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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)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2020

FINANCIAL HIGHLIGHTS

For the six months ended 30 June 2020:

- The Group recorded a revenue of approximately HK\$69,470,000 for the six months ended 30 June 2020, which has increased by approximately 25.1% when compared to that of approximately HK\$55,511,000 for the corresponding period in 2019.
- Net loss attributable to owners of the Company for the six months ended 30 June 2020 was approximately HK\$36,434,000, which has increased by approximately 367.2% when compared to that of approximately HK\$7,798,000 for the corresponding period in 2019.
- The Board does not recommend the payment of any interim dividend for the six months ended 30 June 2020.

As at 30 June 2020:

- The Group had a gearing ratio (defined as total bank and other borrowings divided by total equity) of zero as at 30 June 2020 (31 December 2019: zero).

The board (the “**Board**”) of directors (the “**Directors**”) of New Ray Medicine International Holding Limited (the “**Company**”) is pleased to present the unaudited condensed consolidated results of the Company and its subsidiaries (collectively, the “**Group**”) for the six months ended 30 June 2020 (“**Period**”) together with the comparative unaudited figures for the corresponding period in 2019 as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2020

	Notes	Six months ended 30 June	
		2020 (Unaudited) HK\$'000	2019 (Unaudited) HK\$'000
Revenue	4	69,470	55,511
Cost of sales		(64,567)	(48,678)
		4,903	6,833
Other income, gains and losses	5	(1,512)	405
Selling and distribution expenses		(4,845)	(5,149)
Administrative expenses		(10,526)	(12,948)
Finance costs		(51)	(8)
Share of profit of associates	12	488	3,573
Impairment loss on trade and other receivables		(2,855)	–
Impairment loss on interest in an associate		(22,235)	–
Loss before tax		(36,633)	(7,294)
Income tax credit (expense)	6	199	(504)
Loss for the period attributable to owners of the Company	7	(36,434)	(7,798)
Other comprehensive expense for the period:			
<i>Items that will not be reclassified to profit or loss:</i>			
Fair value loss on equity instruments at fair value through other comprehensive income		(17,857)	(9,607)
Exchange difference arising on translation of functional currency to presentation currency			
– Subsidiaries		(5,704)	(1,857)
– Associates		(1,069)	(192)
Other comprehensive expense for the period		(24,630)	(11,656)
Total comprehensive expense for the period		(61,064)	(19,454)
Loss for the period attributable to owners of the Company		(36,434)	(7,798)
Total comprehensive expense for the period attributable to owners of the Company		(61,064)	(19,454)
Loss per share			
– Basic and diluted (<i>HK cent</i>)	9	(2.18)	(0.47)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2020

		As at 30 June 2020 (Unaudited) HK\$'000	As at 31 December 2019 (Audited) HK\$'000
	<i>Notes</i>		
Non-current assets			
Property, plant and equipment	10	12,723	14,086
Right-of-use assets	10	20,441	20,594
Prepayment for a distribution right		15,442	17,532
Intangible assets		8,904	9,973
Club debenture		547	558
Equity instruments at fair value through other comprehensive income	11	119,762	137,619
Interests in associates	12	107,151	131,445
Deposits paid to suppliers	14	45,667	46,567
		330,637	378,374
Current assets			
Inventories	13	9,168	793
Trade and other receivables	14	169,247	207,500
Prepayment for a distribution right		3,503	3,572
Bank balances and cash		101,334	88,668
		283,252	300,533
Current liabilities			
Trade and other payables	15	9,156	12,992
Lease liabilities	10	903	401
		10,059	13,393
Net current assets		273,193	287,140
Total assets less current liabilities		603,830	665,514
Non-current liabilities			
Lease liabilities	10	1,539	1,783
Deferred tax liabilities		8,872	9,248
		10,411	11,031
		593,419	654,483
Capital and reserves			
Share capital	16	83,592	83,592
Share premium and reserves		509,827	570,891
Equity attributable to owners of the Company		593,419	654,483

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2020

1. GENERAL INFORMATION

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 are 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 Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda and Room 911B, 9th Floor, Tower 1, Silvercord, No. 30 Canton Road, Kowloon, Hong Kong, respectively.

The Company is an investment holding company. Its principal operating 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 condensed 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 2019, 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 appeared 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).

On 8 January 2020, the Company announced that 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. 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.

On 31 July 2020, the Company announced that the Company intends to make further submission to the SFC in relation to its application for resumption of trading of the Shares. 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.

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

As disclosed in note 21 to the consolidated financial statements of the Company for the year ended 31 December 2019, 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 of the Company for the year ended 31 December 2019 for details), which were completed in 2015 and 2017 respectively and the costs of the Acquisitions amounted to RMB95,000,000 and RMB47,250,000 respectively.

