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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)**

### **ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2020**

#### **2020 FINANCIAL HIGHLIGHTS**

- The Group recorded a revenue of approximately HK\$133.2 million for the year ended 31 December 2020 (2019: approximately HK\$118.6 million), representing an increase of approximately 12.3% as compared to 2019.
- The Group's gross profit was approximately HK\$10.9 million for the year ended 31 December 2020 (2019: approximately HK\$14.9 million), representing a decrease of approximately 26.8% as compared to 2019.
- Net loss attributable to owners of the Company was approximately HK\$69.7 million for the year ended 31 December 2020 (2019: loss of approximately HK\$44.1 million), representing an increase of approximately 58.0% as compared to 2019.
- The Board does not recommend the payment of a final dividend for the year ended 31 December 2020 (2019: Nil).
- The Group had a gearing ratio (defined as total bank and other borrowings divided by total equity) of zero as at 31 December 2020 (2019: 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 2020 (the “Year”) together with the comparative figures for 2019, as follows:

## CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

*For the year ended 31 December 2020*

	<i>Notes</i>	<b>2020</b> <b>HK\$'000</b>	2019 HK\$'000
Revenue	3	<b>133,214</b>	118,632
Cost of sales		<b>(122,283)</b>	(103,757)
		<b>10,931</b>	14,875
Other income, gains and losses	5	<b>10,939</b>	(1,400)
Selling and distribution expenses		<b>(10,525)</b>	(16,677)
Administrative expenses		<b>(17,423)</b>	(19,918)
Finance costs		<b>(110)</b>	(52)
Share of profit of associates		<b>1,484</b>	9,263
Impairment loss on trade and other receivables		<b>(27,872)</b>	(8,969)
Impairment loss on interest in an associate		<b>(37,325)</b>	(20,914)
Loss before taxation		<b>(69,901)</b>	(43,792)
Income tax credit (expense)	6	<b>170</b>	(317)
Loss for the year attributable to owners of the Company	7	<b>(69,731)</b>	(44,109)
<b>Other comprehensive expense for the year</b>			
<i>Items that may be reclassified to profit or loss:</i>			
Exchange difference arising on translation of functional currency to presentation currency			
– Subsidiaries		<b>15,737</b>	(6,735)
– Associates		<b>3,589</b>	(1,127)
<i>Items that will not be reclassified subsequently to profit or loss:</i>			
Fair value gain (loss) on equity instruments at fair value through other comprehensive income		<b>1,846</b>	(18,930)

	<i>Notes</i>	<b>2020</b> <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Other comprehensive income (expense) for the year		<u>21,172</u>	<u>(26,792)</u>
<b>Total comprehensive expense for the year attributable to owners of the Company</b>		<b><u>(48,559)</u></b>	<b><u>(70,901)</u></b>
Loss per share	9		
Basic (HK cents)		<b>(4.17)</b>	(2.64)
Diluted (HK cents)		<b><u>(4.17)</u></b>	<b><u>(2.64)</u></b>

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2020

	<i>Notes</i>	<b>2020</b> <i>HK\$'000</i>	2019 <i>HK\$'000</i>
<b>Non-current assets</b>			
Property, plant and equipment		<b>12,826</b>	14,086
Right-of-use assets		<b>21,351</b>	20,594
Prepayment for a distribution right		<b>14,858</b>	17,532
Intangible asset		<b>8,713</b>	9,973
Club debenture		<b>594</b>	558
Equity instruments at fair value through other comprehensive income		<b>139,465</b>	137,619
Interests in associates		<b>102,958</b>	131,445
Deposits paid to suppliers	10	<u>–</u>	<u>46,567</u>
		<b><u>300,765</u></b>	<u>378,374</u>
<b>Current assets</b>			
Inventories		<b>60,788</b>	793
Trade and other receivables	10	<b>219,010</b>	207,500
Prepayment for a distribution right		<b>3,802</b>	3,572
Bank balances and cash		<b><u>65,755</u></b>	<u>88,668</u>
		<b><u>349,355</u></b>	<u>300,533</u>
<b>Current liabilities</b>			
Trade and other payables	11	<b>32,079</b>	12,992
Lease liabilities		<b><u>975</u></b>	<u>401</u>
		<b><u>33,054</u></b>	<u>13,393</u>
<b>Net current assets</b>		<b><u>316,301</u></b>	<u>287,140</u>
<b>Total assets less current liabilities</b>		<b><u>617,066</u></b>	<u>665,514</u>

	<i>Notes</i>	<b>2020</b> <i>HK\$'000</i>	2019 <i>HK\$'000</i>
<b>Non-current liabilities</b>			
Lease liabilities		<b>1,423</b>	1,783
Deferred tax liabilities		<b>9,719</b>	9,248
		<u><b>11,142</b></u>	<u>11,031</u>
		<u><b>605,924</b></u>	<u>654,483</u>
<b>Capital and reserves</b>			
Share capital	12	<b>83,592</b>	83,592
Share premium and reserves		<b>522,332</b>	570,891
		<u><b>605,924</b></u>	<u>654,483</u>
Equity attributable to owners of the Company		<u><b>605,924</b></u>	<u>654,483</u>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

### 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 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 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 (the “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 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 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 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 Rules Governing the Listing of Securities on the Stock Exchange (“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.

