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 2019

2019 FINANCIAL HIGHLIGHTS

- The Group recorded a revenue of approximately HK$118.6 million for the year ended 31 December 2019 (2018: approximately HK$372.4 million), representing a decrease of approximately 68.2% as compared to 2018.

- The Group's gross profit for the year ended 31 December 2019 was approximately HK$14.9 million (2018: approximately HK$47.4 million), representing a decrease of approximately 68.6% as compared to 2018.

- Net loss attributable to owners of the Company for the year ended 31 December 2019 was approximately HK$44.1 million while the net profit attributable to owners of the Company for the year ended 31 December 2018 was approximately HK$33.2 million.

- The Board does not recommend the payment of a final dividend for the year ended 31 December 2019.

- The Group had a gearing ratio (defined as total bank and other borrowings divided by total equity) of zero as at 31 December 2019 (2018: 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 2019 (the "Year") together with the comparative figures for 2018, as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2019

	Notes	**2019**	2018
		HK$'000	*HK$'000*
Revenue	3	**118,632**	372,441
Cost of sales		**(103,757)**	(325,038)
		14,875	47,403
Other income, gains and losses	5	**(1,400)**	18,435
Selling and distribution expenses		**(16,677)**	(23,989)
Administrative expenses		**(19,918)**	(22,871)
Finance costs		**(52)**	–
Share of profit of associates		**9,263**	20,219
Impairment loss on trade and other receivables		**(8,969)**	–
Impairment loss on interest in an associate		**(20,914)**	–
(Loss) profit before tax		**(43,792)**	39,197
Income tax expense	6	**(317)**	(5,993)
(Loss) profit for the year attributable to owners of the Company	7	**(44,109)**	33,204
Other comprehensive expense 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		**(18,930)**	(14,392)
Exchange difference arising on translation of functional currency to presentation currency			
– subsidiaries		**(6,735)**	(18,375)
– associates		**(1,127)**	(2,970)

	Notes	**2019** **HK$'000**	2018 HK$'000
Other comprehensive expense for the year		**(26,792)**	(35,737)
Total comprehensive expense for the year		**(70,901)**	(2,533)
(Loss) profit for the year attributable to owners of the Company		**(44,109)**	33,204
Total comprehensive expense for the year attributable to owners of the Company		**(70,901)**	(2,533)
(Loss) earnings per share	9		
Basic (HK cents)		**(2.64)**	1.99
Diluted (HK cents)		**(2.64)**	1.99

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
At 31 December 2019

	NOTES	2019 HK$'000	2018 HK$'000
Non-current assets			
Property, plant and equipment		**14,086**	16,148
Prepaid lease payments		**–**	18,652
Right-of-use assets		**20,594**	–
Prepayment for a distribution right		**17,532**	21,913
Intangible asset		**9,973**	12,022
Club debenture		**558**	571
Equity instruments at fair value through other comprehensive income		**137,619**	156,549
Financial asset at fair value through profit or loss		**–**	398
Interests in associates		**131,445**	146,397
Deposits paid to suppliers	10	**46,567**	–
		378,374	372,650
Current assets			
Inventories		**793**	66,471
Trade and other receivables	10	**207,500**	178,713
Prepaid lease payments		**–**	485
Prepayment for a distribution right		**3,572**	3,652
Bank balances and cash		**88,668**	146,101
		300,533	395,422
Current liabilities			
Trade and other payables	11	**12,992**	31,759
Lease liabilities		**401**	–
Tax payable		**–**	1,291
		13,393	33,050
Net current assets		**287,140**	362,372
Total assets less current liabilities		**665,514**	735,022

	NOTES	2019 HK$'000	2018 HK$'000
Non-current liabilities			
Lease liabilities		**1,783**	–
Deferred tax liabilities		**9,248**	9,638
		11,031	9,638
		654,483	725,384
Capital and reserves			
Share capital	12	**83,592**	83,592
Share premium and reserves		**570,891**	641,792
Equity attributable to owners of the Company		**654,483**	725,384

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

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 the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The addresses of the registered office and principal place of business in Hong Kong of the Company are disclosed in the corporate information section of the annual report.

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.

As stated in the consolidated financial statements of the Company for the year ended 31 December 2018, 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 further 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.

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.

On 1 November 2018, the Company announced that Grant Thornton Advisory Services Limited was appointed as an independent investigator by the IBC to assist in the investigation.

On 2 May 2019, the Company also announced that PKF Hong Kong Limited ("PKF") was engaged as its internal control adviser to review the effectiveness of the Group's internal control systems in relation to investment procedure (including mergers and acquisitions and new projects).

As at the date on which these consolidated financial statements are authorised for issue, the IBC's investigation into the affairs of the Acquisitions and the effectiveness of the Group's internal control systems in relation to investment procedure are still under progress.

