New Ray Medicine
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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 2018

2018 FINANCIAL HIGHLIGHTS

- The Group recorded a revenue of approximately HK$372.4 million for the year ended 31 December 2018 (2017: approximately HK$235.2 million), representing an increase of approximately 58.3% as compared to 2017.

- The Group's gross profit for the year ended 31 December 2018 was approximately HK$47.4 million (2017: approximately HK$47.3 million), representing an increase of approximately 0.2% as compared to 2017.

- Net profit attributable to owners of the Company for the year ended 31 December 2018 was approximately HK$33.2 million while the net loss attributable to owners of the Company for the year ended 31 December 2017 was approximately HK$105.0 million.

- The Board does not recommend the payment of dividend for the year ended 31 December 2018.

- The Group had a gearing ratio (defined as total bank and other borrowings divided by total equity) of zero as at 31 December 2018 (2017: zero).

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 2018 (the "Year") together with the comparative figures for 2017, as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2018

		2018	2017
	NOTES	***HK$'000***	*HK$'000*
Revenue	3	**372,441**	235,248
Cost of sales		**(325,038)**	(187,923)
		47,403	47,325
Other income, gains and losses	5	**18,435**	(117,714)
Selling and distribution expenses		**(23,989)**	(23,220)
Administrative expenses		**(22,871)**	(20,118)
Finance costs		**–**	(162)
Share of profit of associates		**20,219**	19,500
Profit (loss) before tax		**39,197**	(94,389)
Income tax expense	6	**(5,993)**	(10,623)
Profit (loss) for the year attributable to owners of the Company	7	**33,204**	(105,012)
Other comprehensive (expense) income for the year			
Items that will not be reclassified to profit or loss:			
Fair value loss on equity instruments at fair value through other comprehensive income		**(14,392)**	–
Exchange difference arising on translation of functional currency to presentation currency			
– Subsidiaries		**(18,375)**	25,362
– Associates		**(2,970)**	2,588
		(35,737)	27,950
Items that may be subsequently reclassified to profit or loss:			
Fair value loss on available-for-sale investments		**–**	(118,886)
Reclassification adjustment upon impairment on available-for-sale investments		**–**	131,799
Released on disposal of available-for-sale investments		**–**	(12,913)
		–	–
Other comprehensive (expense) income for the year		**(35,737)**	27,950
Total comprehensive expense for the year		**(2,533)**	(77,062)

	NOTES	**2018**	2017
		HK$'000	*HK$'000*
Profit (loss) for the year attributable to owners of the Company		**33,204**	(105,012)
Total comprehensive expense for the year attributable to owners of the Company		**(2,533)**	(77,062)
Earnings (loss) per share	9		
Basic (HK cents)		**1.99**	(7.22)
Diluted (HK cents)		**1.99**	(7.22)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2018

	NOTES	2018 HK$'000	2017 HK$'000
Non-current assets			
Property, plant and equipment		**16,148**	10,712
Prepaid lease payments		**18,652**	20,059
Prepayment for a distribution right		**21,913**	26,797
Intangible asset		**12,022**	14,515
Club debenture		**571**	598
Equity instruments at fair value through other comprehensive income		**156,549**	–
Available-for-sale investments		**–**	89,373
Financial asset at fair value through profit or loss		**398**	3,066
Interests in associates		**146,397**	204,974
		372,650	370,094
Current assets			
Inventories		**66,471**	130,551
Trade and other receivables	10	**178,713**	235,208
Prepaid lease payments		**485**	508
Prepayment for a distribution right		**3,652**	3,828
Bank balances and cash		**146,101**	90,195
		395,422	460,290
Current liabilities			
Trade and other payables	11	**31,759**	92,709
Tax payable		**1,291**	1,121
		33,050	93,830
Net current assets		**362,372**	366,460
Total assets less current liabilities		**735,022**	736,554
Non-current liability			
Deferred tax liabilities		**9,638**	9,729
		725,384	726,825
Capital and reserves			
Share capital	12	**83,592**	83,592
Share premium and reserves		**641,792**	643,233
Equity attributable to owners of the Company		**725,384**	726,825

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

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 911B, 9th Floor, Tower 1, Silvercord, No. 30 Canton Road, Kowloon, Hong Kong.

The Company is an investment holding company. Its principal subsidiaries are principally engaged in the distribution and 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")

New and amendments to HKFRSs that are mandatorily effective for the current year

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

HKFRS 9	Financial Instruments
HKFRS 15	Revenue from Contracts with Customers
HK(IFRIC) – Int 22	Foreign Currency Transactions and Advance Consideration
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions
Amendments to HKFRS 4	Applying HKFRS 9 "Financial Instruments" with HKFRS 4 "Insurance Contracts"
Amendments to HKFRS 15	Clarification to HKFRS 15 Revenue from Contracts with Customers
Amendments to HKAS 28	As part of the Annual Improvements to HKFRSs 2014–2016 Cycle
Amendments to HKAS 40	Transfers of Investment Property

Except as described below, the application of the new and 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.

2.1 *HKFRS 15 "Revenue from Contracts with Customers"*

The Group has applied HKFRS 15 for the first time in the current year. HKFRS 15 superseded HKAS 18 "Revenue", HKAS 11 "Construction Contracts" and the related interpretations.

The Group has applied HKFRS 15 retrospectively with the cumulative effect of initially applying this Standard recognised at the date of initial application of HKFRS 15, 1 January 2018. Any difference at the date of initial application is recognised in the opening retained profits (or other components of equity, as appropriate) and comparative information has not been restated. Furthermore, in accordance with the transition provisions in HKFRS 15, the Group has elected to apply the Standard retrospectively only to contracts that are not completed on 1 January 2018. Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 18 and HKAS 11 and the related interpretations.

The Group recognises revenue from the following major sources which arise from contracts with customers:

- Distribution and trading of pharmaceutical products; and

- Provision of marketing and promotion services

Information about the Group's performance obligations resulting from application of HKFRS 15 is disclosed in note 3.