As at 30 June 2020, the carrying amount of the Group's interest in Saike International is approximately HK\$107,151,000 (31 December 2019: approximately HK\$131,445,000) and the fair value of the Group's interest in WinHealth International is approximately HK\$74,301,000 (31 December 2019: approximately HK\$76,694,000, 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 of the Company for the year ended 31 December 2019 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 condensed 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. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with Hong Kong Accounting Standard 34 ("**HKAS 34**") "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**") as well as with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on the Stock Exchange ("**Listing Rules**").

The condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements and should be read in conjunction with the Group's annual financial statements for the year ended 31 December 2019.

3. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis, except for certain financial instruments which are measured at fair value. Other than additional accounting policies resulting from application of amendments to Hong Kong Financial Reporting Standards (“**HKFRSs**”), the principal accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2020 are the same as those presented in the Group’s annual financial statements for the year ended 31 December 2019.

Application of new and amendments to HKFRSs

In the Period, the Group has applied, for the first time, the following new and amendments to HKFRSs issued by the HKICPA which are mandatorily effective for the annual period beginning on or after 1 January 2020 for the preparation of the Group’s condensed consolidated financial statements:

Amendments to HKAS 1 and HKAS 8	Definition of Material
Amendments to HKFRS 3	Definition of a Business
Amendments to HKFRS 7, HKFRS 9 and HKAS 39	Interest Rate Benchmark Reform

Except as described below, the application of the Amendments to References to the Conceptual Framework in HKFRSs and the amendments to HKFRSs in the current period has had no material impact on the Group’s financial positions and performance for the current and prior periods and/or on the disclosures set out in these condensed consolidated financial statements.

3.1 Impacts of application of Amendments to HKAS 1 and HKAS 8 “Definition of Material”

The amendments provide a new definition of material that states “information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.”. The amendments also clarify that materiality depends on the nature or magnitude of information, either individually or in combination with other information, in the context of the financial statements taken as a whole.

The application of the amendments in the current period had no impact on the condensed consolidated financial statements. Changes in presentation and disclosures on the application of the amendments, if any, will be reflected on the consolidated financial statements for the year ending 31 December 2020.

4. REVENUE AND 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 the types of business activities.

During the Period, 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.

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

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

Six months ended 30 June 2020 (unaudited)

	Distribution and trading of pharmaceutical products <i>HK\$'000</i>	Provision of marketing and promotion services <i>HK\$'000</i>	Total <i>HK\$'000</i>
REVENUE			
External sales and segment revenue	<u>67,615</u>	<u>1,855</u>	<u>69,470</u>
RESULT			
Segment profit	<u>334</u>	<u>1,714</u>	2,048
Other income, gains and losses			(1,512)
Selling and distribution expenses			(4,845)
Administrative expenses			(10,526)
Finance costs			(51)
Share of profit of associates			488
Impairment loss on interest in an associate			<u>(22,235)</u>
Loss before tax			<u>(36,633)</u>

Six months ended 30 June 2019 (unaudited)

	Distribution and trading of pharmaceutical products <i>HK\$'000</i>	Provision of marketing and promotion services <i>HK\$'000</i>	Total <i>HK\$'000</i>
REVENUE			
External sales and segment revenue	<u>53,692</u>	<u>1,819</u>	<u>55,511</u>
RESULT			
Segment profit	<u>5,152</u>	<u>1,681</u>	6,833
Other income, gains and losses			405
Selling and distribution expenses			(5,149)
Administrative expenses			(12,948)
Finance costs			(8)
Share of profit of associates			<u>3,573</u>
Loss before tax			<u>(7,294)</u>

Information of assets and liabilities for reportable and 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 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 asset is substantially situated in the PRC.

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

5. OTHER INCOME, GAINS AND LOSSES

	Six months ended 30 June	
	2020 (Unaudited) HK\$'000	2019 (Unaudited) HK\$'000
Bank interest income	740	1,595
Dividend income from equity instruments at FVTOCI	174	174
Net exchange loss	(2,556)	(1,271)
Fair value loss on financial asset at fair value through profit or loss ("FVTPL")	–	(93)
Gain on disposal of property, plant and equipment	1	–
Government subsidies (<i>note</i>)	116	–
Others	13	–
	<u>(1,512)</u>	<u>405</u>

Note: During the six months ended 30 June 2020, the Group was granted incentives of RMB31,000 (equivalent to approximately HK\$35,000) by local government in Hangzhou, the PRC for the purpose of enhancing the development of the Group. The remaining was granted by the Government of the Hong Kong Special Administrative Region for the Employment Support Scheme in response to the COVID-19 pandemic. The management of the Company consider there is reasonable assurance that the conditions of these incentives will be fulfilled and hence these government incentives were recognised in profit or loss.

