspend trading in the shares of Town Health ("TH Shares") with effect from 9:00 a.m. on 27 November 2017 as it appeared to the SFC that, among other things, Town Health's interim report for the six months ended 30 June 2016 published on 7 September 2016 and Town Health's annual report for the year ended 31 December 2016 published on 27 April 2017 included materially false, incomplete or misleading information. As at the date of this announcement, the trading of the TH Shares remained suspended. After considering the fact that the trading in the shares of Town Health on the Stock Exchange has been suspended by the SFC and the time when it can resume trading in its shares remains uncertain, the Group recognised an impairment loss on its investments in Town Health of approximately HK$127.5 million for the Year based on the valuation on the fair value of the Group's investment in the shares Town Health ("TH Shares") as at 31 December 2017 prepared by an independent valuer, in which the fair value of the TH Shares as at 31 December 2017 was estimated under the market approach method by reference to Price/Sales multiple and Enterprise value/EBITDA multiple of companies in similar industry. As at 31 December 2017 and the date of this announcement, the Group held 120,000,000 TH Shares, representing approximately 1.59% of the then total issued share capital of Town Health. During the Year, the Group received dividend income of approximately HK$246,000 from this investment.

During the Year, the Group disposed of certain equity securities listed in Hong Kong. As a result, the realised gain on disposal of the Group's available-for-sale investments of approximately HK$12.9 million previously accumulated in the investment revaluation reserve is reclassified to profit or loss accordingly. Besides, due to a significant decline in the fair value of certain listed investments to prices below their costs, impairment losses amounting to approximately HK$131.8 million (inclusive of the impairment loss on the Group's investments in Town Health of approximately HK$127.5 million) have been recognised during the Year which were reclassified from the investment revaluation reserve. The Group will continue to monitor its investments cautiously in view of recent uncertain market conditions.

Investments in unlisted equity securities

As at 31 December 2017, the Group held approximately 14% of HCMPS Healthcare Holdings Limited ("HCMPS") (formerly known as C&C International Healthcare Group Limited) with an investment amount of approximately HK$69,188,000. HCMPS and its subsidiaries are principally engaged in the provision of contracted medical schemes and medical services. Based on the latest unaudited combined financial information of HCMPS for the year ended 31 December 2017, it recorded an unaudited combined profit of approximately HK$30 million. The Group is optimistic about the prospects of HCMPS because the Group believes that the aging population and the increasing demand for corporate medical solutions services in Hong Kong are favourable to the continuing development of HCMPS' business in the long term.

Liquidity, Financial Resources and Capital Structure

The capital structure of the Group consists of cash and cash equivalents, bank borrowings and equity attributable to owners of the Company, comprising share capital, various reserves and retained profits.

During the Year, the long-term funding and working capital required by the Group were primarily derived from the income generated from its core business operations, bank borrowings and the net proceeds from the Rights Issue conducted by the Company, and were used to settle the suppliers' trade payable and the initial deposit for obtaining distribution rights of new products and renewal of distribution rights of existing products. The Group's liquidity position was well-managed in the Year.

The Group's gearing ratio (defined as total bank and other borrowings divided by total equity) was zero as at 31 December 2017 (2016: 3.5%).

The Group had net cash (total cash and cash equivalents less other borrowings) of approximately HK$90.2 million as at 31 December 2017 (2016: approximately HK$54.8 million). The Group's cash and cash equivalents amounted to approximately HK$90.2 million in total as at 31 December 2017 (2016: HK$71.6 million), among which approximately 15% (2016: 12%) were denominated in Hong Kong dollars and 85% (2016: 88%) were denominated in Renminbi ("RMB"). The Group did not have any bank loan as at 31 December 2017 (2016: approximately HK$16.8 million).

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

Foreign currency risk

The Group carries out its business in the PRC and most of the transactions are denominated in RMB. The Group has foreign currency bank balances which expose the Group to foreign currency risk. To mitigate the foreign currency risk, the Group continually assesses and monitors the exposure of the exchange rate fluctuations. During the Year, the Directors did not consider it necessary to adopt a foreign currency hedging policy as the potential impact on the profit or loss of the Group due to the exchange rate fluctuations was immaterial.