## 1. GENERAL (Cont'd)

On 30 October 2020, the Company announced that the Company has also engaged BT Corporate Governance Limited (“BTCGL”) in September 2020 to conduct an independent internal control review in respect of the adequacy and effectiveness of the Group’s internal control systems in relation to the following areas, namely, investments in companies, conflict of interest, management of the Company, corporate governance, business transactions and risk assessment.

On 17 November 2020, the Company was served a sealed copy of a petition dated 16 November 2020 filed in the High Court of Hong Kong (the “Court”) by the SFC pursuant to section 214 of the Securities and Future Ordinance (“SFO”) (“Petition”). The Petition named three respondents. Apart from the Company, the other two parties named as respondents by the Petition are two former directors of the Company, namely, Mr. Zhou Ling (“Mr. Zhou”) and Mr. Dai Haidong (“Mr. Dai”) who retired and resigned from their position as executive directors of the Company on 27 June 2018 and 5 November 2015 respectively.

As stated in the Petition, the SFC alleged that, during the period from 2015 to 2018, each of Mr. Zhou and Mr. Dai has been wholly or partly responsible for the business or affairs of the Company (in relation to the Acquisitions and various artificial transactions involving dealings in a number of pharmaceutical products) having been conducted in a manner (i) involving misfeasance or other misconduct towards it or its members or any part of its members; (ii) resulting in its members or any part of its members not having been given all the information with respect to its business or affairs that they might reasonably expect; and/or (iii) unfairly prejudicial to its members or any part of its members.

In particular, the SFC alleged that, inter alia, (1) Mr. Zhou and Mr. Dai had breached their duties as directors of the Company in relation to the Group’s acquisition of 50% interest in Saike International (details of such acquisition were disclosed in the announcements of the Company dated 14 February 2015, 20 March 2015, 26 June 2015 and 16 July 2015); (2) Mr. Zhou had made a secret profit in the sum of HK\$26 million out of the Group’s acquisition of 15% interest in Eternal Charm International Limited (details of such acquisition were disclosed in the announcements of the Company dated 5 December 2016 and 14 March 2017); and (3) Mr. Zhou was responsible for misfeasance and/or misconduct which was unfairly prejudicial to the members or any part of the members of the Company, comprising various artificial transactions involving dealings in a number of pharmaceutical products (“Artificial Transactions”). Further details of the matters were disclosed in announcement of the Company dated 18 November 2020.

As at the date on which these consolidated financial statements are authorised for issue, the IBC’s investigation into the affairs of the Acquisitions as well as independent internal control review are still under progress.

As disclosed in note 20 to the consolidated financial statements in the 2020 annual report of the Company, 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 20 to the consolidated financial statements in the 2020 annual report of the Company 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 2020, the carrying amount of the Group’s interest in Saike International is approximately HK\$102,958,000 (31 December 2019: approximately HK\$131,445,000) and the fair value of the Group’s interest in WinHealth International is approximately HK\$74,468,000 (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 20(d) to the consolidated financial statements in the 2020 annual report of the Company for details). In respect of the Artificial Transactions alleged by the SFC in the Petition, the management performed assessment to identify any financial impact on the consolidated financial statements of the Group. Since all the balances related to the Artificial Transactions were settled before the end of 2018, the management concluded that there is no financial effect on the consolidated financial statements of the Group for the years ended 31 December 2020 and 2019.

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 and the matters alleged in the Petition in relation to the Acquisitions, is still on-going, did not result in any 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 Amendments to References to the Conceptual Framework in HKFRS Standards and the following amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) for the first time, which are mandatorily effective for the annual period beginning on or after 1 January 2020 for the preparation of the consolidated financial statements:

Amendments to HKAS 1 and HKAS 8	Definition of Material
Amendments to HKFRS 3	Definition of a Business
Amendments to HKAS 39, HKFRS 7 and HKFRS 9	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 year had no material impact on the Group’s financial positions and performance for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

#### **2.1 Impacts on application of Amendments to HKAS 1 and HKAS 8 Definition of Material**

The Group has applied the Amendments to HKAS 1 and HKAS 8 for the first time in the current year. 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 year had no impact on the consolidated financial statements.



## 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 and the related Amendments <sup>1</sup>
Amendments to HKFRS 16	Covid-19-Related Rent Concession <sup>4</sup>
Amendments to HKFRS 3	Reference to the Conceptual Framework <sup>2</sup>
Amendments to HKAS 39, HKFRS 4, HKFRS 7, HKFRS 9 and HKFRS 16	Interest Rate Benchmark Reform – Phase 2 <sup>5</sup>
Amendments to HKAS 28 and HKFRS 10	Sale or Contribution of Assets between an Investors and its Associate of Joint Venture <sup>3</sup>
Amendments to HKAS 1	Classification of Liabilities as Current or Non-current and related amendments to Hong Kong Interpretation 5 (2020) <sup>1</sup>
Amendments to HKAS 16	Property, Plant and Equipment – Proceeds before Intended Use <sup>2</sup>
Amendments to HKAS 37	Onerous Contracts – Cost of Fulfilling a Contract <sup>2</sup>
Amendments to HKFRSs	Annual Improvements to HKFRSs 2018–2020 <sup>2</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 January 2023.

<sup>2</sup> Effective for annual periods beginning on or after 1 January 2022.

<sup>3</sup> Effective for annual periods beginning on or after a date to be determined.

<sup>4</sup> Effective for annual periods beginning on or after 1 June 2020.

<sup>5</sup> Effective for annual periods beginning on or after 1 January 2021.