1. **GENERAL (Cont'd)**

As disclosed in note 21 to the consolidated financial statements, the Acquisitions were related to the sale and purchase agreements which the Group entered into with purportedly independent third parties to acquire two associates, Saike International and WinHealth International (see note 21 to the consolidated financial statements for details), which were completed in 2015 and 2017 respectively and the costs of acquisitions amounted to RMB95,000,000 and RMB47,250,000 respectively. As at 31 December 2019, the carrying amount of the Group's interest in Saike International is HK$131,445,000 (31 December 2018: HK$146,397,000) and the fair value of the Group's interest in WinHealth International is HK$76,694,000 (31 December 2018: HK$79,454,000, which has been classified as an equity instrument at fair value through other comprehensive income ("FVTOCI") after the loss of significant influence through dilution of voting rights as a result of the allotment and issue of new shares of WinHealth International to third parties during the year ended 31 December 2018) (see note 21(d) to the consolidated financial statements for details).

Based on the latest available information on the progress of the investigation conducted by the IBC and up to the date when these consolidated financial statements are authorised for issue, including announcements made by the Company, the IBC's investigation into the issues of the Acquisitions, which is still on-going, did not result in conclusive finding nor conclusion.

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 16	Leases
HK(IFRIC) – Int 23	Uncertainty over Income Tax Treatments
Amendments to HKFRS 9	Prepayment Feature with Negative Compensation
Amendments to HKAS 19	Plan Amendment, Curtailment or Settlement
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures
Amendments to HKFRSs	Annual Improvements to HKFRSs 2015–2017 Cycle

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 16 "Leases"

The Group has applied HKFRS 16 for the first time in the current year. HKFRS 16 superseded HKAS 17 "*Leases*" (HKAS 17), and the related interpretations.

Definition of a lease

The Group has elected the practical expedient to apply HKFRS 16 to contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC)-int 4 Determining whether an Arrangement contains a Lease and not apply this standard to contracts that were not previously identified as containing a lease. Therefore, the Group has not reassessed contracts which already existed prior to the date of initial application.

For contracts entered into or modified on or after 1 January 2019, the Group applies the definition of a lease in accordance with the requirements set out in HKFRS 16 in assessing whether a contract contains a lease.

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

New and amendments to HKFRSs that are mandatorily effective for the current year (Cont'd)

2.1 HKFRS 16 "Leases" (Cont'd)

As a lessee

The Group has applied HKFRS 16 retrospectively with the cumulative effect recognised at the date of initial application, 1 January 2019. As at 1 January 2019, the Group recognised additional lease liabilities and measured right-of-use assets at the carrying amounts as if HKFRS 16 had been applied since commencement dates, but discounted using the incremental borrowing rates of the relevant group entities at the date of initial application by applying HKFRS 16.C8(b)(i) transition. Any difference at the date of initial application is recognised in the opening retained profits and comparative information has not been restated.

When applying the modified retrospective approach under HKFRS 16 at transition, the Group applied the following practical expedients to leases previously classified as operating leases under HKAS 17, on lease-by-lease basis, to the extent relevant to the respective lease contracts:

i. relied on the assessment of whether leases are onerous by applying HKAS 37 Provisions Contingent Liabilities and Contingent Assets as an alternative of impairment review; and

ii. elected not to recognise right-of-use assets and lease liabilities for leases with lease term ends within 12 months of the date of initial application.

When recognising the lease liabilities for leases previously classified as operating leases, the Group has applied incremental borrowing rates of the relevant group entities at the date of initial application. The weighted average incremental borrowing rate applied is 5%.

	At 1 January 2019 *HK$'000*
Operating lease commitments disclosed as at 31 December 2018	1,083
Less: Practical expedient – lease with lease term ending within 12 months from the date of initial application	(248)
Prepayment as at 1 January 2019	(221)
	614
Less: Total future interest charge	(8)
Lease liabilities relating to operating leases recognised upon application of HKFRS 16 as at 1 January 2019	606
Analysed as	
Current	606
Non-current	–
	606

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

New and amendments to HKFRSs that are mandatorily effective for the current year (Cont'd)

2.1 HKFRS 16 "Leases" (Cont'd)

The carrying amount of right-of-use assets for own use as at 1 January 2019 comprises the following:

		At 1 January 2019 *HK$'000*
Right-of-use assets relating to operating leases recognised upon application of HKFRS 16		827
Reclassified from prepaid lease payments	*Note*	19,137
		19,964

Note:

Upfront payments for leasehold lands in the PRC for own used properties were classified as prepaid lease payments as at 31 December 2018. Upon application of HKFRS 16, the current and non-current portion of prepaid lease payments amounting to HK485,000 and HK$18,652,000 respectively were reclassified to right-of-use assets.

Also, right-of-use assets and corresponding lease liabilities amounting to approximately HK$827,000 and approximately HK$606,000 respectively in respect of non-cancellable operating lease commitments unless they qualify for low value or short-term leases were recognised.

Effective from 1 January 2019, leasehold lands for own used were presented as right-of-use assets and are measured under HKFRS 16 at cost less any accumulated depreciation and any impairment losses.

The following adjustments were made to the amounts recognised in the consolidated statement of financial position at 1 January 2019. Line items that were not affected by the changes have not been included.

