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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 2021

2021 FINANCIAL HIGHLIGHTS

- The Group recorded a revenue of approximately HK\$335.4 million for the year ended 31 December 2021 (2020: approximately HK\$133.2 million), representing an increase of approximately 151.8% as compared to 2020.
- The Group's gross profit was approximately HK\$28.5 million for the year ended 31 December 2021 (2020: approximately HK\$10.9 million), representing an increase of approximately 161.5% as compared to 2020.
- Net loss attributable to owners of the Company was approximately HK\$2.8 million for the year ended 31 December 2021 (2020: loss of approximately HK\$69.7 million), representing a decrease of approximately 96.0% as compared to 2020.
- The Board does not recommend the payment of a final dividend for the year ended 31 December 2021 (2020: Nil).
- The Group had a gearing ratio (defined as total bank and other borrowings divided by total equity) of approximately 1.8% as at 31 December 2021 (2020: 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 2021 (the “Year”) together with the comparative figures for 2020, as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2021

	<i>Notes</i>	2021 HK\$'000	2020 HK\$'000
Revenue	3	335,380	133,214
Cost of sales		(306,892)	(122,283)
		28,488	10,931
Other income, gains and losses	5	2,642	10,939
Selling and distribution expenses		(12,632)	(10,525)
Administrative expenses		(18,283)	(17,423)
Finance costs		(280)	(110)
Share of profit of associates		1,110	1,484
Impairment loss on trade and other receivables		(4,653)	(27,872)
Impairment loss on interest in an associate		–	(37,325)
Loss before taxation		(3,608)	(69,901)
Income tax credit	6	784	170
Loss for the year attributable to owners of the Company	7	(2,824)	(69,731)
Other comprehensive income for the year			
<i>Items that will not be reclassified subsequently to profit or loss:</i>			
Exchange difference arising on translation of functional currency to presentation currency			
– Subsidiaries		9,338	15,737
– Associates		283	3,589
Fair value gain on equity instruments at fair value through other comprehensive income		19,851	1,846

	<i>Notes</i>	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Other comprehensive income for the year		<u>29,472</u>	<u>21,172</u>
Total comprehensive income (expense) for the year attributable to owners of the Company		<u>26,648</u>	<u>(48,559)</u>
Loss per share	9		
Basic (HK cents)		(0.17)	(4.17)
Diluted (HK cents)		<u>(0.17)</u>	<u>(4.17)</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2021

	<i>Notes</i>	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Non-current assets			
Property, plant and equipment		10,933	12,826
Right-of-use assets		20,420	21,351
Prepayment for a distribution right		11,381	14,858
Intangible asset		7,012	8,713
Club debenture		612	594
Equity instruments at fair value through other comprehensive income		127,654	139,465
Interests in associates		–	102,958
		178,012	300,765
Current assets			
Inventories		125,307	60,788
Trade and other receivables	10	204,661	219,010
Prepayment for a distribution right		3,914	3,802
Bank balances and cash		150,153	65,755
		484,035	349,355
Current liabilities			
Other payables	11	7,429	32,079
Lease liabilities		543	975
Tax payable		147	–
Bank borrowing		11,375	–
		19,494	33,054
Net current assets		464,541	316,301
Total assets less current liabilities		642,553	617,066

	<i>Notes</i>	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Non-current liabilities			
Lease liabilities		921	1,423
Deferred tax liabilities		9,060	9,719
		<u>9,981</u>	<u>11,142</u>
		<u>632,572</u>	<u>605,924</u>
Capital and reserves			
Share capital	12	83,592	83,592
Share premium and reserves		548,980	522,332
		<u>632,572</u>	<u>605,924</u>
Equity attributable to owners of the Company		<u>632,572</u>	<u>605,924</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

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 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 2020, 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 Futures 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.