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

### Amendment to HKFRS 16 Covid-19-Related Rent Concessions

The amendment is effective for annual reporting periods beginning on or after 1 June 2020. The amendment introduces a new practical expedient for lessees to elect not to assess whether a Covid-19-related rent concession is a lease modification. The practical expedient only applies to rent concessions occurring as a direct consequence of Covid-19 that meets all of the following conditions:

- the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change;
- any reduction in lease payments affects only payments originally due on or before 30 June 2021; and
- there is no substantive change to other terms and conditions of the lease.

A lessee applying the practical expedient accounts for changes in lease payments resulting from rent concessions in the same way that would account for the changes applying HKFRS 16 Leases, if the changes was not a lease modification. Forgiveness or waiver of lease payments are accounted for as variable lease payments. The related lease liabilities are adjusted to reflect the amounts forgiven or waived with a corresponding adjustment recognised in the profit or loss in the period in which the event occurs.

The application is not expected to have impact on the Group’s financial position and performance as the Group does not intend to apply the practical expedient.

## 2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) (Cont’d)

### **Amendments to HKAS 1 Classification of Liabilities as Current or Non-current and related amendments to Hong Kong Interpretation 5 (2020)**

The amendments provide clarification and additional guidance on the assessment of right to defer settlement for at least twelve months from reporting date for classification of liabilities as current or non-current, which:

- specify that the classification of liabilities as current or non-current should be based on rights that are in existence at the end of the reporting period. Specifically, the amendments clarify that:
  - (i) the classification should not be affected by management intentions or expectations to settle the liability within 12 months; and
  - (ii) if the right is conditional on the compliance with covenants, the right exists if the conditions are met at the end of the reporting period, even if the lender does not test compliance until a later date; and
- clarify that if a liability has terms that could, at the option of the counterparty, result in its settlement by the transfer of the entity’s own equity instruments, these terms do not affect its classification as current or non-current only if the entity recognises the option separately as an equity instrument applying HKAS 32 Financial Instruments: Presentation.

In addition, Hong Kong Interpretation 5 was revised as a consequence of the Amendments to HKAS 1 to align the corresponding wordings with no change in conclusion.

Based on the Group’s outstanding liabilities as at 31 December 2020, the application of the amendments will not result in reclassification of the Group’s liabilities.

### **Amendments to HKFRSs Annual Improvements to HKFRSs 2018–2020**

The annual improvements make amendments to the following standards.

#### ***HKFRS 9 Financial Instruments***

The amendment clarifies that for the purpose of assessing whether modification of terms of original financial liability constitutes substantial modification under the “10 per cent” test, a borrower includes only fees paid or received between the borrower and the lender, including fees paid or received by either the borrower or the lender on the other’s behalf.

#### ***HKFRS 16 Leases***

The amendment to Illustrative Example 13 accompanying HKFRS 16 removes from the example the illustration of reimbursement relating to leasehold improvements by the lessor in order to remove any potential confusion.

#### ***HKAS 41 Agriculture***

The amendment ensures consistency with the requirements in HKFRS 13 Fair Value Measurement by removing the requirement in paragraph 22 of HKAS 41 to exclude taxation cash flows when measuring the fair value of a biological asset using a present value technique.

The application of the amendments is not expected to have significant impact on the financial position and performance of the Group.

### 3. REVENUE

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

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

	<b>2020</b> <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Distribution and trading of pharmaceutical products	<b>128,694</b>	114,652
Provision of marketing and promotion services	<b>4,520</b>	3,980
	<b>133,214</b>	118,632

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.

No sales return in relation to the products that were finally found to be defective was deducted from the sales recognised for the year ended 31 December 2020 of which revenue was recognised for the year ended 31 December 2019 (2019: RMB13,118,000).

### 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 and the management has organised the Group on the basis of these two types of business activities. 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; 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 after deducting impairment loss on trade and other receivables attributable to each segment. This is the measure reported to the CODM for the purposes of resource allocation and assessment of segment performance.

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

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

##### Year ended 31 December 2020

	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>
<b>REVENUE</b>			
External sales and segment revenue	<u>128,694</u>	<u>4,520</u>	<u>133,214</u>
<b>RESULT</b>			
Segment (loss) profit	<u>(21,118)</u>	<u>4,177</u>	(16,941)
Other income, gains and losses			10,939
Selling and distribution expenses			(10,525)
Administrative expenses			(17,423)
Finance cost			(110)
Share of profit of associates			1,484
Impairment loss on interest in an associate			<u>(37,325)</u>
Loss before tax			<u>(69,901)</u>
Included in arriving at segment (loss) profit:			
Impairment loss on trade and other receivables	<u>(27,872)</u>	<u>–</u>	<u>(27,872)</u>

##### Year ended 31 December 2019

	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>
<b>REVENUE</b>			
External sales and segment revenue	<u>114,652</u>	<u>3,980</u>	<u>118,632</u>
<b>RESULT</b>			
Segment profit	<u>2,229</u>	<u>3,677</u>	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 associate			<u>(20,914)</u>
Loss before tax			<u>(43,792)</u>
Included in arriving at segment profit:			
Impairment loss on trade and other receivables	<u>(8,969)</u>	<u>–</u>	<u>(8,969)</u>

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

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 is presented.

##### Geographical information

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

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

##### Information about major customers

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

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Customer A <sup>1</sup>	18,944	17,530
Customer B <sup>1</sup>	17,240	14,892
Customer C <sup>1</sup>	N/A <sup>2</sup>	14,877

<sup>1</sup> The revenue was derived from the distribution and trading of pharmaceutical products.