	Notes	Carrying amounts previously reported at 31 December 2018 *HK$'000*	Adjustments *HK$'000*	Carrying amounts under HKFRS 16 at 1 January 2019 *HK$'000*
Non-current assets				
Right-of-use assets	16	–	19,964	19,964
Prepaid lease payments	15	18,652	(18,652)	–
Current assets				
Trade and other receivables				
– other prepayments		221	(221)	–
Prepaid lease payments	15	485	(485)	–
Current liabilities				
Lease liabilities	28	–	(606)	(606)

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

New and amendments to HKFRSs in issue but not yet effective

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

HKFRS 17	Insurance Contracts[1]
Amendments to HKFRS 3	Definition of a Business[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 1 and HKAS 8	Definition of Material[4]
Amendments to HKAS 39, HKFRS 7 and HKFRS 9	Interest Rate Benchmark Reform[4]

[1] Effective for annual periods beginning on or after 1 January 2021

[2] Effective for business combinations and asset acquisitions for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1 January 2020.

[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 2020.

In addition to the above new and amendments to HKFRSs, a revised Conceptual Framework for Financial Reporting was issued in 2018. Its consequential amendments, the Amendments to References to the Conceptual Framework in HKFRS Standards, will be effective for annual periods beginning on or after 1 January 2020.

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.

Conceptual Framework for Financial Reporting 2018 (the "New Framework") and the Amendments to References to the Conceptual Framework in HKFRS Standards

The New Framework:

- reintroduces the terms stewardship and prudence; introduces a new asset definition that focuses on rights and a new liability definition that is likely to be broader than the definition it replaces, but does not change the distinction between a liability and an equity instrument;

- discusses historical cost and current value measures, and provides additional guidance on how to select a measurement basis for a particular asset or liability;

- states that the primary measure of financial performance is profit or loss, and that only in exceptional circumstances other comprehensive income will be used and only for income or expenses that arise from a change in the current value of an asset or liability; and

- discusses uncertainty, derecognition, unit of account, the reporting entity and combined financial statements.

Consequential amendments have been made so that references in certain HKFRSs have been updated to the New Framework, whilst some HKFRSs are still referred to the previous versions of the framework. These amendments are effective for annual periods beginning on or after 1 January 2020, with earlier application permitted. Other than specific standards which still refer to the previous versions of the framework, the Group will rely on the New Framework on its effective date in determining the accounting policies especially for transactions, events or conditions that are not otherwise dealt with under the accounting standards.

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 recognised at a point in time for the year. An analysis of the Group's revenue for the year is as follows:

	2019	2018
	HK$'000	*HK$'000*
Distribution and trading of pharmaceutical products	**114,652**	364,533
Provision of marketing and promotion services	**3,980**	7,908
	118,632	372,441

The Group recognises the marketing and promotion fee from its customers at the time when the ultimate users placed orders to the Group's customers and it is highly probable that a significant reversal in the cumulative revenue recognised will not occur, this is also the time when the Group has the enforceable right for payment.

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; and

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

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.

4. **SEGMENT INFORMATION (Cont'd)**

Year ended 31 December 2019

	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	**114,652**	**3,980**	**118,632**
RESULT			
Segment profit	**2,229**	**3,677**	**5,906**
Other income, gains and losses			**(1,400)**
Selling and distribution expenses			**(16,677)**
Administrative expenses			**(19,918)**
Finance cost			**(52)**
Share of profit of associates			**9,263**
Impairment loss on interest in an assoicate			**(20,914)**
Loss before tax			**(43,792)**

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

Information of assets and liabilities for operating segments is 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.

4. **SEGMENT INFORMATION (Cont'd)**

Geographical information (Cont'd)

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

Information about major customers

Revenue from customers of the corresponding years contributing over 10% of the total revenue of the Group are as follows:

	2019	2018
	HK$'000	*HK$'000*
Customer A[1]	**17,530**	N/A[2]
Customer B[1]	**14,892**	N/A[2]
Customer C[1]	**14,877**	N/A[2]

1 The revenue derived from the distribution and trading of pharmaceutical products.

2 The corresponding customers did not contribute over 10% of the total revenue of the Group.

5. **OTHER INCOME, GAINS AND LOSSES**

	2019	2018
	HK$'000	*HK$'000*
Net gain on deemed disposals of interest in an associate	**–**	20,672
Compensation received from a customer	**737**	1,949
Incentives received from government grants *(note)*	**12**	1,180
Bank interest income	**2,365**	1,032
Sundry income	**–**	13
Dividend income from equity instruments at FVTOCI	**474**	174
Net exchange loss	**(4,829)**	(3,879)
Fair value change on financial asset at fair value through profit or loss	**(391)**	(2,696)
Gain (loss) on disposal of property, plant and equipment	**232**	(10)
	(1,400)	18,435

Note: During the year ended 31 December 2019, the Group was granted incentives of RMB11,000 (equivalent to approximately HK$12,000) (2018: RMB1,011,000 (equivalent to approximately HK$1,180,000)) 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

	2019	2018
	HK$'000	*HK$'000*
Current tax:		
PRC Enterprise Income Tax ("EIT")	**499**	5,542
Underprovision in prior year:		
PRC EIT	**–**	82
	499	5,624
Deferred tax	**(182)**	369
	317	5,993

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 2019 and 2018.