Summary of effects arising from initial application of HKFRS 15

The following adjustments were made to the amounts recognised in the consolidated statement of financial position at 1 January 2018. Line items that were not affected by the changes have not been included.

	Carrying amounts previously reported at 31 December 2017	Reclassification	**Carrying amounts under HKFRS 15 at 1 January 2018**
	HK$'000	*HK$'000*	***HK$'000***
Trade and other payables			
– Receipts in advance from customers	3,231	(3,231)	**–**
– Contract liabilities	–	3,231	**3,231**

As at 1 January 2018, receipts in advance from customers amounting to HK$3,231,000 in respect of sales contracts signed with customers previously included in trade and other payables were reclassified to contract liabilities which are included in trade and other payables.

The application of HKFRS 15 has had no material impact on the Group's retained profits as at 1 January 2018.

2.2 *HKFRS 9 "Financial Instruments"*

In the current year, the Group has applied HKFRS 9 "Financial Instruments" and the related consequential amendments to other HKFRSs. HKFRS 9 introduces new requirements for 1) the classification and measurement of financial assets and financial liabilities and 2) expected credit losses ("ECL") for financial assets.

Summary of effects arising from initial application of HKFRS 9

The Group has applied HKFRS 9 in accordance with the transition provisions set out in HKFRS 9, i.e. applied the classification and measurement requirements (including impairment under ECL model) retrospectively to instruments that have not been derecognised as at 1 January 2018 (date of initial application) and has not applied the requirements to instruments that have already been derecognised as at 1 January 2018. The difference between carrying amounts as at 31 December 2017 and the carrying amounts as at 1 January 2018 are recognised in the opening retained profits and other components of equity, without restating comparative information.

Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 39 "Financial Instruments: Recognition and Measurement".

The table below illustrates the classification and measurement of financial assets and financial liabilities and other items subject to ECL under HKFRS 9 and HKAS 39 at the date of initial application, 1 January 2018.

	Available-for-sale investments *HK$'000*	**Club debenture** *HK$'000*	**Equity instruments at fair value through other comprehensive income** *HK$'000*	**Financial assets at fair value throught profit or loss** *HK$'000*	**Fair value through other comprehensive income (non-recycling reserve)** *HK$'000*	**Retained profits** *HK$'000*
Closing balance at 31 December 2017 – HKAS 39	89,373	598	–	3,066	–	(34,751)
Effect arising from initial application of HKFRS 9						
Reclassification						
• From available-for-sale investments	(89,373)	(598)	89,373	598	(142,287)	142,287
Remeasurement						
• From cost less impairment to fair value	–	–	1,092	–	1,092	–
Opening balance as at 1 January 2018	–	–	90,465	3,664	(141,195)	107,536

(a) *Available-for-sale ("AFS") investments*

From AFS investments to equity instruments at fair value through other comprehensive income ("FVTOCI")

At the date of initial application of HKFRS 9, the Group elected to present in other comprehensive income for the fair value changes of all equity instruments previously classified as AFS investments, of which approximately HK$69,188,000 related to unlisted equity investment previously measured at cost less impairment, HK$3,253,000 related to listed equity investments previously measured at fair value and HK$16,932,000 related to listed equity investments under suspension previously measured at fair value under HKAS 39. These investments are not held for trading and not expected to be sold in the foreseeable future and their carrying amount of approximately HK$89,373,000 as at 31 December 2017 were reclassified from AFS investments to equity instruments at FVTOCI, of which approximately HK$69,188,000 related to unlisted equity investment previously measured at cost less impairment under HKAS 39. The fair value gain of approximately HK$1,092,000 relating to those unlisted equity investment previously carried at cost less impairment were adjusted to equity instruments at FVTOCI and FVTOCI (non-recycling reserve) as at 1 January 2018. In addition, impairment losses previously recognised of approximately HK$142,287,000 were transferred from retained profits to FVTOCI (non-recycling reserve) as at 1 January 2018.

From AFS investments to financial assets at fair value through profit or loss ("FVTPL")

At the date of initial application of HKFRS 9, the Group reclassified club debenture of carrying values amounting to approximately HK$598,000 from AFS investments to financial assets at FVTPL. The carrying amount of club debenture recorded at cost less impairment approximate their fair value was adjusted to financial assets at FVTPL.

(b) *Financial asset at FVTPL*

Financial asset at FVTPL of HK$3,066,000 is contingent consideration receivable and is classified as financial asset at FVTPL under HKAS 39. There was no impact on the amounts recognised in relation to this asset from the application of HKFRS 9.

(c) *Impairment under ECL model*

In relation to the impairment of financial assets, HKFRS 9 requires an ECL model, as opposed to an incurred credit loss model under HKAS 39. The ECL model requires an entity to account for ECL and changes in those ECL at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

In the current year, the Group has applied HKFRS 9 simplified approach to measure ECL on trade receivables using lifetime ECL which is calculated using a provision matrix. To measure the ECL, trade receivables have been grouped based on shared credit risk characteristics.

Loss allowance for other financial assets at amortised cost, which mainly comprise of other receivables and bank balances and cash, are measured based on a 12-month ECL basis if there had been no significant increase in credit risk since initial recognition.

As at 1 January 2018, no additional credit loss allowance has been recognised against retained profits as the estimated allowance under the ECL model was not significantly different from that under HKAS 39.

Impacts on opening consolidated statement of financial position arising from the application of all new standards

As a result of the changes in the Group's accounting policies above, the opening consolidated statement of financial position had to be restated. The following table shows the adjustments recognised for each of the line items affected. Line items that were not affected by the changes have not been included.