<sup>2</sup> The customer did not contribute over 10% of the total revenue of the Group in the corresponding year.

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

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Compensation received from a customer	–	737
Incentives received from government grants ( <i>note</i> )	238	12
Bank interest income	1,587	2,365
Sundry income	25	–
Dividend income from equity instruments at FVTOCI	174	474
Net exchange gain (loss)	8,920	(4,829)
Fair value change on financial asset at fair value through profit or loss	–	(391)
(Loss) gain on disposal of property, plant and equipment	(5)	232
	<u>10,939</u>	<u>(1,400)</u>

*Note:* During the year ended 31 December 2020, the Group was granted incentives of RMB66,000 (equivalent to approximately HK\$76,000) (2019: RMB11,000 (equivalent to approximately HK\$12,000)) by local government in Hangzhou, the PRC for the purpose of enhancing the development of the Group, the conditions of which had been fulfilled. The government subsidy of HK\$162,000 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 incentives were recognised in profit or loss immediately as all conditions attached to the incentives had been fulfilled.

## 6. INCOME TAX CREDIT (EXPENSE)

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Current tax:		
PRC Enterprise Income Tax (“EIT”)	–	(499)
Overprovision in prior year:		
PRC EIT	<u>50</u>	<u>–</u>
	50	(499)
Deferred tax	<u>120</u>	<u>182</u>
	<u>170</u>	<u>(317)</u>

Under the Laws of the PRC 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 2020 and 2019.

Pursuant to the rules and regulations of the Cayman Islands and the British Virgin Islands (“BVI”), the Group is not subject to any income tax in those jurisdictions.

The Directors of the Company considered the amount involved upon implementation of the two-tiered profits tax rates regime as insignificant to the consolidated financial statements. Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for both years. 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 FOR THE YEAR

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Loss 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	3,425	2,914
Other staff’s salaries, bonus and other benefits	4,937	8,947
Contributions to retirement benefits scheme, excluding directors	<u>226</u>	<u>636</u>
Total staff costs	<u>8,588</u>	<u>12,497</u>
Depreciation of property, plant and equipment	2,291	2,620
Depreciation of right-of-use assets	1,519	1,341
Amortisation of prepayment for a distribution right (included in cost of sales)	3,684	3,612
Amortisation of intangible asset (included in cost of sales)	1,842	1,806
Minimum lease payment under operating leases in respect of rented premises	–	260
Auditor’s remuneration	2,140	1,650
Legal and professional fees (included in administrative expenses)	5,088	5,465
Donations	99	147
Loss (gain) on disposal of property, plant and equipment	5	(232)
Impairment loss on deposits paid to suppliers	3,945	3,997
Impairment loss on trade receivables	23,927	4,972
Cost of inventories recognised as an expense	<u>116,414</u>	<u>95,075</u>

## 8. DIVIDENDS

No dividend was paid or proposed for ordinary shareholders of the Company during the years ended 31 December 2020 and 2019, nor has any dividend been proposed since the end of the reporting year.

## 9. LOSS PER SHARE

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

	<b>2020</b> <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Loss for the year attributable to owners of the Company for the purposes of basic and diluted loss per share	<u><b>(69,731)</b></u>	<u>(44,109)</u>
	<b>Number of ordinary shares</b>	
	<b>2020</b> <i>'000</i>	2019 <i>'000</i>
<b>Number of shares</b>		
Weighted average number of ordinary shares for the purposes of basic and diluted loss per share	<u><b>1,671,847</b></u>	<u>1,671,847</u>

No adjustment has been made in arriving at diluted loss per share for the years ended 31 December 2020 and 31 December 2019 as there were no potential ordinary shares in issue for both years.

## 10. TRADE AND OTHER RECEIVABLES

	<b>2020</b> <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Trade receivables	<b>38,150</b>	46,439
Less: allowance for credit loss	<u><b>(29,931)</b></u>	<u>(4,918)</u>
Trade receivables (net of allowance for credit loss)	<b>8,219</b>	41,521
Other prepayments	<b>567</b>	559
Other deposits	<b>393</b>	399
Prepayments to suppliers	<b>38,124</b>	76,894
Deposits paid to suppliers (net of allowance for credit loss)	<b>162,762</b>	134,458
Value-added tax recoverable	<b>8,759</b>	–
Others	<u><b>186</b></u>	<u>236</u>
	<b>219,010</b>	254,067
Less: Non-current portion	<u>–</u>	<u>(46,567)</u>
Current portion	<u><b>219,010</b></u>	<u>207,500</u>

## 10. TRADE AND OTHER RECEIVABLES (Cont'd)

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 period.

	<b>2020</b> <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Trade receivables:		
0–30 days	<b>1,058</b>	4,934
31–60 days	<b>388</b>	1,973
61–90 days	<b>6,729</b>	4,566
91–180 days	<b>44</b>	982
181–365 days	–	10,633
Over 365 days	–	18,433
	<b>8,219</b>	41,521

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 receivables due from trade debtors with aggregate carrying amount of approximately HK\$322,000 (2019: approximately HK\$18,505,000) which are past due but not impaired as at 31 December 2020. The Group has provided for impairment loss of approximately HK\$23,927,000 (2019: approximately 4,972,000) during the year ended 31 December 2020 based on the provision matrix. The Group does not hold any collateral over these balances.