Employee Information

As at 31 December 2017, the Group had 50 employees (2016: 53). Staff costs for the Year, including Directors' remuneration, amounted to approximately HK$21.7 million (2016: HK$21.5 million). The Group's remuneration policy is based on the positions, duties and performances of the employees. The employees' remunerations vary according to their positions, which include salaries, overtime allowances, bonuses and/or various subsidies. The Group offers a comprehensive and competitive remuneration and benefits package to all its employees. In addition, the Group has adopted a share option scheme for the purpose of providing incentives and rewards to eligible persons who contribute to the success of the Group's operations.

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

Contingent Liabilities

As at 31 December 2017, the Group did not have any significant contingent liabilities.

Material Acquisitions or Disposals and Significant Investments

Acquisition of HCMPS

On 18 October 2016 and 30 November 2016, Major Bright Holdings Limited ("Major Bright"), a wholly-owned subsidiary of the Company, as purchaser, and the Company as guarantor entered into a sale and purchase agreement and a supplemental agreement respectively with JFA Capital, an independent third party, for the acquisition of an aggregate of 26% of the issued share capital of HCMPS in two tranches. The first tranche acquisition involved the acquisition of 9% of the issued share capital of HCMPS by the Group at a consideration of HK$43,687,800 in cash. The second tranche acquisition involved the acquisition of 17% of the issued share capital of HCMPS by the Group at a consideration of HK$82,521,400 in cash. Completion of the first tranche acquisition of 9% of the issued share capital of HCMPS took place on 31 October 2016. On 13 March 2017, Major Bright, the Company and JFA Capital entered into a deed of termination pursuant to which the parties agreed not to proceed with the second tranche acquisition of 17% of the issued share capital of HCMPS from JFA Capital since it was unlikely for the Company to obtain its shareholders' approval, being one of the conditions precedent to the second tranche acquisition by the long stop date of 31 March 2017, and the parties could not come to a consensus as to the extension of the long stop date.

On 16 March 2017, Major Bright, as purchaser, entered into a sale and purchase agreement with Eagle Networks Company Limited (鷹匯網絡有限公司), an independent third party, for the acquisition of 5% of the issued share capital of HCMPS at a consideration of HK$25,500,000 in cash. The completion of the acquisition took place on the same day. Each of (i) the acquisition of 5% interest in HCMPS, standing alone; and (ii) the acquisition of 5% interest in HCMPS and the first tranche acquisition of 9% interest in HCMPS by the Group in October 2016, in aggregate, constituted a discloseable transaction of the Company and was therefore subject to the notification and announcement requirements under Chapter 14 of the Rules Governing the Listing of Securities on the Stock Exchange ("Listing Rules").

The Group held 14% of the issued share capital of HCMPS as at 31 December 2017 and the date of this announcement. Such investment in HCMPS was accounted for as an available-for-sale financial asset of the Group in its financial statements. For further details, please refer to the announcements of the Company dated 18 October 2016, 30 November 2016, 30 December 2016, 26 January 2017, 28 February 2017, 13 March 2017 and 16 March 2017.

Acquisition and Disposal of China Biotech

On 2 December 2016, China New Rich Medicine Holding Co. Limited (中國新銳醫藥控股有限公司) ("China New Rich"), a wholly-owned subsidiary of the Company, entered into a sale and purchase agreement with China Wah Yan Healthcare Limited, the shares of which are listed on the Main Board of the Stock Exchange (Stock Code: 648), to acquire approximately 29% of the issued shares of Rui Kang Pharmaceutical Group Investments Limited (now known as China Biotech Services Holdings Limited) ("China Biotech"), a company whose shares are listed on GEM of the Stock Exchange (stock code: 8037) in two tranches. China Biotech and its subsidiaries were then principally engaged in (i) manufacture, research and development, sale and distribution of health related and pharmaceutical products in the PRC and Hong Kong; (ii) provision of medical laboratory testing services and health check services in Hong Kong; and (iii) trading of securities in Hong Kong. The first tranche acquisition involved the acquisition of approximately 11% of the issued share capital of China Biotech by the Group at a consideration of HK$33,362,160 in cash. The second tranche acquisition involved the acquisition of approximately 18% of the issued share capital of China Biotech by the Group at a consideration of HK$54,610,816 in cash. As at the date of the sale and purchase agreement, China Wah Yan Healthcare Limited and its subsidiaries held 34,356,960 shares of the Company, representing 8.25% of the then issued share capital of the Company.