6. INCOME TAX CREDIT (EXPENSE)

	Six months ended 30 June	
	2020 (Unaudited) HK\$'000	2019 (Unaudited) HK\$'000
Current tax:		
PRC Enterprise Income Tax ("EIT")	–	(504)
Deferred Tax	199	–
Total tax credit (expense) for the period	<u>199</u>	<u>(504)</u>

Under the Laws of the PRC on Enterprise Income Tax (the "EIT Law") and Implementation Regulations of the EIT Law, the tax rate of the PRC subsidiaries of the Company is 25% for both periods. No provision for Hong Kong Profits Tax has been made in the condensed consolidated financial statements as the Group had no assessable profits in Hong Kong for both periods.

7. LOSS FOR THE PERIOD

	Six months ended 30 June	
	2020	2019
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Loss for the period has been arrived at after charging:		
Depreciation of property, plant and equipment	1,147	1,568
Depreciation of right-of-use assets	760	553
Amortisation of intangible assets (included in cost of sales)	884	911
Amortisation of prepayment for a distribution right (included in cost of sales)	1,769	1,822
Operating lease expenses in respect of short term leases	–	238
Cost of inventories recognised as an expense	61,914	44,321
	<u>61,914</u>	<u>44,321</u>

8. DIVIDENDS

The Board does not recommend the payment of any interim dividend for the Period (six months ended 30 June 2019: nil).

9. LOSS PER SHARE

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

	Six months ended 30 June	
	2020	2019
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Loss		
Loss for the period attributable to owners of the Company for the purpose of basic and diluted loss per share	(36,434)	(7,798)
Number of shares		
Weighted average number of ordinary shares for the purpose of basic and diluted loss per share	<u>1,671,846,657</u>	<u>1,671,846,657</u>

Note: The basic and diluted loss per share for both periods are the same as there were no potential dilutive shares.

10. PROPERTY, PLANT AND EQUIPMENT, RIGHT-OF-USE ASSETS AND LEASE LIABILITIES

During the Period, the Group acquired property, plant and equipment of approximately HK\$76,000 (six months ended 30 June 2019: approximately HK\$13,000).

During the Period, the Group disposed of certain plant and machinery with an aggregate carrying amount of approximately HK\$31,000 (six months ended 30 June 2019: nil) for selling proceeds of approximately HK\$32,000 (six months ended 30 June 2019: nil).

During the Period, the Group entered into two new lease agreements with lease terms of 2 years. On lease commencement, the Group recognised right-of-use assets of approximately HK\$997,000 (six months ended 30 June 2019: approximately HK\$606,000) and lease liabilities of approximately HK\$997,000 (six months ended 30 June 2019: approximately HK\$606,000).

11. EQUITY INSTRUMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

Equity instruments at FVTOCI comprise:

	As at 30 June 2020 (Unaudited) <i>HK\$'000</i>	As at 31 December 2019 (Audited) <i>HK\$'000</i>
Listed investments:		
– Equity securities listed in Hong Kong	19,421	18,925
Unlisted investments:		
– Equity securities	100,341	118,694
Total	<u>119,762</u>	<u>137,619</u>
Analysed for reporting purposes as:		
Non-current assets	<u>119,762</u>	<u>137,619</u>

12. INTERESTS IN ASSOCIATES

	As at 30 June 2020 (Unaudited) HK\$'000	As at 31 December 2019 (Audited) HK\$'000
Cost of unlisted investments in associates	118,631	118,631
Share of post-acquisition profit and other comprehensive income	45,099	45,680
Exchange difference arising on translation	(13,834)	(11,952)
	<u>149,896</u>	<u>152,359</u>
Impairment loss	(42,745)	(20,914)
	<u><u>107,151</u></u>	<u><u>131,445</u></u>

As at 30 June 2020 and 31 December 2019, the interests in associates represented 20% equity interest in Sea Star International Limited (“**Sea Star**”), a company incorporated in the British Virgin Islands (“**BVI**”) in March 2015 and 50% equity interest in Saike International, a company incorporated in the BVI in July 2014. The Group was able to exercise significant influence over Sea Star and Saike International as the Group had the power to participate in the financial and operating policy decisions of the investee companies, but did not have control or joint control over those policies. Accordingly, Sea Star and Saike International were regarded as associates of the Group as at 30 June 2020 and 31 December 2019.

Details of the Group’s associates as at 30 June 2020 and 31 December 2019 are as follows:

Name	Place of incorporation	Proportion of ownership held by the Group		Principal activities
		As at 30 June 2020	As at 31 December 2019	
Sea Star (<i>note a</i>)	the BVI	20%	20%	Inactive
Saike International (<i>note b</i>)	the BVI	50%	50%	Trading of medical devices and equipment and medical consumables in the PRC

Notes:

- (a) On 11 December 2014, Brilliant Dream Holding Limited (“**Brilliant Dream**”), an indirect wholly-owned subsidiary of the Company and Sharp Shine International Limited (“**Sharp Shine**”), an indirect wholly-owned subsidiary of Town Health International Medical Group Limited (“**Town Health**”) entered into an agreement to incorporate a company, Sea Star, in the BVI with limited liability which was held by Sharp Shine and Brilliant Dream as to 80% and 20% respectively. Sea Star was intended to be engaged in the medical and healthcare related business in the PRC. Sharp Shine and Brilliant Dream would provide interest-free initial shareholders’ loan in an aggregate sum of up to HK\$300,000,000 to Sea Star in the proportion of 80% and 20% with a view to financing the proposed business. As at 30 June 2020, the carrying amount of the Group’s interest in Sea Star was nil (31 December 2019: nil). As at 30 June 2020 and 31 December 2019, there was no shareholders’ loan made to Sea Star.