	At 31 December 2017 *HK$'000*	Impact on initial application HKFRS 15 *HK$'000*	Impact on initial application HKFRS 9 *HK$'000*	**At 1 January 2018** ***HK$'000***
Non-current assets				
Available-for-sale investments	89,373	–	(89,373)	**–**
Equity instruments at FVTOCI	–	–	90,465	**90,465**
Current liabilities				
Trade and other payables				
– Receipts in advance from customers	3,231	(3,231)	–	**–**
– Contract liabilities	–	3,231	–	**3,231**
Capital and reserves				
FVTOCI (non-recycling reserve)	–	–	(141,195)	**(141,195)**
(Accumulated losses) retained profits	(34,751)	–	142,287	**107,536**

New or revised standards and interpretations that have been issued but not yet effective

HKFRS 16	Leases[1]
HKFRS 17	Insurance Contracts[3]
HK(IFRIC)-Int 23	Uncertainty over Income Tax Treatments[1]
Amendments to HKFRS 3	Definition of a Business[5]
Amendments to HKFRS 9	Prepayment Features with Negative compensation[1]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venure[4]
Amendments to HKAS 1 and HKAS 8	Amendments to Definition of Material[2]
Amendments to HKAS 19	Plan Amendment, Curtailment or Settlement[1]
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures[1]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2015–2017 Cycle[1]

1 Effective for annual periods beginning on or after 1 January 2019
2 Effective for annual periods beginning on or after 1 January 2020
3 Effective for annual periods beginning on or after 1 January 2021
4 Effective for annual periods beginning on or after a date to be determined
5 Effective business combination for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1 January 2020

Except for the new and amendments to HKFRSs mentioned below, the directors of the Company anticipate that the application of all other new and amendments to HKFRSs will have no material impact on the consolidated financial statements in the foreseeable future.

HKFRS 16 Leases

HKFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. HKFRS 16 will supersede HKAS 17 Leases and the related interpretations when it becomes effective.

HKFRS 16 distinguishes lease and service contracts on the basis of whether an identified asset is controlled by a customer. In addition, HKFRS 16 requires sales and leaseback transactions to be determined based on the requirements of HKFRS 15 as to whether the transfer of the relevant asset should be accounted as a sales. HKFRS 16 also includes requirements relating to subleases and lease modifications.

Distinctions of operating leases and finance leases are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees, except for short-term leases and leases of low value assets.

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. For the classification of cash flows, the Group currently presents upfront prepaid lease payments as investing cash flows in relation to leasehold lands for owned use and those classified as investment properties while other operating lease payments are presented as operating cash flows. Upon application of HKFRS 16, lease payments in relation to lease liability will be allocated into a principal and an interest portion which will be presented as financing cash flows by the Group.

Under HKAS 17, the Group has already recognised an asset and a related finance lease liability for finance lease arrangement and prepaid lease payments for leasehold lands where the Group is a lessee. The application of HKFRS 16 may result in potential changes in classification of these assets depending on whether the Group presents right-of-use assets separately or within the same line item at which the corresponding underlying assets would be presented if they were owned.

Other than certain requirements which are also applicable to lessor, HKFRS 16 substantially carries forward the lessor accounting requirements in HKAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease.

Furthermore, extensive disclosures are required by HKFRS 16.

As at 31 December 2018, the Group has non-cancellable operating lease commitments of approximately HK$1,083,000 (31 December 2017: approximately HK$944,000). A preliminary assessment indicates that these arrangements will meet the definition of a lease. Upon the application of HKFRS 16, the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases. In addition, the application of new requirements may result changes in measurement, presentation and disclosure as indicated above. However, the Directors do not expect the adoption of HKFRS 16 would result in significant impact on the Group's financial performance and positions.

3. REVENUE

Disaggregation of revenue from contracts with customers by segments is as follows:

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

	2018	2017
	HK$'000	*HK$'000*
Distribution and trading of pharmaceutical products	**364,533**	231,979
Provision of marketing and promotion services	**7,908**	3,269
	372,441	235,248

4. SEGMENT INFORMATION

The Group is principally engaged in the distribution and 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 business activities.

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

(i) Distribution and trading of pharmaceutical products – distribution and trading of injection drugs, capsule and granule drugs and tablet drugs

(ii) Provision of marketing and promotion services – provision of marketing and promotion services of drugs

In prior year, there were 5 reportable and operating segments, namely injection drugs, capsule and granule drugs, tablet drugs, provision of marketing and promotion services of drugs and others.

During the year, the CODM reassessed the current business units of the Group. As the revenue generated from the distribution and trading of capsule and granule drugs and tablet drugs was minimal, the CODM combined revenue from all drugs into distribution and trading of pharmaceutical products reporting and operating segment, taking into account the Group's future business development.

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 2018

	Distribution and trading of pharmaceutical products *HK$'000*	**Provision of marketing and promotion services** *HK$'000*	**Total** *HK$'000*
REVENUE			
External sales and segment revenue	**364,533**	**7,908**	**372,441**
RESULT			
Segment profit	**40,096**	**7,307**	**47,403**
Other income, gains and losses			**18,435**
Selling and distribution expenses			**(23,989)**
Administrative expenses			**(22,871)**
Share of profit of associates			**20,219**
Profit before tax			**39,197**

Year ended 31 December 2017

	Distribution and trading of pharmaceutical products *HK$'000*	Provision of marketing and promotion services *HK$'000*	Total *HK$'000*
REVENUE			
External sales and segment revenue	231,979	3,269	235,248
RESULT			
Segment profit	44,306	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)

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

5. OTHER INCOME, GAINS AND LOSSES

	2018	2017
	HK$'000	*HK$'000*
Net gain on deemed disposals of interest in an associate	**20,672**	–
Compensation received from a customer	**1,949**	–
Incentives received from government grants *(Note)*	**1,180**	138
Bank interest income	**1,032**	526
Other interest income	**–**	173
Sundry income	**13**	532
Dividend income from equity instruments at FVTOCI	**174**	–
Dividend income from AFS investments	**–**	740
Net exchange (loss) gain	**(3,879)**	1,335
Fair value change on financial asset at FVTPL	**(2,696)**	(2,271)
Loss on disposal of property, plant and equipment	**(10)**	(1)
Impairment loss on AFS investments	**–**	(131,799)
Realised gain on disposal of AFS investments	**–**	12,913
	18,435	(117,714)

Note: During the year ended 31 December 2018, the Group was granted incentives of RMB1,011,000 (equivalent to approximately HK$1,180,000) (2017: RMB120,000 (equivalent to approximately HK$138,000)) 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

	2018	2017
	HK$'000	*HK$'000*
Current tax:		
PRC Enterprise Income Tax ("EIT")	**5,542**	8,336
Underprovision in prior year:		
PRC EIT	**82**	251
	5,624	8,587
Deferred tax	**369**	2,036
	5,993	10,623

Under the Laws of the People's Republic of China on Enterprise Income Tax (the "EIT Laws") and Implementation Regulations of the EIT Laws, the tax rate of the PRC subsidiaries was 25% for the years ended 31 December 2018 and 2017.