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. (LOSS) PROFIT FOR THE YEAR

	2019	2018
	HK$'000	*HK$'000*
(Loss) profit for the year has been arrived at after charging (crediting):		
Directors' emoluments, including contributions to retirement benefits scheme and equity-settled share-based payment expenses	**2,914**	5,995
Other staff's salaries, bonus and other benefits	**8,947**	11,233
Contributions to retirement benefits scheme, excluding directors	**636**	654
Total staff costs	**12,497**	17,882
Depreciation of property, plant and equipment	**2,620**	1,951
Depreciation of right-of-use assets	**1,341**	–
Amortisation of prepaid lease payments	**–**	496
Amortisation of prepayment for a distribution right (included in cost of sales)	**3,612**	3,738
Amortisation of intangible asset (included in cost of sales)	**1,806**	1,869
Minimum lease payment under operating leases in respect of rented premises	**260**	976
Auditor's remuneration	**1,650**	1,650
Legal and professional fees (included in administrative expenses)	**5,465**	9,317
Donations	**147**	119
(Gain) loss on disposal of property, plant and equipment	**(232)**	10
Impairment loss on deposits paid to suppliers	**3,997**	–
Impairment loss on trade receivables	**4,972**	–
Cost of inventories recognised as an expense	**95,075**	310,297

8. DIVIDENDS

No dividend was paid or proposed for ordinary shareholders of the Company during the years ended 31 December 2019 and 2018, nor has any dividend been proposed since the end of the reporting period.

9. (LOSS) EARNINGS PER SHARE

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

	2019	2018
	HK$'000	*HK$'000*
(Loss) profit for the year attributable to owners of the Company for the purposes of basic and diluted (loss) earnings per share	**(44,109)**	33,204

	Number of ordinary shares	
	2019	2018
	'000	*'000*
Number of shares		
Weighted average number of ordinary shares for the purposes of basic and diluted (loss) earnings per share	**1,671,847**	1,671,847

No diluted (loss) earnings per share for the years ended 31 December 2019 and 2018 was presented as there were no potential ordinary shares in issue for the years.

10. TRADE AND OTHER RECEIVABLES

	2019	2018
	HK$'000	*HK$'000*
Trade receivables	**46,439**	82,241
Less: allowance for credit loss	**(4,918)**	–
Trade receivables (net of allowance for credit loss)	**41,521**	82,241
Other prepayments	**559**	1,055
Other deposits	**399**	1,654
Prepayments to suppliers	**76,894**	294
Deposits paid to suppliers (net of allowance for credit loss)	**134,458**	91,303
Value-added tax recoverable	**–**	1,997
Others	**236**	169
	254,067	178,713
Less: Non-current portion	**(46,567)**	–
Current portion	**207,500**	178,713

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.

10. TRADE AND OTHER RECEIVABLES (Cont'd)

	2019	2018
	HK$'000	*HK$'000*
Trade receivables:		
0–30 days	**4,934**	26,934
31–60 days	**1,973**	7,772
61–90 days	**4,566**	8,431
91–180 days	**982**	16,582
181–365 days	**10,633**	18,544
Over 365 days	**18,433**	3,978
	41,521	82,241

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.

Included in the Group's trade receivable balance are debtors with aggregate carrying amount of approximately HK$18,505,000 (2018: HK$11,773,000) which are past due but not impaired as at 31 December 2019 and the Group has provided for impairment loss of approximately HK$4,972,000 (2018: nil) based on the provision matrix. 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 of HK$3,032,000.

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 prepayments 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.

Included in the Group's deposits paid to suppliers balance are suppliers with aggregate carrying amount of approximately HK$134,458,000 (2018: HK$91,303,000) as at 31 December 2019 and the Group has provided for impairment loss of approximately HK$3,997,000 (2018: nil).

11. TRADE AND OTHER PAYABLES

	2019	2018
	HK$'000	*HK$'000*
Trade payables	**2,522**	21,239
Deposits received from customers	**1,362**	3,561
Contract liabilities	**2,489**	2,353
Value-added tax payable	**1,625**	–
Other tax payables	**181**	46
Accruals	**4,813**	4,560
	12,992	31,759

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

	2019	2018
	HK$'000	*HK$'000*
0–30 days	**2,522**	21,239

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.

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 2018, 31 December 2018, 1 January 2019 and 31 December 2019	**3,000,000**	**150,000**
Issued and fully paid:		
At 1 January 2018, 31 December 2018, 1 January 2019 and 31 December 2019	**1,671,847**	**83,592**

All ordinary shares issued during the years ended 31 December 2019 and 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城市藥品集中採購文件) officially initiated in 2018 and the expansion of this centralised drug procurement regime nationwide in late 2019. Under the effect of the "4+7 centralised purchase policy" (4+7城市藥品集中採購文件), the average new bidding prices of selected drugs were dropped by approximately 50% as compared to the average original bidding prices. This centralised drug procurement policy was later expanded to 29 provinces and four municipalities across the country in 2019. Meanwhile, the tightened national health insurance budgets may bring further drugs reimbursement control and price cut on drugs. The aforesaid policies put the pharmaceutical distribution and trading enterprises including the Group into a challenging position and affect the profitability of the industry.