The Group has provided for impairment loss on 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. The Covid-19 pandemic is affecting the customers' ability to settle the amount outstanding and posing significant impact on the provision for expected credit losses. Such receivables over 365 days old amounted to approximately HK\$25,077,000 (2019: approximately HK\$3,032,000) during the year ended 31 December 2020.

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.

The Group has provided for impairment loss of approximately HK\$3,945,000 (2019: approximately HK\$3,997,000) on deposits paid to suppliers during the year ended 31 December 2020.



## 11. TRADE AND OTHER PAYABLES

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Trade payables	–	2,522
Deposits received from customers	1,093	1,362
Deposit received for partial disposal of interest in an associate	5,941	–
Contract liabilities	21,002	2,489
Value-added tax payable	–	1,625
Other tax payables	1	181
Accruals	4,042	4,813
	<u>32,079</u>	<u>12,992</u>

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

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
0–30 days	<u>–</u>	<u>2,522</u>

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 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 '000	Amount <i>HK\$'000</i>
Ordinary shares		
Authorised:		
At 1 January 2019, 31 December 2019, 1 January 2020 and 31 December 2020	<u>3,000,000</u>	<u>150,000</u>
Issued and full paid:		
At 1 January 2019, 31 December 2019, 1 January 2020 and 31 December 2020	<u>1,671,847</u>	<u>83,592</u>

All ordinary shares issued during the years ended 31 December 2020 and 2019 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 volume-based procurement (帶量採購) officially initiated in 11 cities in the PRC in 2018 and the expansion of the volume-based procurement nationwide since 2019. Under the effect of the volume-based procurement, the average new bidding prices of selected drugs dropped by approximately 50% as compared to the average original bidding prices. The aforesaid policies put the pharmaceutical distribution and trading enterprises including the Group into a challenging position and affect the profitability of the industry.

During the Year, the Group also suffered from the impact of the Covid-19 pandemic. The Chinese government 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 was significantly impacted during the first half of 2020. In the second half of 2020, the Group's performance of distribution and trading of pharmaceutical products and provision of marketing and promotion services was improved given the effective implementation of precautionary measures by the PRC government to minimise the impact of the Covid-19 pandemic. For the Year, the total revenue of the Group was approximately HK\$133.2 million, representing an increase of approximately 12.3% as compared to 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) (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 Year, the business of distribution and trading of pharmaceutical products was affected by the slowdown in trading activities and business operations of the Group due to the Covid-19 pandemic 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 total gross profit of the Group was approximately HK\$10.9 million, representing a decrease of approximately 26.8% as compared to 2019. The decrease in gross profit was mainly attributable 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 during the Year.

Net loss attributable to owners of the Company was approximately HK\$69.7 million for the year ended 31 December 2020 (2019: loss of approximately HK\$44.1 million). The Group incurred more losses for the Year primarily due to (i) the decrease in 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 Covid-19 pandemic in 2020; (iii) the decrease in share of profit of Saike International, an associate of the Group, as a result of the slowdown in its trading activities due to the Covid-19 pandemic in 2020; (iv) the recognition of impairment losses in respect of the Group's interest in Saike International of approximately HK\$37.3 million for the Year (2019: HK\$20.9 million); and (v) the recognition of an expected credit loss allowance of approximately HK\$27.9 million on the Group's trade and other receivables for the Year (2019: HK\$9.0 million) due to an expected increase in uncertainty over the repayment of long outstanding trade and other receivables of the Group.

## **FUTURE PROSPECTS**

### **(i) Industry Outlook**

Under the implementation of the volume-based procurement (帶量採購) officially initiated in 11 cities in the PRC in 2018 and the expansion of the volume-based procurement 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.

### **(ii) Growth Strategies**

#### ***(a) Continue to diversify the existing product portfolio***

During the Year, 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. The Group has carried out promoting activities for these products in 2020. The Group also obtained the national distribution right of sildenafil citrate orally disintegrating tablet product (西地那非口崩片產品) in the PRC during the Year. This product is expected to be launched in the market in 2021. The Group will seek to acquire distribution rights of new products to enhance its product portfolio. Looking ahead to 2021, 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 2020 and 31 December 2019 respectively.

	Revenue contributed from each business segment				Gross profit margin	
	2019		2020		2019	2020
	HK\$'000	%	HK\$'000	%	%	%
(1) <i>Distribution and trading of pharmaceutical products</i>	114,652	96.6	<b>128,694</b>	<b>96.6</b>	9.8	<b>5.2</b>
(2) <i>Provision of marketing and promotion services</i>	3,980	3.4	<b>4,520</b>	<b>3.4</b>	N/A	N/A
Total	<u>118,632</u>	<u>100.0</u>	<u><b>133,214</b></u>	<u><b>100.0</b></u>		

## **(1) Distribution and trading of pharmaceutical products**

This segment generated a revenue of approximately HK\$128.7 million for the Year (2019: approximately HK\$114.7 million), representing an increase of approximately 12.2% as compared to 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 Year, the business of this segment was affected by the slowdown in trading activities and business operations of the Group due to the Covid-19 pandemic 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 in 2020.

## **(2) Provision of marketing and promotion services**

This segment generated a revenue of approximately HK\$4.5 million for the Year (2019: approximately HK\$4.0 million), representing an increase of approximately 12.5% as compared to 2019. Under the implementation of the “Two-Invoice” System (兩票制) in the PRC since 2017, the Group has 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 Year as compared to 2019.