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

7. PROFIT (LOSS) FOR THE YEAR

	2018	2017
	HK$'000	*HK$'000*
Profit (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	**5,995**	10,079
Other staff's salaries, bonus and other benefits	**11,233**	10,982
Contributions to retirement benefits scheme, excluding directors	**654**	675
Total staff costs	**17,882**	21,736
Depreciation of property, plant and equipment	**1,951**	1,989
Amortisation of prepaid lease payments	**496**	491
Amortisation of prepayment for a distribution right (included in cost of sales)	**3,738**	3,698
Amortisation of an intangible asset (included in cost of sales)	**1,869**	1,849
Minimum lease payment under operating leases in respect of rented premises	**976**	655
Auditor's remuneration	**1,650**	1,500
Legal and professional fees (included in administrative expenses)	**9,317**	7,152
Donations	**119**	58
Loss on disposal of property, plant and equipment	**10**	1
Cost of inventories recognised as an expense	**310,297**	182,376

8. DIVIDENDS

No dividend was paid or proposed for ordinary shareholders of the Company during the years ended 31 December 2018 and 2017, nor has any dividend been proposed since the end of the reporting period.

9. EARNINGS (LOSS) PER SHARE

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

	2018	2017
	HK$'000	*HK$'000*
Profit (loss) for the year attributable to owners of the Company for the purposes of basic and diluted earnings (loss) per share	**33,204**	(105,012)

	Number of ordinary shares	
	2018	2017
	'000	*'000*
Number of shares		
Weighted average number of ordinary shares for the purposes of basic and diluted earnings (loss) per share	**1,671,847**	1,454,383

The weighted average number of ordinary shares for the purpose of basic loss per share for the year ended 31 December 2017 had 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"), completion of which took place on 6 March 2017.

No diluted earnings per share for 31 December 2018 was presented as there were no potential ordinary shares in issue for the year ended 31 December 2018.

The computation of diluted loss per share for the year ended 31 December 2017 did not assume the exercise 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

	2018	2017
	HK$'000	*HK$'000*
Trade receivables	**82,241**	49,280
Commission receivable from an associate	**–**	1,787
Other prepayments	**1,055**	1,434
Other deposits	**1,654**	1,196
Prepayments to suppliers	**294**	359
Deposits paid to an associate	**–**	79,302
Deposits paid to suppliers	**91,303**	83,741
Value-added tax recoverable	**1,997**	17,790
Others	**169**	319
	178,713	235,208

The Group allows a credit period ranging from 0 to 365 days to its trade customers. The following is an aged analysis of trade receivables net of allowance for credit losses presented based on the dates of goods delivery notes, which approximated the respective revenue recognition dates, at the end of the reporting period.

	2018	2017
	HK$'000	*HK$'000*
Trade receivables:		
0–30 days	**26,934**	28,007
31–60 days	**7,772**	7,726
61–90 days	**8,431**	550
91–180 days	**16,582**	4,170
181–365 days	**18,544**	8,439
Over 365 days	**3,978**	388
	82,241	49,280

Before accepting any new customers, the Group assesses the potential customer's credit quality and defines credit limits by the customer. Credit 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 2018 is 64 days (2017: 79 days).

Included in the Group's trade receivable balance are debtors with aggregate carrying amount of approximately HK$11,773,000 (2017: HK$12,997,000) which are past due but not impaired as at 31 December 2018. The Group has not provided for credit loss allowance because management is of the opinion the credit quality of these customers has not deteriorated and the balances are considered fully recoverable. The Group does not hold any collateral over these balances.

The Group has provided fully for all receivables over 365 days past due based on the dates of goods delivery notes because in the opinion of the directors of the Company, the receivables that are past due beyond 365 days are generally not recoverable.

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

	2018	2017
	HK$'000	*HK$'000*
1–180 days	**11,749**	4,170
181–365 days	**24**	8,439
Over 365 days	**–**	388
	11,773	12,997

Prepayments and deposits paid to suppliers represent the prepayments and deposits paid for purchase of pharmaceutical products. The Group was required to make prepayments and trade deposits to certain suppliers to secure regular supply of products. The amount of prepayment to suppliers varied with the terms of supplier contracts entered into with different suppliers, which was determined based on the amount of goods purchased from the suppliers. The amounts of trade deposits required vary on a case by case basis. The deposits paid will be refunded upon expiry of contracts.

11. TRADE AND OTHER PAYABLES

	2018	2017
	HK$'000	*HK$'000*
Trade payables	**21,239**	82,054
Deposits received	**3,561**	3,813
Receipts in advance from customers	**–**	3,231
Contract liabilities *(note)*	**2,353**	–
Other tax payables	**46**	285
Accruals	**4,560**	3,326
	31,759	92,709

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

	2018	2017
	HK$'000	*HK$'000*
0–30 days	**21,239**	–
31–60 days	**–**	19,588
61–90 days	**–**	33,428
Over 90 days	**–**	29,038
	21,239	82,054

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

Contract liabilities, that are not expected to be settled within the Group's normal operating cycle, are classified as current liabilities based on the Group's earliest obligation to transfer goods or services to the customers. The receipts in advance from customers for the year ended 31 December 2017 were reclassified to contract liabilities from the application of HKFRS 15 since 1 January 2018.