The first tranche acquisition, standing alone, constituted a discloseable transaction of the Company and was subject to the notification and announcement requirements under Chapter 14 of the Listing Rules. Each of (i) the second tranche acquisition, standing alone, and (ii) the first tranche acquisition and the second tranche acquisition, in aggregate, constituted a major transaction of the Company and was subject to the notification, announcement and shareholders' approval requirements under Chapter 14 of the Listing Rules. Completion of the first tranche acquisition took place in January 2017.

The Group and China Wah Yan Healthcare Limited entered into a deed of termination on 27 March 2017 and agreed not to proceed with the second tranche acquisition of approximately 18% of the issued shares of China Biotech since it was unlikely for the Company and China Wah Yan Healthcare Limited to obtain their respective shareholders' approvals, being the conditions precedent to the second tranche acquisition by the long stop date of 30 April 2017, and the parties could not come to a consensus as to the extension of the long stop date. For further details, please refer to the announcements of the Company dated 2 December 2016 and 27 March 2017.

Immediately after completion of the first tranche acquisition, the Group held approximately 11% of the issued shares of China Biotech. Such investment in China Biotech was accounted for as an available-for-sale financial asset of the Group in its financial statements.

On 24 August 2017, China New Rich accepted the unconditional mandatory general cash offer ("Offer") made by Guoyuan Capital (Hong Kong) Limited and Zhaobangji International Capital Limited for and on behalf of Genius Lead Limited ("Offeror"), an independent third party, pursuant to which China New Rich tendered to the Offeror all the 86,700,000 shares of China Biotech held by it, at the price of HK$0.51 per share of China Biotech, for a total consideration of HK$44,217,000. The disposal of 86,700,000 shares of China Biotech by the Group by way of acceptance of the Offer constituted a discloseable transaction of the Company and was subject to the notification and announcement requirements under Chapter 14 of the Listing Rules. Completion of the disposal took place on 28 August 2017. After the completion of such disposal, the Group ceased to have any interest in China Biotech. For further details of the disposal, please refer to the announcement of the Company dated 24 August 2017.

Acquisition of WinHealth International

On 5 December 2016 and 14 March 2017, the Group entered into a sale and purchase agreement and a supplemental agreement with Mr. Wang Wei ("Mr. Wang"), an independent third party, for the acquisition of 15% of the issued share capital of WinHealth International (formerly known as Eternal Charm International Limited) at a consideration of RMB47.25 million (equivalent to approximately HK$53.4 million) in cash (subject to downward adjustments after completion). Pursuant to the sale and purchase agreement (as amended and supplemented by the supplemental agreement), subject to completion, the consideration shall be subject to downward adjustments (if applicable) as follows:

(i) in the event that the audited consolidated net operating profit of WinHealth International after taxation for the year ending 31 December 2017 ("WinHealth International 2017 Audited Profit") is less than RMB35.0 million ("WinHealth International 2017 Target Profit"), Mr. Wang shall pay to the Group a sum in cash equal to 15% of the difference between the WinHealth International 2017 Target Profit and the WinHealth International 2017 Audited Profit;

(ii) in the event that the audited consolidated net operating profit of WinHealth International after taxation for the year ending 31 December 2018 ("WinHealth International 2018 Audited Profit") is less than RMB38.5 million ("WinHealth International 2018 Target Profit"), Mr. Wang shall pay to the Group a sum in cash equal to 15% of the difference between the WinHealth International 2018 Target Profit and the WinHealth International 2018 Audited Profit; and

(iii) in the event that the audited consolidated net operating profit of WinHealth International after taxation for the year ending 31 December 2019 ("WinHealth International 2019 Audited Profit") is less than RMB42.35 million ("WinHealth International 2019 Target Profit"), Mr. Wang shall pay to the Group a sum in cash equal to 15% of the difference between the WinHealth International 2019 Target Profit and the WinHealth International 2019 Audited Profit.

For the purpose of calculating the above adjustments, where the audited consolidated net operating profit of WinHealth International after taxation for the relevant financial year is a negative figure, such profit after taxation shall remain as a negative figure.

Completion of the acquisition of 15% of the issued share capital of WinHealth International took place on 17 March 2017. WinHealth International and its subsidiaries are principally engaged in the distribution of pharmaceutical products in the PRC and their management team has extensive experience in obtaining exclusive distribution rights of imported prescription drugs in the PRC.