## **FINANCIAL REVIEW**

### **Revenue**

The total revenue for the Year was approximately HK\$133.2 million, representing an increase of approximately 12.3% from approximately HK\$118.6 million for the year ended 31 December 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 Year, the business of this segment was affected by the slowdown in trading activities and business operations of the Group due to the Covid-19 pandemic 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 during the Year. The revenue of the Group generated from the provision of marketing and promotion services was stable for the Year as compared to 2019.

## **Cost of Sales**

The cost of sales for the Year was approximately HK\$122.3 million, representing an increase of approximately 17.8% from approximately HK\$103.8 million for the year ended 31 December 2019. The increase in cost of sales was mainly due to the increase in sales volume of the Product (1.0g) during the Year.

## **Gross Profit and Gross Profit Margin**

Gross profit decreased by approximately HK\$4.0 million, or approximately 26.8%, from approximately HK\$14.9 million for the year ended 31 December 2019 to approximately HK\$10.9 million for the Year. The significant decrease in gross profit of the Group for the Year was mainly attributable 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. The Group's gross profit margin for the Year was approximately 8.2%, which has decreased by 4.3 percentage points when compared to 2019.

## **Other Income, Gains and Losses**

The net other gains for the Year were approximately HK\$10.9 million (2019: net other losses of approximately HK\$1.4 million). Such change was primarily attributable to the net exchange gains of approximately HK\$8.9 million recorded for the Year (2019: net exchange losses of approximately HK\$4.8 million), despite that the change was partially offset by the decrease in bank interest income to approximately HK\$1.6 million (2019: HK\$2.4 million).

## **Selling and Distribution Expenses**

Selling and distribution expenses for the Year were approximately HK\$10.5 million, representing a decrease of approximately 37.1% from approximately HK\$16.7 million for the year ended 31 December 2019. The decrease in selling and distribution expenses was primarily attributable to the effective implementation of the Group's cost control measures during the Year.

## **Administrative Expenses**

Administrative expenses for the Year were approximately HK\$17.4 million, representing a decrease of approximately 12.6% from approximately HK\$19.9 million for the year ended 31 December 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 Group's acquisitions of interests in Saike International and WinHealth International during the Year and the decrease in salary expenses under the implementation of the Group's cost control measures during the Year.

## **Share of Profit of Associates**

Share of profit of associates was approximately HK\$1.5 million for the Year which was contributed by Saike International, representing a decrease of approximately 83.9% from approximately HK\$9.3 million for the year ended 31 December 2019 which was contributed by Saike International. The decrease in share of profit of associates was mainly due to the significant decline in the sales of 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 Covid-19 pandemic in 2020.

## **Income Tax Credit (Expense)**

Income tax credit for the Year was approximately HK\$170,000 (2019: income tax expense of approximately HK\$317,000). Such change was primarily due to the decrease in taxable income for tax purposes.

## **Loss for the Year**

Loss for the Year was approximately HK\$69.7 million, representing an increase of approximately 58.0% from approximately HK\$44.1 million for the year ended 31 December 2019.

The Group incurred more losses for the Year primarily due to (i) the decrease in 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 Covid-19 pandemic in 2020; (iii) the decrease in share of profit of Saike International, an associate of the Group, as a result of the slowdown in its trading activities due to the Covid-19 pandemic in 2020; (iv) the recognition of impairment losses in respect of the Group's interest in Saike International of approximately HK\$37.3 million for the Year (2019: HK\$20.9 million); and (v) the recognition of an expected credit loss allowance of approximately HK\$27.9 million on the Group's trade and other receivables for the Year (2019: HK\$9.0 million) due to an expected increase in uncertainty over the repayment of long outstanding trade and other receivables of the Group.

## **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 of Hong Kong Limited (“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 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 31 December 2020, 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 an investment amount of approximately HK\$144.4 million. As at 31 December 2020, the fair value of the Group's investment in the TH Shares was approximately HK\$36.3 million (2019: approximately HK\$17.1 million), which accounted for approximately 5.6% of the Group's total assets (2019: approximately 2.5%).

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. 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 2020. As at 31 December 2020, the trading of the TH Shares was suspended. 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 31 December 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\$19.3 million for the Year. No dividend income was received from Town Health for 2020 (2019: approximately HK\$300,000).

Town Health and its subsidiaries are principally engaged in (i) provision of medical and dental services in Hong Kong; (ii) managing healthcare networks and provision of third party medical network administrator services in Hong Kong; (iii) provision of medical and dental services, as well as hospital management and related services in the PRC; (iv) trading of listed securities and leasing of properties; and (v) provision of miscellaneous healthcare related services. Based on the annual results announcement of Town Health for the year ended 31 December 2020, the Covid-19 pandemic will last and continue to spread across the world, posing grave threat to the public health and making a heavy blow to the economy. However, the availability of vaccines and the activation of vaccination work are expected to contain the virus, which will boost the world's confidence about economic recovery. As the economy gradually recovers in 2021, it is expected that businesses of Town Health will return to stable development. In the meantime, Town Health will consistently and actively fulfil its social responsibilities as a medical enterprise and serve the society with all its might. The trading of the shares in Town Health on the Stock Exchange was permitted to recommence with effect with 9:00 a.m. on 1 March 2021 on the Stock Exchange subject to the conditions imposed by the SFC.



**(ii) *Equity instruments at FVTOCI listed in Hong Kong***

As at 31 December 2020, the Group's securities investment listed in Hong Kong (other than the TH Shares) had a fair value of approximately HK\$2.0 million (2019: approximately HK\$1.9 million).