Note:

Movement of contract liabilities during the year ended 31 December 2018 as follows:

	2018
	HK$'000
At 1 January	**3,231**
Increase in contract liabilities as a result of receipts in advance from customers	**2,297**
Decrease in contract liabilities as a result of recognition of revenue during the year that was included in the contract liabilities at the beginning of the year	**(3,172)**
Exchange realignment	**(3)**
At 31 December	**2,353**

12. 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 2017	800,000	40,000
Increased on 26 January 2017 *(note a)*	2,200,000	110,000
At 31 December 2017, 1 January 2018 and 31 December 2018	**3,000,000**	**150,000**
Issued and fully paid:		
At 1 January 2017	416,448	20,822
Rights issue of shares *(note b)*	1,249,344	62,467
Issue of shares upon exercise of share options *(note c)*	6,055	303
At 31 December 2017, 1 January 2018 and 31 December 2018	**1,671,847**	**83,592**

Notes:

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

(b) On 6 March 2017, the Company allotted 1,249,344,000 Rights Shares of 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 approximately HK$329,947,000 (net of expenses).

Details of the Rights Issue are disclosed in the announcement 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.

(c) 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 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 2018 rank *pari passu* with the then existing ordinary shares in all respects.

MANAGEMENT DISCUSSION AND ANALYSIS

OVERVIEW

The Year was full of challenges. 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 "4+7 centralised purchase policy" (4+7集中採購方案), which promotes price cut for drugs, and the "Two-Invoice" System (兩票制) which aims to reduce and simplify the chain and layers of drug circulation, and thereby leading to more transparency on price of pharmaceutical products and lower margins on pharmaceutical product distribution. On the other hand, the "4+7 centralised purchase policy" (4+7集中採購方案) has been implemented in 11 cities since 2018. Under the effect of the "4+7 centralised purchase policy" (4+7集中採購方案), the average new bidding prices of selected drugs were dropped by approximately 50% as compared to the average original bidding prices. The aforesaid policies put the pharmaceutical distribution and trading 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 suppliers and end customers (e.g. hospitals), in order to improve our sales and marketing capabilities and make effort to expand its distribution network in the PRC so as to minimise the impact of unfavourable external factors on the Group.

For the Year, the total revenue of the Group was approximately HK$372.4 million, representing an increase of approximately 58.3% as compared to 2017. The increase in revenue was primarily attributable to the increased average selling prices of the Group's injection products as the Group had adjusted its distribution channels due to the "Two-Invoice" System (兩票制) implemented in most of the provinces in the PRC since 2017. However, the increase in revenue was partially offset by the decrease in revenue from the decline in sales volume of the Group's major product Cefamandole Nafate for Injection (注射用頭孢孟多酯鈉) as a result of the reduction of the drug inventory level of customers under the implementation of the "Two-Invoice" System (兩票制) in most of the provinces in the PRC during the Year. Due to the higher proportion of contribution from the sale of pharmaceutical products which had a lower profit margin, the Group's gross profit margin for the Year was approximately 12.7%, which has decreased by 7.4 percentage points when compared to 2017.

Profit for the Year was approximately HK$33.2 million while the net loss attributable to owners of the Company was approximately HK$105.0 million for the year ended 31 December 2017. Such turnaround from a loss to a profit was primarily due to a significant decrease in the fair value loss on the Group's equity instruments at fair value through other comprehensive income ("FVTOCI") (including the listed securities in Hong Kong, the trading of which had been suspended as directed by the Securities and Futures Commission ("SFC")) of approximately HK$14.4 million for the Year as compared to the fair value loss and impairment loss on the Group's available-for-sale investments (now reclassified as equity instruments at FVTOCI) of approximately HK$131.8 million for FY2017; and (ii) a significant increase in net other gain arising from the deemed disposals of interest in WinHealth International Company Limited ("WinHealth International") as a result of the allotment and issue of new shares of WinHealth International at a premium to third parties during 2018 of approximately HK$20.7 million (2017: nil).

FUTURE PROSPECTS

(i) Industry Outlook

The "Two-Invoice" System (兩票制), 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 since 2017. It substantially increases industry concentration, and as a result, the Group is in the unfavoured situation to compete with the national leading pharmaceutical distribution companies. In addition, in view of the announcement of the "4+7 centralised purchase policy" (4+7集中採購方案) in the PRC during the Year, the Group expects that the drug pricing pressure and loss of market share will continue, which may result in further 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.

Zhejiang provincial collective tendering process

Generally, all pharmaceutical products procured by public hospitals and medical institutions in the PRC are subject to provincial collective tendering process that involves bidding by pharmaceutical manufacturers of these products. The latest provincial collective tendering process in Zhejiang Province was held in 2014 which involved three batches of tendering. 2 pharmaceutical products distributed by the Group as at 31 December 2018 were involved in the Batch 3 provincial collective tendering process ("Batch 3 Tendering Process"). The results of the Batch 3 Tendering Process are pending to be released.

(ii) Growth Strategies

(a) Continue to diversify the existing product portfolio

During the Year, the Group acquired the exclusive national distribution right of an prescription tablet drug, namely Pentazocine Naloxone Tablet (噴他佐辛納洛酮片) in the PRC. The manufacturer is currently applying for an approval to manufacture this tablet drug in the PRC. The Group will seek to acquire distribution rights of new products to enhance its product portfolio. Looking ahead to 2019, 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 the PRC, 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 distribution and trading of pharmaceutical products and the provision of marketing and promotion services in the PRC. The Group will continue to participate in the distribution of the prescription drug market in the PRC with its unremitting efforts in business development.

BUSINESS REVIEW

During the Year, the revenue of the Group was mainly contributed by (i) the distribution and trading of pharmaceutical products; and (ii) the provision of marketing and promotion services, in the PRC. The major category of pharmaceutical products distributed by the Group is injection drugs.

The table below sets out the revenue and gross profit margin of the Group (by segment) for the years ended 31 December 2018 and 31 December 2017 respectively.