The Group also suffered a major blow as a result of the temporary suspension of production and sales of the Group's major product under the second generation of Cephalosporins (二代頭孢產品) ("Product") during the Year. For the Year, the total revenue of the Group was approximately HK$118.6 million, representing a decrease of approximately 68.2% as compared to 2018. The total gross profit of the Group was approximately HK$14.9 million, representing a decrease of approximately 68.6% as compared to 2018. The significant decrease in revenue and gross profit was mainly attributable to the sales decline of the Group's major product under the second generation of Cephalosporins (二代頭孢產品) as a result of the temporary suspension of production and sales of the Product during the Year. As the national exclusive distributor of the Product, the Group attached great importance to this incident. After the incident, the Group has maintained close communication with the manufacturer of the Product from time to time to ensure product quality.

Net loss attributable to owners of the Company for the Year was approximately HK$44.1 million while the net profit attributable to owners of the Company for the year ended 31 December 2018 was approximately HK$33.2 million. The turnaround of the Group's financial performance from a profit to a loss was primarily due to (i) the significant decrease in revenue and gross profit of the Group mainly due to the sales decline of the Group's major product (i.e. the Product) as a result of the temporary suspension of production and sales of the Product during the Year; (ii) the absence of a net gain on deemed disposal of interest in WinHealth International for the Year (2018: approximately HK$20.7 million); (iii) the decrease in share of profit of associates for the Year as the Group's interest in WinHealth International had no longer been classified as interest in associate since 11 October 2018; (iv) the recognition of impairment losses of approximately HK$9.0 million on the Group's trade and other receivables for the Year (2018: nil); and (v) the recognition of impairment losses in respect of the interest in Saike International, an associate of the Group, of approximately HK$20.9 million for the Year (2018: nil); despite that the change was partially offset by the decrease in the selling and distribution expenses of the Group during the Year.

FUTURE PROSPECTS

(i) Industry Outlook

Under the implementation of the "4+7 centralised purchase policy" (4+7城市藥品集中採購文件) and the expansion of this centralised drug procurement regime as well as the tightened national health insurance budgets, 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, aging population, urbanisation, increase in chronic diseases and household income and 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.

Covid-19, a new coronavirus, has first been detected in Wuhan, the central Chinese city, in late 2019 and has widely spread across the country in early 2020. The Chinese government has stepped up its efforts to prevent the spread of Covid-19, which is highly contagious, by imposing quarantine on travel in and out of Wuhan and neighbouring cities. Flights, trains, public buses, metro system and long-distance coaches in some cities were also suspended. Some cities implemented measures including stricter controls on the movement of residents and vehicles and shut down of leisure and other non-essential community services. As the coronavirus outbreak discourages large-scale gatherings and functions and confines citizens to their homes, the Group's business, in particular, the provision of marketing and promotion services, has been significantly impacted. However, the Group expects that the spread of coronavirus will be contained in foreseeable future. The Group's business of the provision of marketing and promotion services will resume once the situation becomes stable.

(ii) Growth Strategies

(a) Continue to diversify the existing product portfolio

During the Year, the Group acquired the exclusive national distribution rights of five prescription capsule and granule drugs in the PRC. The manufacturers are currently applying for approval to manufacture these capsule and granule drugs in the PRC. The Group will seek to acquire distribution rights of new products to enhance its product portfolio. Looking ahead to 2020, 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

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.

(c) To focus on our core businesses

As a long-term business strategy, the Group intends to focus on its core businesses of the distribution and trading of pharmaceutical products and the provision of marketing and promotion services in respect of pharmaceutical products in the PRC through reallocating its resources to the future development of the core businesses. The Group may consider the possibility of disposing of the business or assets in respect of its non-core business currently held by the Group in the coming future.

BUSINESS REVIEW

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.

During the Year, the revenue of the Group was 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 2019 and 31 December 2018 respectively.

	Revenue contributed from each business segment				**Gross profit margin**	
	2018		**2019**		2018	**2019**
	HK$'000	*%*	***HK$'000***	***%***	*%*	***%***
(1) Distribution and trading of pharmaceutical products	364,533	97.9	**114,652**	**96.6**	11.0	**9.8**
(2) Provision of marketing and promotion services	7,908	2.1	**3,980**	**3.4**	N/A	**N/A**
Total	372,441	100.0	**118,632**	**100.0**		

(1) Distribution and trading of pharmaceutical products

This segment generated a revenue of approximately 114.7 million for the Year (2018: approximately HK$364.5 million), representing a decrease of approximately 68.5% as compared to 2018. The significant decrease in revenue was primarily attributable to the sales decline of the Product as a result of the temporary suspension of production and sales of the Product during the Year.

On 28 February 2019, the Group received a letter from 杭州市市場監督管理局 (Hangzhou Municipal Administration for Market Regulation) (the English name is for identification purposes only) ("Hangzhou Market Administration") requesting the Group to stop selling the Product and to recall all batches of the Product in the market pursuant to the instruction of 浙江省藥品監督管理局 (Zhejiang Food and Drug Administration) ("ZFDA") after the identification of defective batches of the Product during the course of an unannounced inspection. The Group had stopped selling the Product and had recalled all batches of the Product from customers accordingly. The Product distributed by the Group contains two packings i.e. 0.5g and 1.0g of a sealed glass container.