On 4 May 2021, the SFC, the Company, Mr. Zhou and Mr. Dai made a joint application by way of consent summons (“Consent Summons”) in respect of the vacation of the hearing date fixed for the Petition. On 5 May 2021, the Court made an order in terms of the Consent Summons as amended, among other things, that the hearing date of the Petition scheduled to be held on 11 May 2021 be vacated and leave be granted to the parties to fix a case management conference on a date in consultation with counsel’s diaries. Further details of the matters were disclosed in the announcements of the Company dated 18 November 2020 and 10 May 2021.

As disclosed in notes 19 and 20 to the consolidated financial statements of the Company for the year ended 31 December 2021, the Acquisitions were related to the sale and purchase agreements which the Group entered into with purportedly independent third parties to acquire the two then associates, Saike International and WinHealth International, which were completed in 2015 and 2017 respectively and the costs of Acquisitions amounted to RMB95,000,000 and RMB47,250,000 respectively. Immediately after completion of the acquisition of Saike International and WinHealth International in 2015 and 2017 respectively, the Group held 50% interest in Saike International and 15% interest in WinHealth International.

1. GENERAL (Cont'd)

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 2021 and 2020.

As at 31 December 2021, the Group held 25% (31 December 2020: 50%) equity interest in Saike International, and the fair value of the Group's interest in Saike International is approximately HK\$53,816,000 (31 December 2020: carrying amount approximately HK\$102,958,000) which has been classified as an equity instrument at fair value through other comprehensive income ("FVTOCI") after the loss of significant influence on 1 March 2021. The Group had no power to appoint any director to the board of directors of Saike International since 1 March 2021.

During the year ended 31 December 2021, all the Group's shares of WinHealth International were disposed of. After the disposal, the Group did not hold any interest in WinHealth International (31 December 2020: 8.11% equity interest in WinHealth International with fair value of approximately HK\$74,468,000), which had been classified as an equity instrument at 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 19(iii) to the consolidated financial statements for the year ended 31 December 2021 for details).

On 21 March 2022, the Company has been informed that the SFC has considered the information submitted by the Company, and the SFC has, by notice to the Stock Exchange, and would, pursuant to section 9(3) of the Securities and Futures (Stock Market Listing) Rules (Chapter 571V of the laws of Hong Kong) ("SMLR"), permit resumption in the trading of the shares of the Company subject to the four resumption conditions. For details in respect of the resumption, please refer to the Company's announcement dated 21 March 2022. Trading in the shares of the Company has been permitted to recommence pursuant to section 9(3) of the SMLR with effect from 9:00 a.m. on 22 March 2022.

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 and, 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 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 2021 for the preparation of the consolidated financial statements:

Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16	Interest Rate Benchmark Reform – Phase 2
Amendments to HKFRS 16	Covid-19-Related Rent Concessions

In addition, the Group has early applied the Amendments to HKFRS 16 Covid-19-Related Rent Concessions beyond 30 June 2021.

Except as described below, the application of 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. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) (Cont’d)

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

2.1 *Impacts on application of Amendment to HKFRS 16 Covid-19-Related Rent Concessions and early application of Amendment to HKFRS 16 Covid-19-Related Rent Concessions beyond 30 June 2021*

The Group has applied the Amendment to HKFRS 16 Covid-19-Related Rent Concessions for the first time and early applied the Amendment to HKFRS 16 Covid-19-Related Rent Concessions beyond 30 June 2021 in the current year retrospectively. The amendments introduce 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 that occurred as a direct consequence of the Covid-19 pandemic 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 2022; 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 the same way it would account for the changes applying HKFRS 16 Leases if the changes were 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 of these amendments has had no material impact on the Group’s financial positions and performance in the current and prior years.

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 ²
Amendments to HKFRS 3	Reference to the Conceptual Framework ¹
Amendments to HKAS 28 and HKFRS 10	Sale or Contribution of Assets between an Investors and its Associate of Joint Venture ³
Amendments to HKAS 1	Classification of Liabilities as Current or Non-current and related amendments to Hong Kong Interpretation 5 (2020) ²
Amendments to HKAS 1 and HKFRS Practice Statement 2	Disclosure of Accounting Policies ²
Amendments to HKAS 8	Definition of Accounting Estimates ²
Amendments to HKAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction ²
Amendments to HKAS 16	Property, Plant and Equipment – Proceeds before Intended Use ¹
Amendments to HKAS 37	Onerous Contracts – Cost of Fulfilling a Contract ¹
Amendments to HKFRSs	Annual Improvements to HKFRSs 2018–2020 ¹

¹ Effective for annual periods beginning on or after 1 January 2022.