The Group held 15% of the issued share capital of WinHealth International as at 31 December 2017 and the date of this announcement. Such investment in WinHealth International was accounted for as an associate of the Group in its financial statements. For further details, please refer to the announcements of the Company dated 5 December 2016 and 14 March 2017.

Based on the audited consolidated financial statements of WinHealth International for the year ended 31 December 2017, the WinHealth International 2017 Audited Profit was approximately RMB36.4 million. Therefore, no adjustment would be made for the Year.

Acquisition of shares in Town Health

On 10 April 2017, the Group acquired an aggregate of 120,000,000 shares of Town Health, representing approximately 1.55% of the then total issued share capital of Town Health, for an aggregate consideration of HK$144.4 million (excluding stamp duty and related expenses) at an average price of HK$1.2 per TH Share in open market ("TH Shares Acquisition"). Town Health is a company incorporated in the Cayman Islands and continued in Bermuda with limited liability, the shares of which are listed on the Main Board of the Stock Exchange (Stock Code: 3886). Town Health and its subsidiaries (collectively, the "TH Group") are principally engaged in healthcare business in Hong Kong, which comprises managed care, medical and dental clinics operation and provision of beauty and cosmetic medical services. The other major business segment of the TH Group is healthcare businesses in the PRC, which include the provision of hospital and clinic management services. The TH Group is also involved in investment businesses including direct investment in the healthcare sector and investment in securities and properties. Immediately before the TH Shares Acquisition, the Company did not hold any TH Shares. The TH Shares Acquisition constituted a disclosable transaction of the Company and was therefore subject to the notification and announcement requirements under Chapter 14 of the Listing Rules. For further details, please refer to the announcement of the Company dated 10 April 2017.

As at 31 December 2017 and the date of this announcement, the Group held 120,000,000 TH Shares, representing approximately 1.59% of the then total issued share capital of Town Health. Such investment in Town Health is accounted for as an available-for-sale financial asset of the Group in its financial statements.

Save as aforesaid, the Group had no material acquisition or disposal during the Year.

Investment in Saike International

In March 2015, the Group entered into a sale and purchase agreement with Ms. Zhao Lei ("Ms. Zhao"), an independent third party, for the acquisition of 50% equity interest in Saike International ("Saike Sale Shares") at a consideration of RMB95 million in cash (subject to downward adjustments). Pursuant to the sale and purchase agreement for the acquisition of 50% equity interest in Saike International, the consideration shall be subject to downward adjustments (if applicable) as follows:

(i) in the event that the audited consolidated net profits of Saike International after taxation for the year ending 31 December 2015 ("Saike 2015 Audited Profits") are less than RMB19 million ("Saike 2015 Target Profits"), Ms. Zhao shall pay to the Group a sum in cash equal to the difference between the Saike 2015 Target Profits and the Saike 2015 Audited Profits;

(ii) in the event that the audited consolidated net profits of Saike International after taxation for the year ending 31 December 2016 ("Saike 2016 Audited Profits") are less than RMB22 million ("Saike 2016 Target Profits"), Ms. Zhao shall pay to the Group a sum in cash equal to the difference between the Saike 2016 Target Profits and the Saike 2016 Audited Profits; and

(iii) in the event that the audited consolidated net profits of Saike International after taxation for the year ending 31 December 2017 ("Saike 2017 Audited Profits") are less than RMB25 million ("Saike 2017 Target Profits"), Ms. Zhao shall pay to the Group a sum in cash equal to the difference between the Saike 2017 Target Profits and the Saike 2017 Audited Profits.

Based on the audited consolidated financial statements of Saike International for the years ended 31 December 2015, 2016 and 2017, the Saike 2015 Audited Profits, the Saike 2016 Audited Profits and the Saike 2017 Audited Profit were approximately RMB19.3 million, RMB21.5 million and RMB26.7 million. Therefore, no adjustment would be made for 2015 and 2017. For 2016, Mr. Zhao paid to the Group a sum in cash equalling the difference between the Saike 2016 Target Profits and the Saike 2016 Audited Profits, which was approximately RMB0.5 million.

Saike International and its subsidiaries are principally engaged in the trading of medical devices and equipment in the PRC. As at 31 December 2017 and the date of this announcement, the Group held 50% equity interest in Saike International. Such investment in Saike International was accounted for as an associate of the Group in its financial statements.