In April 2019, the Group applied to Hangzhou Market Administration and ZFDA for the resumption of trading of the Product in the PRC. On 6 May 2019, Hangzhou Market Administration issued a notice to the Group ("Notice") which specified that the Group had been discharged of the administrative measures for the suspension of the trading of the Product (1.0g) from the date of the Notice pursuant to the notice of ZFDA. Accordingly, the Group could start selling the Product (1.0g) again in the market.

In June 2019, the manufacturer of the Product notified the Group that a thorough examination and review of the manufacturing process of the Product ("Improvement Project") was being conducted in order to improve the Product's quality and to avoid any similar incident of defective production of the Product in the future. During the course of the Improvement Project, production of the Product was suspended. The Improvement Project was completed and the production and sales of the Product (1.0g) has resumed since September 2019. As at 31 December 2019 and the date of this announcement, the production and sales of the Product (0.5g) remained suspended. The Group expects that the temporary suspension of production and sales of the Product (0.5g) will not cause a material negative impact on the Group's revenue in 2020.

(2) Provision of marketing and promotion services

This segment generated a revenue of approximately HK$4.0 million for the Year (2018: approximately HK$7.9 million), representing a decrease of approximately 49.4% as compared to 2018. 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. Under the implementation of the "Two-Invoice" System (兩票制) in the PRC, the Group has started to develop its business of the provision of marketing and promotion services in respect of pharmaceutical products in the PRC since 2017. The Group's marketing and promotion model involves formulating marketing and promotion strategies and conducting academic promotion programs of the Group's products in return for service income from the suppliers. The decrease in revenue from this segment was primarily because the market was highly competitive and the services contract entered into between a subsidiary of WinHealth International and the Group for the provision of marketing and promotion services of certain pharmaceutical products expired in late 2018.

FINANCIAL REVIEW

Revenue

The total revenue for the Year was approximately HK$118.6 million, representing a decrease of approximately 68.2% from approximately HK$372.4 million for the year ended 31 December 2018. The decrease in revenue from the distribution and trading of pharmaceutical products was primarily attributable to the temporary suspension of production and sales of the Group's major product under the second generation of Cephalosporins (二代頭孢產品) (i.e. the Product) during the Year. The decrease in revenue from the provision of marketing and promotion services was primarily because the market was highly competitive and the services contract entered into between WinHealth International's subsidiary and the Group for the provision of marketing and promotion services of certain pharmaceutical products expired in late 2018.

Cost of sales

The cost of sales for the Year was approximately HK$103.8 million, representing a decrease of approximately 68.1% from approximately HK$325.0 million for the year ended 31 December 2018. The decrease in cost of sales was mainly due to the decrease in sales volume of the Group's major product under the second generation of Cephalosporins (二代頭孢產品) during the Year.

Gross Profit and Gross Profit Margin

Gross profit decreased by approximately HK$32.5 million, or approximately 68.6%, from approximately HK$47.4 million for the year ended 31 December 2018 to approximately HK$14.9 million for the Year. The significant decrease in gross profit of the Group for the Year was mainly attributable to the temporary suspension of production and sales of the Group's major product under the second generation of Cephalosporins (二代頭孢產品). The Group's gross profit margin for the Year was approximately 12.5%, which has decreased by 0.2 percentage points when compared to 2018. The decrease in gross profit margin was primarily attributable to the decrease in sales volume of the Group's products while the amortisation costs classified as cost of sales are fixed.

Other Income, Gains and Losses

The net other loss for the Year were approximately HK$1.4 million (2018: net other gains of approximately HK$18.4 million). Such change was primarily attributable to (i) the absence of a net gain on deemed disposal of interest in WinHealth International for the Year (2018: approximately HK$20.7 million); and (ii) the net exchange loss of approximately HK$4.8 million recorded for the Year (2018: approximately HK$3.9 million).

Selling and Distribution Expenses

Selling and distribution expenses for the Year were approximately HK$16.7 million, representing a decrease of approximately 30.4% from approximately HK$24.0 million for the year ended 31 December 2018. The decrease in selling and distribution expenses was primarily attributable to the temporary suspension of production and sales of the Group's major product under the second generation of Cephalosporins (二代頭孢產品) during the Year.

Administrative Expenses

Administrative expenses for the Year were approximately HK$19.9 million, representing a decrease of approximately 13.1% from approximately HK$22.9 million for the year ended 31 December 2018. Such decrease was mainly due to the decrease in legal and professional fees incurred for conducting an independent investigation into the issues relating to the Group's acquisitions of interests in Saike International and WinHealth International during the Year.