² Effective for annual periods beginning on or after 1 January 2023.

³ Effective for annual periods beginning on or after a date to be determined.

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 (Cont’d)

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.

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 2021, the application of the amendments will not result in reclassification of the Group’s liabilities.

Amendments to HKAS 1 and HKFRS Practice Statement 2 Disclosure of Accounting Policies

HKAS 1 is amended to replace all instances of the term “significant accounting policies” with “material accounting policy information”. Accounting policy information is material if, when considered together with other information included in an entity’s financial statements, it can reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements.

The amendments also clarify that accounting policy information may be material because of the nature of the related transactions, other events or conditions, even if the amounts are immaterial. However, not all accounting policy information relating to material transactions, other events or conditions is itself material. If an entity chooses to disclose immaterial accounting policy information, such information must not obscure material accounting policy information.

HKFRS Practice Statement 2 Making Materiality Judgements (the “Practice Statement”) is also amended to illustrate how an entity applies the “four-step materiality process” to accounting policy disclosures and to judge whether information about an accounting policy is material to its financial statements. Guidance and examples are added to the Practice Statement.

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 (Cont’d)

Amendments to HKAS 1 and HKFRS Practice Statement 2 Disclosure of Accounting Policies (Cont’d)

The application of the amendments is not expected to have significant impact on the financial position or performance of the Group but may affect the disclosures of the Group’s significant accounting policies. The impacts of application, if any, will be disclosed in the Group’s future consolidated financial statements.

Amendments to HKAS 8 Definition of Accounting Estimates

The amendments define accounting estimates as “monetary amounts in financial statements that are subject to measurement uncertainty”. An accounting policy may require items in financial statements to be measured in a way that involves measurement uncertainty – that is, the accounting policy may require such items to be measured at monetary amounts that cannot be observed directly and must instead be estimated. In such a case, an entity develops an accounting estimate to achieve the objective set out by the accounting policy. Developing accounting estimates involves the use of judgements or assumptions based on the latest available, reliable information.

In addition, the concept of changes in accounting estimates in HKAS 8 is retained with additional clarifications.

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:

	2021 <i>HK\$’000</i>	2020 <i>HK\$’000</i>
Distribution and trading of pharmaceutical products	329,621	128,694
Provision of marketing and promotion services	5,759	4,520
	<u>335,380</u>	<u>133,214</u>

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

4. SEGMENT INFORMATION

The Group is principally engaged in the distribution and trading of pharmaceutical products and the provision of marketing and promotion services in the PRC 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.

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

Year ended 31 December 2021

	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>329,621</u>	<u>5,759</u>	<u>335,380</u>
RESULT			
Segment profit	<u>18,514</u>	<u>5,321</u>	23,835
Other income, gains and losses			2,642
Selling and distribution expenses			(12,632)
Administrative expenses			(18,283)
Finance cost			(280)
Share of profit of associates			<u>1,110</u>
Loss before tax			<u>(3,608)</u>
Included in arriving at segment profit:			
Impairment loss on trade and other receivables	<u>(4,653)</u>	<u>–</u>	<u>(4,653)</u>

4. SEGMENT INFORMATION (Cont'd)

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>
REVENUE			
External sales and segment revenue	128,694	4,520	133,214
RESULT			
Segment (loss) profit	(21,118)	4,177	(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			(37,325)
Loss before tax			(69,901)
Included in arriving at segment (loss) profit:			
Impairment loss on trade and other receivables	(27,872)	–	(27,872)

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:

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Customer A ¹	83,285	18,944
Customer B ¹	N/A ²	17,240