- (b) On 20 March 2015, Major Bright Holdings Limited (“**Major Bright**”), a wholly-owned subsidiary of the Company, and Ms. Zhao Lei as vendor entered into a sale and purchase agreement (“**S&P Agreement**”) in respect of the acquisition of 50% equity interest in Saike International at an aggregate consideration of RMB95,000,000 (equivalent to approximately HK\$118,631,000) (“**Saike Acquisition**”). Saike International and its subsidiaries (the “**Saike Group**”) are principally engaged in the trading of medical devices and equipment and medical consumables in the PRC.

As at 30 June 2020 and 31 December 2019, although the Group held 50% equity interest in Saike International and has the power to appoint one out of two directors, the director who is appointed by the other shareholder shall be entitled to a second and/or casting vote in the event of an equality of votes. Therefore, in the opinion of the Directors of the Company, the Group has significant influence over Saike International.

During the period ended 30 June 2020 and 31 December 2019, the Directors of the Company reviewed the carrying amounts of the Group’s associates. The carrying amounts of the Group’s interests in each of the associates were tested for impairment in accordance with HKAS36 “Impairment of assets” as a single asset by comparing their recoverable amounts with their respective carrying amounts.

The recoverable amount of the cash generating unit of Saike International (the “**Unit**”) has been determined based on value in use calculation. That calculation uses cash flow projections based on financial budgets approved by management covering a 5-year (2019: 5-year) period, and discount rate of 18.82% (2019: 18.49%). Other key assumptions for the value in use calculations relate to the estimation of cash inflows/outflows which include budgeted sales and gross margin, such estimation is based on the Unit’s past performance and management’s expectations for the market development.

Since the recoverable amount of the Unit as at 30 June 2020 was lower when compared with its carrying amount as at 30 June 2020, impairment loss in respect of the Group’s interest in Saike International amounting to approximately HK\$22,235,000 (six months ended 30 June 2019: nil) was recognised during the Period.

13. INVENTORIES

	As at 30 June 2020 (Unaudited) <i>HK\$’000</i>	As at 31 December 2019 (Audited) <i>HK\$’000</i>
Finished goods	<u><u>9,168</u></u>	<u><u>793</u></u>

14. TRADE AND OTHER RECEIVABLES

	As at 30 June 2020 (Unaudited) HK\$'000	As at 31 December 2019 (Audited) HK\$'000
Trade receivables	42,245	46,439
Less: allowance for credit loss	<u>(7,651)</u>	<u>(4,918)</u>
Trade receivables (net of allowance for credit loss)	34,594	41,521
Other prepayments	343	559
Other deposits	393	399
Prepayments to suppliers	30,383	76,894
Deposits paid to suppliers (net of allowance for credit loss)	146,528	134,458
Value-added tax recoverable	2,196	–
Others	<u>477</u>	<u>236</u>
	214,914	254,067
Less: Non-current portion	<u>(45,667)</u>	<u>(46,567)</u>
Current portion	<u><u>169,247</u></u>	<u><u>207,500</u></u>

The Group allows a credit period ranging from 0 to 365 days to its trade customers. The following is an ageing 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 periods:

	As at 30 June 2020 (Unaudited) HK\$'000	As at 31 December 2019 (Audited) HK\$'000
Trade receivables:		
0 – 30 days	4,423	4,934
31 – 60 days	4,017	1,973
61 – 90 days	2,480	4,566
91 – 180 days	193	982
181 – 365 days	125	10,633
Over 365 days	<u>23,356</u>	<u>18,433</u>
	<u><u>34,594</u></u>	<u><u>41,521</u></u>

Before accepting any new customer, 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.

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 with aggregate gross carrying amount of approximately HK\$150,420,000 (31 December 2019: approximately HK\$138,427,000) and the Group has provided for impairment loss of approximately HK\$3,892,000 (31 December 2019: approximately HK\$3,969,000) as at 30 June 2020.