Share of Profit of Associates

Share of profit of associates was approximately HK$9.3 million for the Year which was contributed by Saike International, representing a decrease of approximately 54.0% from approximately HK$20.2 million for the year ended 31 December 2018 which was contributed by Saike International and WinHealth International. The Group ceased to recognise its interest in WinHealth International as interest in 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 Expense

Income tax expense for the Year was approximately HK$0.3 million, representing a decrease of approximately 95.0% from approximately HK$6.0 million for the year ended 31 December 2018. The decrease was primarily due to the decrease in taxable income for tax purposes.

Loss for the Year

The Group recorded a change from a profit attributable to owners of the Company of approximately HK$33.2 million for the year ended 31 December 2018 to a loss attributable to owners of the Company of approximately HK$44.1 million for the Year.

The turnaround of the Group's financial performance from a profit to a loss was primarily due to (i) the significant decrease in revenue and gross profit of the Group mainly due to the sales decline of the Group's major product (i.e. the Product) as a result of the temporary suspension of production and sales of the Product during the Year; (ii) the absence of a net gain on deemed disposal of interest in WinHealth International for the Year (2018: approximately HK$20.7 million); (iii) the decrease in share of profit of associates for the Year as the Group's interest in WinHealth International had no longer been classified as interest in associate since 11 October 2018; (iv) the recognition of impairment losses of approximately HK$9.0 million on the Group's trade and other receivables for the Year (2018: nil); and (v) the recognition of impairment losses in respect of the interest in Saike Interneational, an associate of the Group, of approximately HK$20.9 million for the year (2018: nil); despite that the change was partially offset by the decrease in the selling and distribution expenses of the Group during the Year.

Equity instruments at fair value through other comprehensive income ("FVTOCI")

The Group's equity instruments at FVTOCI include (i) equity instruments at FVTOCI listed in Hong Kong under suspension; (ii) equity instruments at FVTOCI listed in Hong Kong which have been determined based on the quoted market prices available on the Stock Exchange, except the Group's listed securities investment under suspension; and (iii) equity instruments at FVTOCI for unlisted investments which are incorporated in the Cayman Islands and the British Virgin Islands with limited liability and stated at fair value based on valuations prepared by independent valuers.

(i) Equity instruments at FVTOCI listed in Hong Kong under suspension

As at 31 December 2019, the Group's securities investment in the shares of Town Health International Medical Group Limited ("Town Health") ("TH Shares") (a company whose shares are listed on the Main Board of the Stock Exchange with stock code: 3886) had a fair value of approximately HK$17.1 million. On 27 November 2017, the SFC had, 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 2019. The valuation was conducted based on market approach method by reference to P/S multiple, EV/EBITDA multiple of companies in similar industry and discount of lack of marketability. As at 31 December 2019 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 gain on its investment in the TH Shares of approximately HK$3.0 million for the Year. Based on the 2019 interim report of Town Health, Town Health will strive to maintain the leading position in medical and healthcare industry in Hong Kong, while further developing the medical market in Mainland China. Town Health will continue striving to become the leading player in the healthcare industry. Town Health will leverage its healthcare management expertise and extensive experience to bring in high quality and more efficient Hong Kong-style health services and operation models into the PRC market.

(ii) Equity instruments at FVTOCI listed in Hong Kong

As at 31 December 2019, the Group's securities investment listed in Hong Kong (other than the TH Shares) had a fair value of approximately HK$1.9 million.

During the Year, the Group did not dispose of any equity securities listed in Hong Kong. Besides, due to a decrease in the fair value of certain listed securities investments, a fair value loss of approximately HK$0.2 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.

(iii) Equity instruments at FVTOCI for unlisted investments

HCMPS Healthcare Holdings Limited ("HCMPS")

As at 31 December 2019, the Group held approximately 14.0% equity interest in HCMPS (formerly known as C&C International Healthcare Group Limited) with an investment amount of approximately HK$69.2 million. As at 31 December 2019, the fair value of the Group's investment in HCMPS amounted to approximately HK$42,000,000 (2018: approximately HK$61,040,000), which accounted for approximately 6.2% of the Group's total assets (2018: approximately 7.9%). A fair value loss on the Group's investment in HCMPS of approximately HK$19,040,000 (2018: fair value loss of approximately HK$9,240,000) has been recognised in other comprehensive income for the Year. No dividend income was received from HCMPS for 2019 and 2018.

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 nine months ended 30 September 2019, it recorded an unaudited consolidated profit of approximately HK$17.0 million. The Hong Kong economic condition in 2020 is expected to be weakened as compared to 2019 due to the social instability in Hong Kong and the current outbreak of coronavirus disease. However, 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 2019, the Group held approximately 9.63% equity interest in WinHealth International with an investment amount of approximately RMB47.25 million. As at 31 December 2019, the fair value of the Group's investment in WinHealth International amounted to approximately HK$76,694,000 (2018: approximately HK$79,454,000), which accounted for approximately 11.3% of the Group's total assets (2018: approximately 10.3%) . A fair value loss on the Group's investment in WinHealth International of approximately HK$2,760,000 (2018: fair value loss of approximately HK$1,022,000) has been recognised in other comprehensive income for the Year. No dividend income was received from WinHealth International for 2019 and 2018.