Capital Structure

The capital of the Company comprises only ordinary shares. As at 31 December 2017, the Group had shareholders' equity of approximately HK$726.8 million (2016: HK$471.7 million).

Increase in authorised share capital

As disclosed in the Company's circular dated 10 January 2017, the Board proposed to increase the authorised share capital of the Company from HK$40,000,000 to HK$150,000,000 divided into 3,000,000,000 shares of HK$0.05 each by the creation of an additional 2,200,000,000 new shares of HK$0.05 each which was conditional upon the passing of an ordinary resolution at a special general meeting of the Company. On 26 January 2017, the ordinary resolution to approve the increase in authorised share capital was duly passed by the shareholders of the Company by way of poll at the special general meeting of the Company.

Rights Issue

On 9 December 2016, the Company announced to raise approximately HK$343.6 million before expenses on the basis of three Rights Shares for every one existing share in issue held on the record date at the subscription price of HK$0.275 per Rights Share by way of the Rights Issue of 1,249,344,000 ordinary shares. The subscription price of HK$0.275 per Rights Share represented a discount of approximately 31.25% to the closing price of HK$0.400 per share of the Company on 9 December 2016, being the date of the underwriting agreement. The Directors considered that the Rights Issue would provide funding to the Group for financing investments which would diversify the Group's investment portfolio and bring new income source to the Group or foster a closer business relationship between the Group and the invested entities so as to enable the two groups complement each other with a view to bringing more benefits to each other. The Rights Issue was approved by the independent shareholders of the Company at the special general meeting of the Company held on 26 January 2017.

The completion of the Rights Issue took place on 6 March 2017. 1,249,344,000 ordinary shares of the Company were allotted and issued pursuant to the Rights Issue and the net proceeds after deduction of expenses from the Rights Issue were approximately HK$330.0 million. On this basis, the net issue price per Rights Share was approximately HK$0.264 and the aggregate nominal value of the Rights Shares was HK$62,467,200. Details of the Rights Issue are set out in the Company's announcements dated 9 December 2016, 26 January 2017, 27 January 2017 and 3 March 2017, the circular of the Company dated 10 January 2017 and the prospectus of the Company dated 10 February 2017.

The actual use of the net proceeds from the Rights Issue as at 31 December 2017 was as follows:

Intended use of proceeds	**Actual use of proceeds as at 31 December 2017**
Net proceeds from the Rights Issue of approximately HK$330.0 million were intended to be used in the following manner:	
(1) approximately HK$143.2 million for the possible acquisition of interest in HCMPS and/or other potential acquisitions of medical and healthcare related business when opportunities arise *(Notes a & b)*	approximately HK$25.5 million has been utilised for the acquisition of 5% of the issued share capital of HCMPS at a consideration of HK$25.5 million in cash approximately HK$117.7 million has been utilised for the partial settlement of the consideration for the acquisition of approximately 1.55% of the issued share capital of Town Health, the issued shares of which are listed on the Main Board of the Stock Exchange (Stock Code: 3886) at a total consideration of HK$144 million (excluding stamp duty and related expenses) in open market in April 2017
(2) approximately HK$28.8 million for the acquisition of 11% of the issued share capital of China Biotech *(Note b)*	approximately HK$28.8 million has been utilised for the partial settlement of the consideration for the acquisition of approximately 11% of the issued share capital of China Biotech, the issued shares of which are listed on GEM (Stock Code: 8037) at a total consideration of approximately HK$33.4 million in cash
(3) approximately HK$43.0 million for the acquisition of 12% of the issued share capital of WinHealth International	approximately HK$53.4 million (of which HK$10.4 million was from the Relevant Proceeds) has been utilised for the acquisition of 15% of the issued share capital of WinHealth International at a consideration of RMB47.25 million (equivalent to approximately HK$53.4 million) in cash
(4) approximately HK$17.0 million for the repayment of the Group's bank borrowings in the PRC	approximately HK$17.0 million has been utilised for the repayment of the bank borrowing of a subsidiary of the Company in the PRC