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

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

5. OTHER INCOME, GAINS AND LOSSES

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Incentives received from government grants (<i>note</i>)	30	238
Bank interest income	1,211	1,587
Sundry income	60	25
Dividend income from equity instruments at FVTOCI	87	174
Net exchange gain	4,245	8,920
Loss on disposal of property, plant and equipment	(5)	(5)
Loss on partial disposal of interest in an associate	(1,420)	–
Loss on investment ceased to be an associate	(1,566)	–
	<u>2,642</u>	<u>10,939</u>

Note: During the year ended 31 December 2021, the Group was granted incentives of RMB25,000 (equivalent to approximately HK\$30,000) (2020: RMB66,000 (equivalent to approximately HK\$76,000)) by local government in Hangzhou, the PRC for the purpose of enhancing the development of the Group, the conditions of which had been fulfilled.

During the year ended 31 December 2020, 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

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Current tax:		
PRC Enterprise Income Tax (“EIT”)	–	–
(Under-provision) over-provision in prior year:		
PRC EIT	–	50
Hong Kong profits tax	(147)	–
	<u>(147)</u>	<u>50</u>
Deferred tax	931	120
	<u>784</u>	<u>170</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 2021 and 2020.

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 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.

7. LOSS FOR THE YEAR

	2021 <i>HK\$'000</i>	2020 <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	2,923	3,425
Other staff's salaries, bonus and other benefits	5,359	4,937
Contributions to retirement benefits scheme, excluding directors	433	226
Total staff costs	<u>8,715</u>	<u>8,588</u>
Depreciation of property, plant and equipment	2,292	2,291
Depreciation of right-of-use assets	1,525	1,519
Amortisation of prepayment for a distribution right (included in cost of sales)	3,857	3,684
Amortisation of intangible asset (included in cost of sales)	1,929	1,842
Auditor's remuneration	1,700	2,140
Legal and professional fees (included in administrative expenses)	6,833	5,088
Donations	554	99
Loss on disposal of property, plant and equipment	5	5
Impairment loss on deposits paid to suppliers	2,679	3,945
Impairment loss on trade receivables	1,974	23,927
Cost of inventories recognised as an expense	<u>300,668</u>	<u>116,414</u>

8. DIVIDENDS

No dividend was paid or proposed for shareholders of the Company during the years ended 31 December 2021 and 2020, nor has any dividend been proposed since the end of the reporting period.

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:

	2021 <i>HK\$'000</i>	2020 <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>(2,824)</u>	<u>(69,731)</u>
Number of ordinary shares		
	2021 <i>'000</i>	2020 <i>'000</i>
Number of shares		
Weighted average number of ordinary shares for the purposes of basic and diluted loss per share	<u>1,671,847</u>	<u>1,671,847</u>

No adjustment has been made in arriving at diluted loss per share for the years ended 31 December 2021 and 31 December 2020 as there were no potential ordinary shares in issue for both years.

10. TRADE AND OTHER RECEIVABLES

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Trade receivables	88,544	38,150
Less: allowance for credit loss	<u>(32,814)</u>	<u>(29,931)</u>
Trade receivables (net of allowance for credit loss)	55,730	8,219
Other prepayments	568	567
Other deposits	393	393
Prepayments to suppliers	12,231	38,124
Deposits paid to suppliers (net of allowance for credit loss)	126,280	162,762
Value-added tax recoverable	8,654	8,759
Others	<u>805</u>	<u>186</u>
	<u>204,661</u>	<u>219,010</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 period.

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Trade receivables:		
0–30 days	16,892	1,058
31–60 days	13,322	388
61–90 days	8,390	6,729
91–180 days	9,837	44
181–365 days	<u>7,289</u>	<u>–</u>
	<u>55,730</u>	<u>8,219</u>

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\$3,359,000 (2020: approximately HK\$322,000) which are past due but not impaired as at 31 December 2021. The Group has provided for impairment loss of approximately HK\$1,974,000 (2020: impairment loss of HK\$23,927,000) during the year ended 31 December 2021 based on the provision matrix. The Group does not hold any collateral over these balances.