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 2019, it recorded an unaudited consolidated profit of approximately RMB73.8 million. The aging population, urbanisation, increase in chronic diseases and household income, and wider coverage of medical insurance in the PRC will drive the demand for medical treatments and use of drug, which are favourable to the continuing development of the business of WinHealth International in the long term.

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 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 years ended 31 December 2019 and 2018 have not yet been made available to the Group. Based on the unaudited consolidated financial statements of WinHealth International for the years ended 31 December 2019 and 2018, the unaudited consolidated profit of WinHealth International was approximately RMB73.8 million and RMB51.7 million respectively. On this basis, it is expected that no adjustment will be made for 2019 and 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 a 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.

As a long-term business strategy of the Group to focus on its core businesses, the Group may consider the possibility of disposing of the business or assets in respect of its non-core business currently held by the Group in the coming future.

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 conducted by the Group in 2016. The Group's liquidity position was well-managed in the Year.

The Group's cash and cash equivalents amounted to approximately HK$88.7 million in total as at 31 December 2019 (2018: approximately HK$146.1 million), among which approximately 44% (2018: approximately 49%) were denominated in Hong Kong dollars and 56% (2018: approximately 51%) were denominated in Renminbi. The Group did not have any bank loan as at 31 December 2019 (2018: nil).

The Group's gearing ratio (defined as total bank and other borrowings divided by total equity) was zero as at 31 December 2019 (2018: zero).

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 2019, the Group had 35 employees (2018: 48). Staff costs for the Year, including Directors' emolument, amounted to approximately HK$12.5 million (2018: approximately HK$17.9 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 comprehensive and competitive remuneration and benefits packages 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 2019, the Group did not have any significant contingent liabilities.

Material Acquisitions or Disposals and Significant Investments

The Group did not make any material acquisitions or disposals and significant investments during the Year.

Investment in Saike International

As at 31 December 2019, the Group held 50% equity interest in Saike International. The 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$9.3 million (2018: approximately HK$12.0 million).

Saike International and its subsidiaries are principally engaged in the trading of medical devices and equipment in the PRC. The Group carried out an impairment review on the carrying amount of Saike International by comparing the recoverable amount with the carrying amount of the Group's interest in Saike International as at 31 December 2019. Based on the assessment, the recoverable amount of Saike International was lower than its carrying amount as at 31 December 2019. Hence, an impairment loss of approximately HK$20.9 million on the Group's interest in Saike International was recognised during the Year. The Group will continue to monitor the performance of Saike International cautiously in view of the economic downturn in the PRC due to the current outbreak of coronavirus.

Capital Structure

The capital of the Company comprises only ordinary shares. As at 31 December 2019, the Group had shareholders' equity of approximately HK$654.5 million (2018: approximately HK$725.4 million).

Pledge of Assets

As at 31 December 2019, the Group pledged the buildings and right-of-use assets with an aggregate carrying amount of approximately HK$9.3 million (2018: approximately HK$9.6 million comprising the buildings and prepaid lease payments) to secure general banking facilities granted to the Group.

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 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) to 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 was 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 was in the progress of preparing its draft independent investigation report. The Company has also engaged PKF Hong Kong Limited ("PKF") as its internal control adviser to review the effectiveness of the Group's internal control systems in relation to investment procedure (including mergers and acquisitions and new projects). PKF was in the progress of preparing its report on the Group's internal control systems.

The Company is also seeking legal advice to address and resolve the SFC's concerns with the aim of resuming trading in the Shares. The Company intends to make further submission to the SFC in relation to its application for resumption of trading of the Shares. However, the Company is not in a position to disclose the details due to its statutory secrecy obligations under the Securities and Futures Ordinance (Chapter 571, the Laws of Hong Kong). In view of the circumstances, the Company is not in a position to formulate any practicable resumption plan with a clear timeframe at this stage. The Company will continue to seek legal advice with a view to resuming trading of the Shares as soon as practicable.

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 expired on 31 January 2020. The Company was informed by the Stock Exchange that, (i) after consultation with the SFC, the Stock Exchange will, until further notice, withhold exercising its right to delist the Company under Rule 6.01A(2)(b)(i) of the Listing Rules should trading in the Company's securities remain suspended on 31 January 2020; (ii) for the avoidance of doubt, this is without prejudice to the Stock Exchange exercising its right under Rule 6.01A of the Listing Rules at a later stage when the Stock Exchange considers appropriate; (iii) the Stock Exchange also reserves all its rights under the Listing Rules; (iv) the Company is reminded of its obligation to procure a resumption of trading as soon as possible; and (v) if the Stock Exchange is not satisfied that the Company has taken and is taking all reasonable steps to procure a resumption of trading, the Stock Exchange is likely to proceed to delist the Company without further delay. 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. 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, 1 February 2019, 2 May 2019, 2 August 2019, 1 November 2019, 8 January 2020 and 31 January 2020. 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, 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, 24 June 2020 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 2019, 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 2018 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 2019, the carrying amount of the Group's interest in Saike International is HK$131,445,000 (31 December 2018: HK$146,397,000) and the fair value of the Group's interest in WinHealth International is HK$76,694,000 (31 December 2018: 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).

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 20 and 21 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, 26 March 2020

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.