15. TRADE AND OTHER PAYABLES

	As at 30 June 2020 (Unaudited) HK\$'000	As at 31 December 2019 (Audited) HK\$'000
Trade payables	–	2,522
Deposits received from customers	1,336	1,362
Contract liabilities	2,492	2,489
Value-added tax payable	–	1,625
Other tax payables	–	181
Accruals	5,328	4,813
	9,156	12,992

The following is an ageing analysis of trade payables presented based on the invoice dates at the end of the reporting periods:

	As at 30 June 2020 (Unaudited) HK\$'000	As at 31 December 2019 (Audited) HK\$'000
0 – 30 days	–	2,522

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. Details of the amounts of prepayments to suppliers and deposits paid to suppliers are set out in note 14 to the condensed consolidated financial statements.

16. SHARE CAPITAL

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

Ordinary shares

	Number of shares '000	Amount HK\$'000
Authorised:		
At 1 January 2019, 30 June 2019, 31 December 2019 and 30 June 2020	<u>3,000,000</u>	<u>150,000</u>
Issued and fully paid:		
At 1 January 2019, 30 June 2019, 31 December 2019 and 30 June 2020	<u>1,671,847</u>	<u>83,592</u>

17. PLEDGE OF ASSETS

As at 30 June 2020, the Group had pledged the buildings and right-of-use assets with an aggregate carrying amount of approximately HK\$8,850,000 (31 December 2019: approximately HK\$9,347,000) to secure general banking facilities granted to the Group.

MANAGEMENT DISCUSSION AND ANALYSIS

The Group is an established pharmaceutical distributor originated from Zhejiang province headquartered in Hangzhou, Zhejiang province. The Group is principally engaged in the distribution and trading of pharmaceutical products and the provision of marketing and promotion services in the PRC, with a focus in Zhejiang province. The Group procures pharmaceutical products throughout the PRC and sells pharmaceutical products and provides marketing and promotion services through a network of customers spreading over different regions in the PRC, including Zhejiang province, Shanxi province, Hubei province, Hebei province, Hunan province and Guangdong province.

Overview

Covid-19, a new coronavirus, has first been detected in late 2019 and has widely spread across the PRC 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 various 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 precautionary measures of the PRC government to tackle the coronavirus outbreak discourage large-scale gatherings and functions and confine citizens to their homes, the Group's business, in particular, the provision of marketing and promotion services, has been impacted during the Period.

Despite the above unfavourable market condition, the total revenue of the Group was approximately HK\$69,470,000, representing an increase of approximately 25.1% as compared to that for the corresponding period in 2019. The increase in revenue was mainly attributable to the resumption of the production and sales of the Group's major product under the second generation of Cephalosporins (二代頭孢產品) (“**Product**”) (1.0g) since September 2019 after the temporary suspension of the production and sales of the Product (1.0g) in 2019. As at 30 June 2020 and the date of this announcement, the production and sales of the Product (0.5g) remained suspended. The Group puts effort to relaunch the Product (1.0g) on the market and the sales performance of the Product (1.0g) has been improving steadily. However, the Group incurred more losses for the Period, which was approximately HK\$36,434,000, as compared with the loss attributable to owners of the Company of approximately HK\$7,798,000 for the six months ended 30 June 2019. The loss of the Group for the Period was primarily due to (i) the decrease in the gross profit due to the decrease in the average selling price of the Product (1.0g) under the newly implemented centralised drug procurement policy in some regions in the PRC; (ii) the slowdown in trading activities and business operations of the Group due to the outbreak of the Covid-19 pandemic in 2020; (iii) the decrease in share of profit of associates as a result of the slowdown in the trading activities due to the outbreak of the Covid-19 pandemic in 2020; (iv) the recognition of impairment losses in respect of the Group's interest in Saike International, an associate of the Group, of approximately HK\$22,235,000 for the Period (six months ended 30 June 2019: nil); and (v) the recognition of an expected credit loss allowance of approximately HK\$2,855,000 on the Group's trade and other receivables for the Period (six months ended 30 June 2019: nil).

Business review

During the Period, 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.

Revenue and segment information

The table below sets out the revenue of the Group (by business segment) for the six months ended 30 June 2020 and 2019 respectively.

	Revenue contributed by each business segment for the six months ended 30 June			
	2020 (Unaudited) HK\$'000		2019 (Unaudited) HK\$'000	
		%		%
(1) Distribution and trading of pharmaceutical products	67,615	97.3	53,692	96.7
(2) Provision of marketing and promotion services	1,855	2.7	1,819	3.3
Total	<u>69,470</u>	<u>100.0</u>	<u>55,511</u>	<u>100.0</u>

(1) *Distribution and trading of pharmaceutical products*

This segment generated a revenue of approximately HK\$67,615,000 for the Period (six months ended 30 June 2019: approximately HK\$53,692,000), representing an increase of approximately 25.9% as compared to that for the corresponding period in 2019. The increase in revenue was primarily attributable to the resumption of the production and sales of the Product (1.0g) since September 2019 after the temporary suspension of the production and sales of the Product (1.0g) in 2019. Despite the improvement of sales performance of the Product (1.0g) during the Period, the business of this segment was affected by the slowdown in trading activities and business operations of the Group due to the outbreak of the Covid-19 pandemic in 2020 and the decrease in the average selling price of the Product (1.0g) under the newly implemented centralised drug procurement policy in some regions in the PRC.