10. TRADE AND OTHER RECEIVABLES (Cont'd)

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, the receivables that are past due beyond 365 days are generally not recoverable. Such receivables past due over 365 days amounted to approximately HK\$26,648,000 (2020: approximately HK\$25,077,000) as at 31 December 2021.

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\$2,679,000 (2020: impairment loss of approximately HK\$3,945,000) on deposits paid to suppliers during the year ended 31 December 2021.

11. OTHER PAYABLES

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Deposits received from customers	966	1,093
Deposit received for partial disposal of interest in an associate	–	5,941
Contract liabilities	421	21,002
Other tax payables	–	1
Accruals	6,042	4,042
	<u>7,429</u>	<u>32,079</u>

12. SHARE CAPITAL OF THE COMPANY

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

	Number of shares <i>'000</i>	Amount <i>HK\$'000</i>
Ordinary shares		
Authorised:		
At 1 January 2020, 31 December 2020, 1 January 2021 and 31 December 2021	<u>3,000,000</u>	<u>150,000</u>
Issued and fully paid:		
At 1 January 2020, 31 December 2020, 1 January 2021 and 31 December 2021	<u>1,671,847</u>	<u>83,592</u>

All ordinary shares issued during the years ended 31 December 2021 and 2020 rank *pari passu* with the then existing ordinary shares in all respects.

MANAGEMENT DISCUSSION AND ANALYSIS

OVERVIEW

The Chinese government has implemented a series of policies 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. The first, second and third batches of the national volume-based procurement were successfully implemented during the years 2019 to 2020, the fourth, fifth and sixth batches were completed in February 2021, June 2021 and November 2021 respectively. 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.

Facing the market challenges, the Group has been actively tightening the cooperation with suppliers and end customers (e.g. hospitals), in order to improve our sales and marketing capabilities and make effort to expand its distribution network in the PRC so as to minimise the impact of unfavourable external factors on the Group.

For the Year, the total revenue of the Group was approximately HK\$335.4 million, representing an increase of approximately 151.8% as compared to 2020. The increase in revenue was mainly attributable to the increase in the sales of the Group's major product under the second generation of Cephalosporins (二代頭孢產品) ("Product") (1.0g) in 2021. On the other hand, the relaxation of the restrictions on population movement across the cities in the PRC has led to an increase in the number of people seeking medical services and hospitals' services. As a result, the demand for the pharmaceutical products has increased during the Year. Meanwhile, through proactively organising and participating in various academic promotion activities in the PRC during the Year, the sales of the Group's Product (1.0g) has been gradually increasing since the resumption of the production and sale of the Product (1.0g) in September 2019. The Group recorded a net loss was approximately HK\$2.8 million for the Year (2020: loss of approximately HK\$69.7 million), representing a decrease of approximately 96.0% as compared to 2020. The decrease was primarily due to (i) the increase in the gross profit due to the increase in the sales of the Group's Product (1.0g); (ii) the decrease in impairment loss on trade and other receivables; and (iii) the absence of impairment losses in respect of the Group's interest in Saike International for the Year, while there was an impairment loss of the Group's interest in Saike International of approximately HK\$37.3 million for the year ended 31 December 2020.

FUTURE PROSPECTS

(i) Industry Outlook

The PRC pharmaceutical industry is facing many challenges as a result of 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. The first, second and third batches of the national volume-based procurement were successfully implemented during the years 2019 to 2020, the fourth, fifth and sixth batches were completed in February 2021, June 2021 and November 2021 respectively. The fourth batch of the volume-based procurement involved 45 varieties of pharmaceutical products, and the average price of the shortlisted varieties was reduced by approximately 52% as compared to the average original bidding prices, with the biggest price reduction of one variety being approximately 96% as compared to its original bidding price. The fifth batch of the volume-based procurement involved 62 varieties of pharmaceutical products, and the average price of the shortlisted varieties was reduced by approximately 56% as compared to the average original bidding prices, with the biggest price reduction of one variety being approximately 98% as compared to its original bidding price. The sixth batch of the volume-based procurement involved 42 varieties of insulin products, and the average price of the shortlisted varieties was reduced by approximately 49% as compared to the average original bidding prices, with the biggest price reduction of one variety being approximately 74% as compared to its original bidding price.