During the Year, 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\$0.1 million was 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***

*HCMPHS Healthcare Holdings Limited ("HCMPHS")*

As at 31 December 2020, the Group held approximately 14.0% equity interest in HCMPHS (formerly known as C&C International Healthcare Group Limited) with an investment amount of approximately HK\$69.2 million. As at 31 December 2020, the fair value of the Group's investment in HCMPHS was approximately HK\$26.6 million (2019: approximately HK\$42.0 million), which accounted for approximately 4.1% of the Group's total assets (2019: approximately 6.2%). A fair value loss on the Group's investment in HCMPHS of approximately HK\$15.4 million (2019: fair value loss of approximately HK\$19.0 million) was recognised in other comprehensive expense for the Year. No dividend income was received from HCMPHS for 2020 and 2019.

HCMPHS and its subsidiaries are principally engaged in the provision of contracted medical schemes and medical services in Hong Kong. Based on the latest unaudited consolidated financial statements of HCMPHS for the nine months ended 30 September 2020, it recorded an unaudited consolidated profit of approximately HK\$10.5 million. The fair value loss on the Group's investment in HCMPHS was mainly due to the deteriorating financial performance of HCMPHS as a result of social unrest and the outbreak of the Covid-19 pandemic in 2020. 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 31 December 2020, the Group held approximately 8.11% equity interest in WinHealth International with an investment amount of approximately RMB47.25 million. As at 31 December 2020, the fair value of the Group's investment in WinHealth International was approximately HK\$74.5 million (2019: approximately HK\$76.7 million), which accounted for approximately 11.5% of the Group's total assets (2019: approximately 11.3%). A fair value loss on the Group's investment in WinHealth International of approximately HK\$2.2 million (2019: fair value loss of approximately

HK\$2.8 million) was recognised in other comprehensive expense for the Year. No dividend income was received from WinHealth International for 2020 and 2019.

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, it recorded an unaudited consolidated profit of approximately RMB75.1 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.

### **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. The Group's liquidity position was well-managed in the Year.

The Group's cash and cash equivalents amounted to approximately HK\$65.8 million in total as at 31 December 2020 (2019: approximately HK\$88.7 million), among which approximately 65% (2019: approximately 44%) were denominated in Hong Kong dollars and approximately 35% (2019: approximately 56%) were denominated in Renminbi. The Group did not have any bank loan as at 31 December 2020 (2019: nil).

The Group's gearing ratio (defined as total bank and other borrowings divided by total equity) was zero as at 31 December 2020 (2019: 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 Renminbi. 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 2020, the Group had 29 employees (2019: 35). Staff costs for the Year, including Directors' emolument, amounted to approximately HK\$8.6 million (2019: approximately HK\$12.5 million). The Group's remuneration policy is based on the positions, duties and performance 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 2020, the Group did not have any significant contingent liabilities.

## **Material Acquisitions or Disposals and Significant Investments**

### *Saike International*

As at 31 December 2020, the Group held 50% of the issued share capital of Saike International. The Group's 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\$1.5 million (2019: approximately HK\$9.3 million).

Saike International and its subsidiaries are principally engaged in the trading of medical devices, medical 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 31 December 2020. In view of the decrease in the consolidated net profit of Saike International and the weakened

PRC economic condition for 2020 due to the Covid-19 pandemic and the significant decline in the sales of medical health screening and surgery equipment and medical consumables as a result thereof, 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 lower than its carrying amount by approximately HK\$37.3 million as at 31 December 2020. Hence, an impairment loss of approximately HK\$37.3 million (2019: 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.

On 30 November 2020, Major Bright Holdings Limited ("Major Bright"), a wholly-owned subsidiary of the Company, as vendor, Wing Yin Holdings Limited ("Purchaser") as purchaser and 青島松山醫藥銷售有限公司 (in English, for identification purpose only, Qingdao Songshan Medicine Sales Co., Ltd.) as guarantor of the Purchaser entered into a sale and purchase agreement ("Disposal Agreement") in relation to the disposal ("Disposal") of 25 ordinary shares of Saike International ("Sale Shares"), representing 25% of its issued share capital. Major Bright conditionally agreed to sell, and the Purchaser conditionally agreed to purchase, the Sale Shares at a maximum consideration of RMB44,000,000 (equivalent to approximately HK\$51.8 million) (subject to adjustment).

As at the date of the Disposal Agreement, Major Bright held 50% of the issued share capital of Saike International. The Disposal was approved by the shareholders of the Company at a special general meeting held on 8 February 2021. All the conditions precedent set out in the Disposal Agreement were fulfilled and completion of the Disposal took place on 10 February 2021.

The final amount of the consideration for the Disposal is subject to adjustment ("Shortfall Compensation") if the unaudited consolidated net asset value of Saike International as at 31 December 2020 ("2020 Actual NAV") as shown in the unaudited consolidated management accounts of Saike International for the financial year ended 31 December 2020 ("FY2020 Management Accounts") is less than RMB100,000,000 ("2020 Target NAV").

Based on the FY2020 Management Accounts, the 2020 Actual NAV is approximately RMB101.2 million, which is higher than the 2020 Target NAV. In accordance with the Disposal Agreement, no Shortfall Compensation shall be paid by the Group to the Purchaser. Immediately after completion of the Disposal, the Group held 25% of the issued share capital of Saike International. Details of the Disposal are disclosed in the Company's announcements dated 30 November 2020, 18 December 2020, 8 February 2021, 10 February 2021 and 31 March 2021 and the Company's circular dated 21 January 2021.