(2) *Provision of marketing and promotion services*

This segment generated a revenue of approximately HK\$1,855,000 for the Period (six months ended 30 June 2019: approximately HK\$1,819,000). 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 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 revenue of the Group generated from this segment was stable for the Period as compared to that for the corresponding period in 2019.

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, 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.

Continue to diversify the existing product portfolio

During the Period, the Group obtained the distribution rights of recombinant cytokine gene derived protein injection products (重組細胞因子基因衍生蛋白注射液產品) in Zhejiang province. These products are expected to be launched in the market by the end of 2020. The Group will seek to acquire distribution rights of new products to enhance its product portfolio. Looking ahead to the second half of 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.

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.

To focus on our core business

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.

Financial review

Revenue

The total revenue for the Period was approximately HK\$69,470,000, representing an increase of approximately 25.1% from approximately HK\$55,511,000 for the six months ended 30 June 2019. The increase in revenue from the distribution and trading of pharmaceutical products was primarily attributable to the resumption of the production and sales of the Product (1.0g) since September 2019 after the temporary suspension of the production and sales of the Product (1.0g) in 2019. Despite the improvement of sales performance of the Product (1.0g) during the Period, the business of this segment was affected by the slowdown in trading activities and business operations of the Group due to the outbreak of the Covid-19 pandemic in 2020 and the decrease in the average selling price of the Product (1.0g) under the newly implemented centralised drug procurement policy in some regions in the PRC. The revenue of the Group generated from the provision of marketing and promotion services was stable for the Period as compared to that for the corresponding period in 2019.

Cost of sales

The cost of sales for the Period was approximately HK\$64,567,000, representing an increase of approximately 32.6% from approximately HK\$48,678,000 for the six months ended 30 June 2019. The increase in cost of sales was mainly due to the increase in sales volume of the Product (1.0g) during the Period.

Gross profit and gross profit margin

Gross profit decreased by approximately HK\$1,930,000, or approximately 28.2%, from approximately HK\$6,833,000 for the six months ended 30 June 2019 to approximately HK\$4,903,000 for the Period mainly due to the decrease in average selling price of the Product (1.0g) under the newly implemented centralised drug procurement policy in some regions in the PRC. The Group's gross profit margin for the Period was approximately 7.1%, which has decreased by 5.2 percentage points when compared to corresponding period in 2019.

Other income, gains and losses

The net other losses for the Period were approximately HK\$1,512,000 (six months ended 30 June 2019: net other gains of approximately HK\$405,000). Such change was primarily attributable to (i) the increase in net exchange loss to approximately HK\$2,556,000 recorded for the Period (six months ended 30 June 2019: approximately HK\$1,271,000); and (ii) the decrease in bank interest income to approximately HK\$740,000 (six months ended 30 June 2019: approximately HK\$1,595,000).

Selling and distribution expenses

Selling and distribution expenses for the Period were approximately HK\$4,845,000, representing a decrease of approximately 5.9% from approximately HK\$5,149,000 for the six months ended 30 June 2019. The decrease in selling and distribution expenses was primarily attributable to the effective implementation of the Group's cost control measures during the Period.

Administrative expenses

Administrative expenses for the Period were approximately HK\$10,526,000, representing a decrease of approximately 18.7% from approximately HK\$12,948,000 for the six months ended 30 June 2019. 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 Acquisitions during the Period and the decrease in salary expenses under the implementation of the Group's cost control measures during the Period.

Share of profit of associates

Share of profit of associates was approximately HK\$488,000 for the Period which was contributed by Saike International, representing a decrease of approximately 86.3% from approximately HK\$3,573,000 for the six months ended 30 June 2019. The decrease in share of profit of associates was mainly due to the significant decline in sales of the medical health screening and surgery equipment and medical consumables as a result of the slowdown in the trading activities of Saike International due to the outbreak of the Covid-19 pandemic in 2020.

Income tax expense

Income tax expense for the Period was zero (six months ended 30 June 2019: approximately HK\$504,000). The decrease was primarily due to the decrease in taxable income for tax purposes.

Loss for the Period

Loss for the Period was approximately HK\$36,434,000, representing an increase of approximately 367.2% from approximately HK\$7,798,000 for the corresponding period in 2019.

The Group incurred more losses for the Period primarily due to (i) the decrease in the gross profit due to the decrease in the average selling price of the Product (1.0g) under the newly implemented centralised drug procurement policy in some regions in the PRC; (ii) the slowdown in trading activities and business operations of the Group due to the outbreak of the Covid-19 pandemic in 2020; (iii) the decrease in share of profit of associates as a result of the slowdown in the trading activities due to the outbreak of the Covid-19 pandemic in 2020; (iv) the recognition of impairment losses in respect of the Group's interest in Saike International, an associate of the Group, of approximately HK\$22,235,000 for the Period (six months ended 30 June 2019: nil); and (v) the recognition of an expected credit loss allowance of approximately HK\$2,855,000 on the Group's trade and other receivables for the Period (six months ended 30 June 2019: nil).