It is expected that the national volume-based procurement will continue in the future and the scope of drugs under such procurement scheme will become wider and the downward pressure of the price of drugs is anticipated. The abovementioned policies may put the pharmaceutical distribution and trading enterprises in the PRC including the Group into a challenging position and may affect the profitability of these companies in the future.

(ii) Growth Strategies

(a) Continue to diversify the existing product portfolio

The Group will seek to acquire distribution rights of new products to enhance its product portfolio. Looking ahead to 2022, 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 long term growth

As a long-term business strategy, the Group intends to focus on its 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. Besides, the Group will continue to seek potential merger and acquisition opportunities to bring higher return for its shareholders.

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 2021 and 31 December 2020 respectively.

	Revenue contributed from each business segment				Gross profit margin	
	2020		2021		2020	2021
	HK\$'000	%	HK\$'000	%	%	%
(1) <i>Distribution and trading of pharmaceutical products</i>	128,694	96.6	329,621	98.3	5.2	7.0
(2) <i>Provision of marketing and promotion services</i>	4,520	3.4	5,759	1.7	N/A	N/A
Total	<u>133,214</u>	<u>100.0</u>	<u>335,380</u>	<u>100</u>		

(1) Distribution and trading of pharmaceutical products

This segment generated a revenue of approximately HK\$329.6 million for the Year (2020: approximately HK\$128.7 million), representing an increase of approximately 156.1% as compared to 2020. The increase in revenue was primarily attributable to the increase in the sales of the Group's Product (1.0g). Given that the spread of Covid-19 has been under control in the PRC, the relaxation of the restrictions on population movement across the cities in the PRC has led to an increase in the number of people seeking medical services and hospitals' services. As a result, the demand for the pharmaceutical products has increased during the Year. Meanwhile, through proactively organising and participating in various academic promotion activities in the PRC during the Year, the sales of the Group's Product (1.0g) has been gradually increasing since the resumption of the production and sale of the Product (1.0g) in September 2019.

(2) Provision of marketing and promotion services

This segment generated a revenue of approximately HK\$5.8 million for the Year (2020: approximately HK\$4.5 million), representing an increase of approximately 28.9% as compared to 2020. 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 increase in revenue of the Group generated from this segment for the Year was mainly due to the increase in the sales of the pharmaceutical products under the Group's provision of marketing and promotion services.

FINANCIAL REVIEW

Revenue

The total revenue for the Year was approximately HK\$335.4 million, representing an increase of approximately 151.8% from approximately HK\$133.2 million for the year ended 31 December 2020. The increase in revenue from the distribution and trading of pharmaceutical products was primarily attributable to the increase in the sales of the Group's Product (1.0g). In the Year, given that the spread of Covid-19 has been under control in the PRC, the PRC macro-economy has been recovering. On the other hand, the relaxation of the restrictions on population movement across the cities in the PRC has led to an increase in the number of people seeking medical services and hospitals' services. As a result, the demand for the pharmaceutical products has increased during the Year. Meanwhile, through proactively organising and participating in various academic promotion activities in the PRC during the Year, the sales of the Group's Product (1.0g) has been gradually increasing since the resumption of the production and sale of the Product (1.0g) in September 2019.

Cost of sales

The cost of sales for the Year was approximately HK\$306.9 million, representing an increase of approximately 150.9% from approximately HK\$122.3 million for the year ended 31 December 2020. 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 increased by approximately HK\$17.6 million, or approximately 161.5%, from approximately HK\$10.9 million for the year ended 31 December 2020 to approximately HK\$28.5 million for the Year. The significant increase in gross profit of the Group for the Year was mainly attributable to the increase in sales volume of the Product (1.0g) during the Year. The Group's gross profit margin for the Year was approximately 8.5%, which has slightly increased by 0.3 percentage points when compared to 2020.