	Revenue contributed from each business segment				**Gross profit margin**	
	2017		**2018**		2017	**2018**
	HK$'000	*%*	***HK$'000***	***%***	*%*	***%***
(1) Distribution and trading of pharmaceutical products	231,979	98.6	**364,533**	**97.9**	19.1	**11.0**
(2) Provision of marketing and promotion services	3,269	1.4	**7,908**	**2.1**	N/A	**N/A**
Total	235,248	100.0	**372,441**	**100.0**		

(1) Distribution and trading of pharmaceutical products

This segment generated a revenue of approximately HK$364.5 million for the Year (2017: approximately HK$232.0 million), representing an increase of approximately 57.1% as compared to 2017. The increase in revenue was primarily attributable to the increased average selling prices of the Group's injection products as the Group had adjusted its distribution channels due to the "Two-Invoice" System (兩票制) implemented in most of the provinces in the PRC since 2017. However, the increase in revenue from this segment was partially offset by the decrease in revenue due to the decline in sales volume of the Group's major products Cefamandole Nafate for Injection (注射用頭孢孟多酯鈉) as a result of the reduction of the drug inventory level of customers under the implementation of the "Two-Invoice" System (兩票制) in most of the provinces in the PRC during the Year.

(2) Provision of marketing and promotion services

The Group's marketing and promotion services involve formulating marketing and promotion strategies and conducting academic promotion programs of the Group's products in return for service income from the suppliers. This segment generated a revenue of approximately HK$7.9 million for the Year (2017: approximately HK$3.3 million), representing an increase of approximately 139.4% as compared to 2017. The "Two-Invoice" System (兩票制) was officially released in 2017. The "Two-Invoice" System (兩票制) is a mechanism where only up to two invoices are issued along the chain of pharmaceutical product procurement and serves to eliminate multiple layers of distributors and streamline the procurement process. Under the implementation of the "Two-Invoice" System (兩票制) in the PRC since 2017, the Group started to develop its business of the provision of marketing and promotion services in respect of pharmaceutical products in the PRC. The increase in the revenue from this segment was primarily because the impact of the transformation of the Group's business model from distribution agent model to marketing and promotion service provider model on certain products of the Group under the implementation of "Two-Invoice" System (兩票制).

Regarding the Group's distribution network, as of 31 December 2018, the Group procured pharmaceutical products throughout the PRC from 4 suppliers and sold pharmaceutical products and provided marketing and promotion services through a network of 146 customers spreading over 17 regions in the PRC, including Zhejiang province, Shanxi province, Hubei province, Hebei province and Guangdong province. 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$372.4 million, representing an increase of approximately 58.3% from approximately HK$235.2 million for the year ended 31 December 2017. The increase in revenue was primarily attributable to the increased average selling prices of the Group's injection products as the Group had adjusted its distribution channels due to the "Two-Invoice" System (兩票制) implemented in most of the provinces in the PRC since 2017. However, the increase in revenue was partially offset by the decrease in revenue due to the decline in sales volume of the Group's major product Cefamandole Nafate for Injection (注射用頭孢孟多酯鈉) as a result of the reduction of the drug inventory level of customers under the implementation of the "Two-Invoice" System (兩票制) in most of the provinces in the PRC during the Year.

Cost of Sales

The cost of sales for the Year was approximately HK$325.0 million, representing an increase of approximately 73.0% from approximately HK$187.9 million for the year ended 31 December 2017. The percentage of the increase in cost of sales was higher than that for the increase in revenue for the Year mainly due to the decrease in gross profit margin of the Group's major product Cefamandole Nafate for Injection (注射用頭孢孟多酯鈉) during the Year.

Gross Profit and Gross Profit Margin

Gross profit remained relatively stable at approximately HK$47.4 million (2017: approximately HK$47.3 million) for the Year. The slight increase in gross profit of the Group for the Year was mainly attributable to the increase in service income from the provision of marketing and promotion services during the Year which was partially offset by the decrease in gross profit from the distribution and trading of pharmaceutical products mainly due to the decrease in sales volume and decrease in gross profit margin of the Group major product Cefamandole Nafate for Injection (注射用頭孢孟多酯鈉) during the Year. Due to the higher proportion of contribution from the sale of pharmaceutical products which had a lower profit margin, the Group's gross profit margin for the Year was approximately 12.7%, which has decreased by 7.4 percentage points when compared to 2017.

Other Income, Gains and Losses

The net other gains for the Year were approximately HK$18.4 million (2017: net other losses of approximately HK$117.7 million). Such turnaround from a loss to a profit was primarily attributable to net gain on deemed disposals of interest in WinHealth International, an associate of the Group until October 2018, of approximately HK$20.7 million (2017: nil) and the absence of impairment losses on the Group's available-for-sale investments (currently reclassified as equity instruments at FVTOCI) (2017: impairment loss on the Group's available-for-sale investments of approximately HK$131.8 million) recognised during the Year.

Selling and Distribution Expenses

Selling and distribution expenses for the Year were approximately HK$24.0 million, representing an increase of approximately HK$0.8 million from approximately HK$23.2 million for the year ended 31 December 2017. 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 participating in various marketing activities on Group's products more frequently, especially those for promotion of the Group's major product, Cefamandole Nafate for Injection (注射用頭孢孟多酯鈉).

Administrative Expenses

Administrative expenses for the Year were approximately HK$22.9 million, representing an increase of approximately 13.9% from approximately HK$20.1 million for the year ended 31 December 2017. Such increase was mainly due to the increase in legal and professional fees incurred for conducting an independent investigation into the issues relating to the Group's acquisitions of Saike International Medical Group Limited ("Saike International") and WinHealth International during the Year.

Share of Profit of Associates

Share of profit of associates was approximately HK$20.2 million for the Year, representing an increase of approximately 3.6% from approximately HK$19.5 million for the year ended 31 December 2017. During the Year, the Group shared the profits of Saike International and WinHealth International. The increase in the share of profit of associates by the Group for the Year was mainly because of the remarkable improvement in the financial performance of WinHealth International. During the Year, the Group shared the profit of WinHealth International as its associate up to 10 October 2018. The Group ceased to recognise its interest in WinHealth International as investment in an associate since 11 October 2018 upon the deemed disposals of WinHealth International through its allotment and issue of new shares to other parties in April 2018 and subsequently in October 2018.