## **Capital Structure**

The capital of the Company comprises only ordinary shares. As at 31 December 2020, the Group had shareholders' equity of approximately HK\$605.9 million (2019: approximately HK\$654.5 million).

## **Pledge of Assets**

As at 31 December 2020, the Group pledged the buildings and right-of-use assets with an aggregate carrying amount of approximately HK\$9.5 million (2019: approximately HK\$9.3 million) to secure general banking facilities granted to the Group.

## **Future Plans for Material Investments**

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.

## **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 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 also engaged BTCGL in September 2020 to

conduct an independent internal control review in respect of the adequacy and effectiveness of the Group's internal control systems in relation to the following areas, namely, investments in companies, conflict of interest, management of the Company, corporate governance, business transactions and risk assessment. BTCGL is in the process of conducting its review and 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.

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, 29 April 2020, 31 July 2020, 30 October 2020 and 29 January 2021.

## **Litigation**

On 17 November 2020, the Company was served a sealed copy of a petition dated 16 November 2020 filed in the High Court of the Hong Kong Special Administrative Region by the SFC pursuant to section 214 of the SFO. The Petition named three respondents. Apart

from the Company, the other two parties named as respondents by the Petition are two former Directors, namely, Mr. Zhou Ling (“1st Respondent”) and Mr. Dai Haidong (“2nd Respondent”). The 1st Respondent and the 2nd Respondent retired and resigned from their position as executive Directors on 27 June 2018 and 5 November 2015 respectively.

Pursuant to the Petition, the SFC alleged that, during the period from 2015 to 2018, each of the 1st Respondent and the 2nd Respondent has been wholly or partly responsible for the business or affairs of the Company having been conducted in a manner (i) involving misfeasance or other misconduct towards it or its members or any part of its members; (ii) resulting in its members or any part of its members not having been given all the information with respect to its business or affairs that they might reasonably expect; and/or (iii) unfairly prejudicial to its members or any part of its members. In particular, the SFC alleged that, *inter alia*, (1) the 1st Respondent and the 2nd Respondent had breached their duties as directors of the Company in relation to the Group’s acquisition of 50% interest in Saike International (details of such acquisition were disclosed in the announcements of the Company dated 14 February 2015, 20 March 2015, 26 June 2015 and 16 July 2015); (2) the 1st Respondent had made a secret profit in the sum of HK\$26 million out of the Group’s acquisition of 15% interest in Eternal Charm International Limited (now known as WinHealth International Company Limited) (details of such acquisition were disclosed in the announcements of the Company dated 5 December 2016 and 14 March 2017); and (3) the 1st Respondent was responsible for misfeasance and/or misconduct which was unfairly prejudicial to the members or any part of the members of the Company, comprising various artificial transactions involving dealings in a number of pharmaceutical products. In the Petition, the SFC applies for, *inter alia*, an order that the 1st Respondent do pay to the Company the sum of HK\$26 million with interest thereon at such rate and for such period as the Court thinks fit.

No order or relief is sought against the Company in the Petition. The Petition has been fixed to be heard on 11 May 2021. Details of the Petition are disclosed in the Company’s announcement dated 18 November 2020. As at the date of this announcement, save as disclosed above, so far as was known to the Directors, no member of the Group was involved in any litigation, arbitration or claim of material importance and no litigation, arbitration or claim of material importance was pending or threatened against any member of the Group.

## **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.

## **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 matters 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 2020, 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 note 1 to the consolidated financial statements in the 2020 annual report of the Company, 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 this 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 notes 1 and 20 to the consolidated financial statements in the 2020 annual report of the Company, the Acquisitions are related 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 31 December 2020, the carrying amount of the Group’s interest in Saike International is approximately HK\$102,958,000 (31 December 2019: approximately HK\$131,445,000). The fair value of the Group’s interest in WinHealth International is approximately HK\$74,468,000 (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 20(d) to the consolidated financial statements in the 2020 annual report of the Company for details).

As disclosed in note 1 to the consolidated financial statements in the 2020 annual report of the Company, the Company was served a sealed copy of a petition dated 16 November 2020 filed in the High Court of the Hong Kong Special Administrative Region by the SFC pursuant to section 214 of the SFO (“Petition”) on 17 November 2020 in relation to the Acquisitions.

The court case of this Petition has yet been heard up to the date of this report, and no conclusive finding or conclusion on the matters alleged in the Petition in relation to the Acquisitions can be reached by the Company at this stage. As the investigation into the issues relating to the Acquisitions and the matters alleged in the Petition in relation to the Acquisitions is still on-going and did not result in conclusive finding or conclusion at this stage, we were unable to obtain sufficient appropriate audit evidence to satisfy ourselves as to the matters which are the subject matters of the investigation and the matters alleged in the Petition in relation to the Acquisitions, including whether the Acquisitions were in fact related party transactions.

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

In view of the above, we were unable to determine whether any adjustments to the disclosures provided in the consolidated financial statements concerning related party transactions and balances were necessary in order for the disclosures to comply with the disclosure requirements set out in HKAS 24 “Related Party Disclosures”, including whether the Acquisitions as well as the transactions as disclosed in notes 19 and 20 to the consolidated financial statements in the 2020 annual report of the Company, were in fact related party transactions.

We conducted our audit in accordance with Hong Kong Standards on Auditing (“HKSA”) 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, 31 March 2021

*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.*