Liquidity and financial resources

The Group manages its capital to ensure that the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance.

The Group maintained a healthy liquidity position during the Period. During the Period, the operations of the Group were principally financed by internal resources.

As at 30 June 2020, the Group had net cash and cash equivalents amounting to approximately HK\$101,334,000 (31 December 2019: approximately HK\$88,668,000), among which approximately 70% (31 December 2019: approximately 44%) were denominated in Hong Kong dollars and approximately 30% (31 December 2019: approximately 56%) were denominated in Renminbi. The Group did not have any bank loan as at 30 June 2020 and 31 December 2019. The Group had a gearing ratio (defined as total bank and other borrowings divided by total equity) of zero as at 30 June 2020 (31 December 2019: zero).

Contingent liabilities

As at 30 June 2020, the Group had no material contingent liabilities.

Material investments, acquisitions and disposals

The Group did not make any material investments, acquisitions or disposals during the Period.

Investment in Saike International

As at 30 June 2020, 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 Period was approximately HK\$488,000 (six months ended 30 June 2019: approximately HK\$3,573,000).

Saike International and its subsidiaries are principally engaged in the trading of medical devices and equipment and medical consumables in the PRC. The Group carried out an impairment review on Saike International by comparing the recoverable amount of the Group's interest in Saike International with its carrying amount as at 30 June 2020. In view of the decrease in the consolidated net profit of Saike International, the weakened PRC economic condition due to the outbreak of the Covid-19 pandemic in 2020 and the significant decline in sales of the medical health screening and surgery equipment and medical consumables as a result thereof during the Period, there were changes in the value of the inputs and assumptions for the value in use calculation from those previously adopted by lowering the estimation of cash inflows and the terminal growth rate. Based on the assessment, the recoverable amount of Saike International was less than its carrying amount as at 30 June 2020. Hence, an impairment loss of approximately HK\$22,235,000 on the Group's interest in Saike International was recognised during the Period. The Group will continue to monitor the performance of the Saike Group cautiously.

Capital structure

There has been no change in the capital structure of the Company during the Period. The capital of the Company comprises one class of ordinary shares.

Pledge of assets

As at 30 June 2020, the Group pledged the buildings and right-of-use assets with an aggregate carrying amount of approximately HK\$8,850,000 (31 December 2019: approximately HK\$9,347,000) to secure general banking facilities granted to the Group.

Equity instruments at 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 for 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 BVI 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 30 June 2020, 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) 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 30 June 2020. 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 for lack of marketability. As at 30 June 2020 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\$0.1 million for the Period. Based on the 2019 annual report of Town Health, Town Health aims to build a prestigious healthcare brand in Hong Kong as well as in Mainland China and generate greater returns for investors and shareholders.

(ii) Equity instruments at FVTOCI listed in Hong Kong

As at 30 June 2020, the Group's securities investment listed in Hong Kong (other than the TH Shares) had a fair value of approximately HK\$2.3 million.

During the Period, the Group did not dispose of any equity securities listed in Hong Kong. Besides, due to an increase in the fair value of certain listed securities investments, a fair value gain of approximately HK\$0.4 million was recognised under the FVTOCI (non-recycling reserve) during the Period. The Group will continue to monitor its investments cautiously in view of recent uncertain market conditions.

(iii) *Equity instruments at FVTOCI for unlisted investments*

HCMPHS Healthcare Holdings Limited (“HCMPHS”)

As at 30 June 2020, the Group held approximately 14% equity interest in HCMPHS (formerly known as C&C International Healthcare Group Limited) with an investment amount of approximately HK\$69.2 million and a fair value of approximately HK\$26.0 million. As at 30 June 2020, the fair value of the Group’s investment in HCMPHS accounted for approximately 4.2% of the Group’s total assets. A fair value loss on the Group’s investment in HCMPHS of approximately HK\$16.0 million has been recognised in other comprehensive expense for the Period. No dividend income was received from HCMPHS for the Period.

HCMPHS 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 HCMPHS for the three months ended 31 March 2020, it recorded an unaudited consolidated profit of approximately HK\$1.4 million. The social unrest and the outbreak of the Covid-19 pandemic have exerted pressure on the Hong Kong healthcare business. However, the aging population and the increasing demand for corporate medical solutions services in Hong Kong are favourable to the continuing development of HCMPHS’ business in the long term.