Intended use of proceeds	Actual use of proceeds as at 31 December 2017
(5) approximately HK$40.0 million for expanding the product range of imported prescription drugs	approximately HK$40.0 million has been utilised for the payment of the distribution right of an imported prescription tablet drug in the PRC
(6) approximately HK$8.0 million for improving marketing, sales and promotional capabilities	approximately HK$4.4 million has been utilised for the improving marketing, sales and promotional capabilities
(7) approximately HK$50.0 million for the acquisition of the equity interests (in part or in full) of pharmaceutical companies which are principally engaged in overseas pharmaceutical business in the PRC apart from the acquisition of 12% of the issued share capital of WinHealth International ("Relevant Proceeds")	approximately HK$10.4 million has been utilised for the partial settlement of the consideration for the acquisition of 15% of the issued share capital of WinHealth International as described above
	Total unutilised net proceeds of approximately HK$43.2 million remained deposited in the bank accounts of the Group

Note a: It was disclosed in the prospectus of the Company in relation to the Rights Issue dated 10 February 2017 that, among others, the Company intended to apply HK$83.5 million for the second tranche acquisition of approximately 17% of the issued share capital of HCMPS in accordance with the sale and purchase agreement dated 18 October 2016 and the supplemental agreement dated 30 November 2016 entered into by and among Major Bright, the Company and JFA Capital. As at 13 March 2017, as it was unlikely for the Company to obtain the shareholder's approval on or before the long stop date of 31 March 2017 for the second tranche acquisition and the parties could not come to a consensus as to the extension of the long stop date, the parties agreed not to proceed with the second tranche acquisition and the Board decided to use the said HK$83.5 million to the possible acquisition of interest in HCMPS and/or other potential acquisitions of medical and healthcare related business when opportunities arose. Details of the change of use of proceeds are disclosed in the Company's announcement dated 13 March 2017.

Note b: It was disclosed in the prospectus of the Company in relation to the Rights Issue dated 10 February 2017 that, among others, the Company intended to apply HK$88.5 million for the acquisition of approximately 29% of the issued share capital of China Biotech in two tranches. On 16 March 2017, approximately HK$28.8 million of the net proceeds were used for financing the first tranche acquisition of approximately 11% of the issued share capital of China Biotech and the related professional fees. As at 27 March 2017, as it was unlikely for the Company and the vendor to obtain their respective shareholder's approvals on or before the long stop date of 30 April 2017 for the second tranche acquisition and the parties could not come to a consensus as to the extension of the long stop date, the parties agreed not to proceed with the second tranche acquisition and the Board decided to apply the remaining proceeds of HK$59.7 million to other potential acquisitions of medical and healthcare related business when opportunities arose. Details of the change of use of proceeds are disclosed in the Company's announcement dated 27 March 2017.

Pledge of assets

As at 31 December 2017, the Group pledged the buildings and prepaid lease payments with the aggregate carrying value of approximately HK$26.8 million to secure general banking facilities granted to the Group (2016: HK$26.9 million).

Future plans for material investments

Save as disclosed in this announcement, the Group currently does not have other future plan for material investments.

Suspension of trading in shares

Trading in the Company's shares has been halted with effect from 9:00 a.m. on 6 October 2017. The Company received a letter from the SFC dated 6 October 2017 in relation to a direction under Section 8(1) of the Securities and Futures (Stock Market Listing) Rules (Cap 571V, the laws of Hong Kong), pursuant to which the SFC directed the Stock Exchange to suspend trading in the securities of the Company as it appeared to the SFC that the Company's announcements dated 14 February 2015, 20 March 2015, 26 June 2015 and 16 July 2015 in relation to the acquisition of 50% interest in Saike International and the Company's announcements dated 5 December 2016 and 14 March 2017 in relation to the acquisition of 15% interest in WinHealth International may have contained materially false, incomplete or misleading information. In view of the suspension, on 12 January 2018, the Board has established an independent board committee ("IBC") comprising two independent non-executive Directors, namely Ms. Li Sin Ming, Ivy and Mr. Leung Chi Kin with Ms. Li Sin Ming, Ivy being appointed as the chairman of the IBC. The principal duties of the IBC include (i) to conduct an independent investigation into the issues relating to the above acquisitions and to obtain external legal or other independent professional advice if required; and (ii) deal with the issues and matters in relation to the suspension. As at the date of this announcement, the trading of shares of the Company continues to be suspended. For further details, please refer to the announcement of the Company dated 6 October 2017.