Income Tax Expenses

Income tax expenses for the Year were approximately HK$6.0 million, representing a decrease of approximately 43.4% from approximately HK$10.6 million in 2017. Such decrease was primarily due to the decrease in non-deductible expenses and deferred tax expenses and the increase in utilisation of tax loss previously not recognised during the Year.

Profit for the Year

Profit for the Year was approximately HK$33.2 million while the net loss attributable to owners of the Company was approximately HK$105.0 million for the year ended 31 December 2017. Such turnaround from a loss to a profit was primarily due to a significant decrease in the fair value loss on the Group's equity instruments at FVTOCI (including the listed securities in Hong Kong, the trading of which had been suspended as directed by the SFC) of approximately HK$14.4 million for the Year as compared to the fair value loss and impairment loss on the Group's available-for-sale investments (now reclassified as equity instruments at FVTOCI) of approximately HK$131.8 million for FY2017; and (ii) a significant increase in net other gain arising from the deemed disposals of interest in WinHealth International as a result of the allotment and issue of new shares of WinHealth International at a premium to third parties during 2018 of approximately HK$20.7 million (2017: nil).

Equity Instruments at FVTOCI

The Group's equity instruments at FVTOCI (formerly classified as 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, except the Group's securities investment in Town Health International Medical Group Limited ("Town Health"); and (ii) investments in unlisted equity securities issued by private entities incorporated in the Cayman Islands and the British Virgin Islands with limited liability. Investments in unlisted equity securities are stated at fair value based on valuations prepared by independent valuers.

Equity Securities Listed in Hong Kong

As at 31 December 2018, the Group's securities investment in the shares of Town Health ("TH Shares") (a company whose shares are listed on the Main Board of the Stock Exchange with stock code: 3886) with a fair value amounted to HK$14.0 million, accounted for approximately 87.4% of the total fair value of the Group's listed investments classified as equity instruments at FVTOCI. On 27 November 2017, the 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 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. The Group engaged an independent valuer to conduct a valuation on the fair value of the Group's investment in the TH Shares as at 31 December 2018. The valuation was conducted based on market approach method by reference to Price/Sales multiple and Enterprise value/EBITDA multiple of companies in similar industry. As at 31 December 2018 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. The Group recognised a fair value loss on its investment in the TH Shares of approximately HK$2.9 million for the Year. Based on the 2018 interim report of Town Health, Town Health strives to introduce high quality and more efficient Hong Kong-style healthcare service and operation models to the PRC market and become the leading player in the healthcare industry.

During the Year, the Group did not dispose of any equity securities listed in Hong Kong. Besides, due to a decline in the fair value of certain listed investments, a fair value loss of approximately HK$4.1 million (inclusive of the fair value loss on the Group's investment in Town Health of approximately HK$2.9 million) were recognised under the FVTOCI (non-recycling reserve) during the Year. The Group will continue to monitor its investments cautiously in view of recent uncertain market conditions.

Investments in Unlisted Equity Securities

HCMPS Healthcare Holdings Limited ("HCMPS")

As at 31 December 2018, the Group held approximately 14.0% of HCMPS (formerly known as C&C International Healthcare Group Limited) with an investment amount of approximately HK$69,188,000 and a fair value of approximately HK$61,040,000.

HCMPS and its subsidiaries are principally engaged in the provision of contracted medical schemes and medical services. Based on the latest unaudited consolidated financial statements of HCMPS for the year ended 31 December 2018, it recorded an unaudited consolidated profit of approximately HK$25.8 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.

WinHealth International

As at 31 December 2018, the Group held approximately 9.63% of WinHealth International with a fair value of approximately HK$79.5 million.

WinHealth International and its subsidiaries are principally engaged in the distribution of pharmaceutical products in the PRC and have an extensive distribution network through possessing distribution rights of various imported prescription drugs in the PRC. Based on the latest unaudited consolidated financial statements of WinHealth International for the year ended 31 December 2018, it recorded an unaudited consolidated profit of approximately RMB51,707,000. In view of the remarkable improvement in the financial performance of WinHealth International, the Group is optimistic about the prospects 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.

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 was made for the year 2017.

As at the date of this announcement, the audited consolidated financial statements of WinHealth International for the year ended 31 December 2018 have not yet been made available to the Company. Based on the audited consolidated financial statements of WinHealth International for the period from 1 January 2018 to 10 October 2018, the audited consolidated profit of WinHealth International for that period was approximately RMB51,601,000. Based on the unaudited consolidated financial statements of WinHealth International for the year ended 31 December 2018, the unaudited consolidated profit of WinHealth International was approximately RMB51,707,000. On this basis, it is expected that no adjustment will be made for the year 2018.

The Group's interest in WinHealth International was diluted from 15% to approximately 13.49% and subsequently to approximately 9.63% upon the allotment and issue of new shares of WinHealth International to other parties on 10 April 2018 and 11 October 2018 respectively. The Group ceased to have significant influence over WinHealth International since then. As a result, the Group's investment in WinHealth International has been reclassified from investment in an associate to equity instruments at FVTOCI since 11 October 2018.

Liquidity, Financial Resources and Capital Structure

The capital structure of the Group consists of cash and cash equivalents 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 and the net proceeds from the Rights Issue (as defined below). 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 2018 (2017: zero).

The Group's cash and cash equivalents amounted to approximately HK$146.1 million in total as at 31 December 2018 (2017: approximately HK$90.2 million), among which approximately 49% (2017: approximately 15%) were denominated in Hong Kong dollars ("HK$") and 51% (2017: approximately 85%) were denominated in Renminbi ("RMB"). The Group did not have any bank loan as at 31 December 2018 (2017: nil).

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 continuously 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 2018, the Group had 48 employees (2017: 50). Staff costs for the Year, including Directors' remuneration, amounted to approximately HK$17.9 million (2017: approximately HK$21.7 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 also provides other employee benefits including a provident fund scheme for its employees in Hong Kong, as required under the Mandatory Provident Fund Schemes Ordinance (Chapter 485, the Laws of Hong Kong), and participates in employee pension schemes organised and governed by the relevant local governments for its employees in the PRC.