WinHealth International

As at 30 June 2020, the Group held approximately 8.11% equity interest in WinHealth International with an investment amount of approximately RMB47.25 million (equivalent to approximately HK\$53.4 million) and a fair value of approximately RMB67.9 million (equivalent to approximately HK\$74.3 million). As at 30 June 2020, the fair value of the Group’s investment in WinHealth International accounted for approximately 12.1% of the Group’s total assets. A fair value loss on the Group’s investment in WinHealth International of approximately HK\$2.4 million has been recognised in other comprehensive expense for the Period. No dividend income was received from WinHealth International for the Period.

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 five months ended 31 May 2020, it recorded an unaudited consolidated profit of approximately RMB24.3 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.

The Group's interest in WinHealth International was diluted from approximately 9.63% as at 31 December 2019 to approximately 8.11% upon the completion of the allotment and issue of new shares of WinHealth International to third parties on 2 April 2020.

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.

Future plans for material investments

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.

Employee information

As at 30 June 2020, the Group had 33 employees (31 December 2019: 35). Staff costs, including Directors' emolument for the Period, amounted to approximately HK\$4,210,000 (six months ended 30 June 2019: approximately HK\$6,525,000). The Group's remuneration policy is based on positions, duties and performance of the employees. The employees' remuneration varies 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.

Foreign currency risk

The Group carries out its business in the PRC and most of the transactions are denominated in Renminbi. The Group has foreign currency bank balances which expose the Group to foreign currency risk. To mitigate the foreign currency risk, the Group continually assesses and monitors the exposure of the exchange rate fluctuations. During the Period, 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.

Suspension of trading in shares of the Company

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 the 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 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 of the Company. The Company intends to make further submission to the SFC in relation to its application for resumption of trading of the shares of the Company. 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 of the Company 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, 31 January 2020, 29 April 2020 and 31 July 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.

Summary of the Independent Auditor’s Review Report

The summary of the independent auditor’s review report of Moore Stephens CPA Limited, the external auditor of the Company, is presented below:

Qualified Conclusion

Except for the possible effects of the matter described in the Basis for Qualified Conclusion section of our report, based on our review, nothing has come to our attention that causes us to believe that the condensed consolidated financial statements for the six months ended 30 June 2020 are not prepared, in all material respects, in accordance with HKAS 34.

Basis for Qualified Conclusion

As disclosed in the auditor's report in respect of the consolidated financial statements for the year ended 31 December 2019 and note 1 to the condensed consolidated financial statements for the six months ended 30 June 2020, 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 review report, the Company has not made further announcement to provide update on the progress of the investigation conducted by the IBC as the investigation has not been completed. The investigation into the issues relating to the Acquisitions, which is still on-going, did not result in conclusive finding nor conclusion.

The Acquisitions relate to sale and purchase agreements which the Group entered into with purportedly independent third parties to acquire two associates, Saike International and WinHealth International, which were completed in 2015 and 2017 respectively and the costs of acquisition amounted to RMB95,000,000 and RMB47,250,000, respectively. As at 30 June 2020, the carrying amount of the Group's interest in Saike International is approximately HK\$107,151,000 (31 December 2019: approximately HK\$131,445,000) and the fair value of the Group's interest in WinHealth International is approximately HK\$74,301,000 (31 December 2019: approximately HK\$76,694,000, 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 the year ended 31 December 2019 for details)).

As the investigation into the issues relating to the Acquisitions, which is still on-going, did not result in conclusive finding nor conclusion, we have not been able to obtain sufficient appropriate 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 condensed 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 condensed 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 were in fact related party transactions. Our review conclusion on the interim condensed consolidated financial statements for the six months ended 30 June 2020 is therefore modified.

Other Matter

The condensed consolidated statement of financial position as of 30 June 2019, condensed consolidated statement of profit or loss and other comprehensive income, condensed consolidated statement of changes in equity and condensed consolidated statement of cash flows for the six months ended 30 June 2019 and the relevant explanatory notes included in these condensed consolidated financial statements have not been reviewed in accordance with Hong Kong Standard on Review Engagements 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” (“**HKSRE 2410**”) issued by the HKICPA.

Compliance with corporate governance code

The Company adopted its own code of corporate governance based on the principles and the code provisions as set out in the Corporate Governance Code contained in Appendix 14 to the Listing Rules (“**CG Code**”).

The Company had complied with the CG Code to the extent applicable and permissible to the Company during the Period.

Model code for securities transactions by directors

The Company has adopted the Model Code contained in Appendix 10 to the Listing Rules as the code of conduct regarding the Directors’ securities transactions. Having made specific enquiry of all Directors, all Directors have confirmed that they have complied with the required standard set out in the Model Code throughout the Period.

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 Period.

Review of Interim Results

The Audit Committee has reviewed the unaudited condensed consolidated financial statements of the Group for the Period and this announcement. Moore Stephens CPA Limited, as the Company's auditor, has reviewed the condensed consolidated financial statements of the Group for the Period in accordance with HKSRE 2410 issued by the HKICPA.

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

Hong Kong, 27 August 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.