CORPORATE GOVERNANCE

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

The Company has adopted its own code of corporate governance based on the principles and code provisions as set out in the Corporate Governance Code contained in Appendix 14 to the Listing Rules ("CG Code"). Code provision A.2.7 of the CG Code requires that the Chairman of the Board to hold meetings at least annually with the non-executive Directors (including the independent non-executive Directors) without the executive Directors present. The Chairman of the Board during the Year, Mr. Zhou Ling, was himself an executive Director and as such compliance with this code provision was infeasible. Save as disclosed above, the Company had complied with the CG Code to the extent applicable and permissible to the Company during the Year.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities during the Year.

DIVIDEND

The Board does not recommend the payment of a final dividend for the Year.

ANNUAL GENERAL MEETING

The annual general meeting of the Company will be held on Thursday, 21 June 2018 at 9:00 a.m. in Hong Kong ("AGM"). A notice convening the AGM will be issued and disseminated to the shareholders of the Company in due course.

SUMMARY OF THE INDEPENDENT AUDITORS' REPORT

The Summary of the Independent Auditors' Report of Moore Stephens CPA Limited, the external auditors of the Company, is presented below:

OUR QUALIFIED OPINION

In our opinion, except for the possible effects of the matter described in the Basis for Qualified Opinion section of our report, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2017, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR QUALIFIED OPINION

The Company made an announcement that the Securities and Futures Commission ("SFC") has on 6 October 2017 issued a direction to suspend trading in the shares of the Company with effect from 6 October 2017 (the "Suspension") as it appears to the SFC that, inter alia, the Company's announcements in relation to the acquisition of 50% interest in Saike International Medical Group Limited ("Saike International") and the Company's announcements in relation to the acquisition of 15% interest in Eternal Charm International Limited ("WinHealth International") (the "Acquisitions") may have contained materially false, incomplete or misleading information.

On 12 January 2018, the Company announced that in view of the Suspension, the Board of Directors of the Company has established an independent board committee ("IBC") comprising two independent nonexecutive Directors, whose scope of the primary duties includes:

(i) conduct an independent investigation into the issues relating to the Acquisitions and to obtain external legal or other independent professional advice if required; and

(ii) deal with the issues and matters in relation to the Suspension.

Up to the date of our audit report, the Company has not made further announcement to provide update on the progress of the investigation conducted by the IBC as the investigation has not been completed. The investigation into the issues relating to the Acquisitions, which is still on-going, did not result in conclusive finding nor conclusion.

The Acquisitions relate to sale and purchase agreements which the Group entered into with purportedly independent third parties to acquire two associates, Saike International and WinHealth International, which were completed in 2015 and 2017 respectively and the cost of acquisition amounted to RMB95,000,000 and RMB47,250,000, respectively.

As at 31 December 2017, the carrying amount of the Group's interest in Saike International is HK$149,379,000 (31 December 2016: HK$125,958,000) and the carrying amount of the Group's interest in WinHealth International is HK$55,595,000.

As the investigation into the issues relating to the Acquisitions, which is still on-going, did not result in conclusive finding nor conclusion, we have not been able to obtain sufficient appropriate audit evidence to satisfy ourselves as to the matters which are the subject matters of the investigation, including whether the Acquisitions were in fact related party transactions.

The scope limitations described above also impact on our ability to determine the reliability of the management representations received by us concerning the completeness of disclosures of related party transactions and balances in the consolidated financial statements. These representations were relied upon by us for our audit tests performed on these disclosures.

In view of the above, we were unable to determine whether any adjustments to the disclosures provided in the consolidated financial statements concerning related party transactions and balances were necessary in order for the disclosures to comply with the disclosure requirements set out in HKAS 24 "Related Party Disclosures" including whether the Acquisitions as well as the transactions as disclosed in note 19 to the consolidated financial statements, were in fact related parties transactions.

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

OTHER MATTER

The consolidated financial statements of the Group for the year ended 31 December 2016 were audited by another auditor who expressed an unmodified opinion on those statements on 30 March 2017.

REVIEW BY AUDIT COMMITTEE

The audited consolidated financial statements of the Company for the Year have been reviewed by the audit committee of the Board.

By order of the Board
New Ray Medicine International Holding Limited
Zhou Ling
Chairman & Executive Director

Hong Kong, 29 March 2018

As of the date of this announcement, the executive Directors are Mr. Zhou Ling and Ms. Yang Fang; and the independent non-executive Directors are Mr. Ho Hau Cheung, SBS, MH, Mr. Leung Chi Kin and Ms. Li Sin Ming, Ivy.