Contingent Liabilities

As at 31 December 2018, the Group did not have any significant contingent liabilities.

Material Acquisitions or Disposals and Significant Investments

The Group had no material acquisition or disposal during the Year.

Investment in Saike International

As at 31 December 2018, 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 consolidated financial statements. The share of profit of Saike International for the Year was approximately HK$12.0 million (2017: approximately HK$15.4 million).

Saike International and its subsidiaries are principally engaged in the trading of medical devices and equipment in the PRC. The Group is optimistic about the prospects and the future performance of Saike International because Saike International continues to seek different opportunities to enhance its product portfolio in the PRC.

Capital Structure

The capital of the Company comprises only ordinary shares. As at 31 December 2018, the Group had shareholders' equity of approximately HK$725.4 million (2017: approximately HK$726.8 million).

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 ("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 ("Rights Issue"). The subscription price of HK$0.275 per Rights Share represented a discount of 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. A total of 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 2018 was as follows:

Intended use of proceeds	Actual use of proceeds as at 31 December 2018
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 then total 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 the open market in April 2017
(2) approximately HK$28.8 million for the acquisition of 11% of the issued share capital of China Biotech Services Holdings Limited ("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 of the Stock Exchange (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

Intended use of proceeds	Actual use of proceeds as at 31 December 2018
(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
(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$8.0 million has been utilised for 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
	As at 31 December 2018, the total unutilised net proceeds was approximately HK$39.6 million. As at the date of this announcement, the Company has not identified other suitable business or investment opportunities. The Company will continue to use its best endeavours to identify appropriate business opportunities for investment. The remaining unutilised proceeds from the Rights Issue will be used as intended. Currently, the Company placed such unutilised proceeds as short term interest-bearing deposits in a licensed bank in Hong Kong.

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 Holdings Limited ("Major Bright"), a subsidary of the Company, the Company and JFA Capital. As at 13 March 2017, as it was unlikely for the Company to obtain the shareholders' 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 apply 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 shareholders' 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 2018, the Group pledged the buildings and prepaid lease payments with an aggregate carrying value of approximately HK$9.6 million to secure general banking facilities granted to the Group (2017: approximately HK$26.8 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 suspended 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 (Chapter 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 the then 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. Mr. Sy Lai Yin, Sunny, an independent non-executive Director appointed on 24 September 2018, was also appointed as a member of the IBC on the same day. As at the date of this announcement, the IBC's investigation into the affairs of the two acquisitions is still under progress. Grant Thornton Advisory Services Limited ("Independent Investigator") was appointed as an independent investigator to the IBC to assist in the investigation. The Independent Investigator is in the progress of preparing its draft independent investigation report.

As at the date of this announcement, the trading of shares of the Company continues to be suspended and will remain suspended until further notice. Pursuant to the delisting framework under the Listing Rules which has come into effect on 1 August 2018 ("Effective Date"), as the shares of the Company have been suspended from trading on the Stock Exchange for less than 12 months as at the Effective Date, under Rule 6.01A(2)(b)(i) of the Listing Rules, the Stock Exchange may cancel the Company's listing if trading in the shares of the Company has remained suspended for 18 continuous months from the Effective Date. The 18-month period expires on 31 January 2020. If the Company fails to resume trading in its shares by 31 January 2020, the Listing Department of the Stock Exchange will recommend the Listing Committee of the Stock Exchange to proceed with the cancellation of the Company's listing. This is subject to the Stock Exchange's right to impose a shorter specific remedial period under Rule 6.10 of the Listing Rules if appropriate. The Company is seeking and will continue to seek legal advice with a view to resuming trading of its shares as soon as practicable. For further details, please refer to the announcements of the Company dated 6 October 2017, 12 January 2018, 25 May 2018, 4 June 2018, 30 July 2018, 1 August 2018, 1 November 2018 and 1 February 2019. The Company will keep the shareholders of the Company and potential investors informed of any material developments by way of further announcement(s) as and when appropriate.

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 of 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"). During the Year, code provision A.2.7 of the then prevailing CG Code requires that the Chairman of the Board should at least annually hold meetings with the non-executive Directors (including the independent non-executive Directors) without executive Directors present. During the Year, Mr. Zhou Ling had been the Chairman of the Board since 1 January 2018 until the conclusion of the annual general meeting of the Company held on 27 June 2018. Mr. Liu Yang was appointed as the Chairman of the Board immediately upon the retirement of Mr. Zhou Ling at the annual general meeting of the Company on 27 June 2018. Each of Mr. Zhou Ling and Mr. Liu Yang 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 Wednesday, 12 June 2019 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 2018, 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

As disclosed in the auditor's report in respect of the consolidated financial statements for the year ended 31 December 2017 and note 1 to the consolidated financial statements, 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 (now known as WinHealth International Company 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 non-executive 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.

As disclosed in note 21 to the consolidated financial statements, 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 2018, the carrying amount of the Group's interest in Saike International is HK$146,397,000 (31 December 2017: HK$149,379,000) and the fair value of the Group's interest in WinHealth International is HK$79,454,000, which has been classified as an equity instrument at fair value through other comprehensive income after the loss of significant influence through dilution of voting rights during the year ended 31 December 2018 (see note 21(d) to the consolidated financial statements for details) (31 December 2017: interest in an associate of HK$55,595,000).

As the investigation into the issues of 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 notes 19 and 20 to the consolidated financial statements, were in fact related party 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.

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.

On behalf of the Board
New Ray Medicine International Holding Limited
Liu Yang
Chairman & Executive Director

Hong Kong, 27 March 2019

As of the date of this announcement, the executive Directors are Mr. Liu Yang, Mr. Huo Zhihong and Ms. Wang Qiuqin; and the independent non-executive Directors are Mr. Leung Chi Kin, Ms. Li Sin Ming, Ivy and Mr. Sy Lai Yin, Sunny.