Other Income, Gains and Losses

The net other gains for the Year were approximately HK\$2.6 million (2020: approximately HK\$10.9 million). The decrease in net other gains was primarily attributable to the decrease in net exchange gains of approximately HK\$4.2 million recorded for the Year (2020: HK\$8.9 million) and loss on partial disposal of interest in Saike International of approximately HK\$1.4 million (2020: nil) and loss on investment in Saike International ceased to be an associate amounting to approximately HK\$1.6 million (2020: nil).

Selling and Distribution Expenses

Selling and distribution expenses for the Year were approximately HK\$12.6 million, representing an increase of approximately 20.0% from approximately HK\$10.5 million for the year ended 31 December 2020. The increase in selling and distribution expenses was primarily attributable to the increase in the marketing service fee and delivery expenses in line with the increase in sales volume of the Product (1.0g).

Administrative Expenses

Administrative expenses for the Year were approximately HK\$18.3 million, representing an increase of approximately 5.2% from approximately HK\$17.4 million for the year ended 31 December 2020. Such increase was mainly due to the increase in legal and professional fees during the Year.

Share of Profit of Associates

Share of profit of associates was approximately HK\$1.1 million for the Year which was contributed by Saike International, representing a decrease of approximately 26.7% from approximately HK\$1.5 million for the year ended 31 December 2020. The decrease in share of profit of associates was because Saike International ceased to be an associate of the Group on 1 March 2021 and the Group no longer shared the profit of Saike International since then. On 1 March 2021, Major Bright Holdings Limited (“Major Bright”), a wholly-owned subsidiary of the Company, entered into a shareholders’ agreement with the other shareholders of Saike International, namely, Ms. Zhao Lei and Wing Yin Holdings Limited (“Wing Yin”). The Group lost significant influence over Saike International as the Group has no power to appoint any director to the board of directors of Saike International under the shareholders’ agreement. Since then and as at 31 December 2021, Saike International ceased to be an associate of the Group and the Group’s interest in Saike International was classified as an equity instrument at FVTOCI.

Income Tax Credit

Income tax credit for the Year was approximately HK\$784,000 (2020: approximately HK\$170,000). The increase in income tax credit was primarily due to the decrease in deferred tax of approximately HK\$0.9 million for the Year.

Loss for the Year

Loss for the Year was approximately HK\$2.8 million, representing a decrease of approximately 96.0% from approximately HK\$69.7 million for the year ended 31 December 2020.

The Group recorded a reduction in net loss for the Year primarily due to (i) the increase in the gross profit due to the increase in the sales of the Group’s Product (1.0g); (ii) the decrease in impairment loss on trade and other receivables; and (iii) the absence of impairment losses in respect of the Group’s interest in Saike International for the Year, while there was an impairment loss of the Group’s interest in Saike International of approximately HK\$37.3 million for the year ended 31 December 2020.

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 which have been determined based on the quoted market prices available on the Stock Exchange; and (ii) equity instruments at FVTOCI for unlisted investments which is incorporated in the Cayman Islands and the British Virgin Islands (“BVI”) with limited liability and stated at fair value based on valuations prepared by independent valuers and recent transaction price respectively.

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

As at 31 December 2021, the Group's securities investment in the shares ("TH Shares") of Town Health International Medical Group Limited ("Town Health") (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\$51.7 million and an investment amount of approximately HK\$142.0 million. As at 31 December 2021, the fair value of the Group's investment in Town Health accounted for approximately 7.8% of the Group's total assets. The Group recognised a fair value gain on its investment in the TH Shares of approximately HK\$16.9 million for the Year. No dividend income was received from Town Health for the Year. During the Year, the Group disposed of 2,398,000 TH Shares. The proceeds from such disposal amounted to approximately HK\$1.4 million and an increase in fair value from the disposal of approximately HK\$0.7 million was recorded in other comprehensive income of the Group.

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 trading of the shares in Town Health on the Stock Exchange was permitted to re-commence with effect with 9:00 a.m. on 1 March 2021 on the Stock Exchange subject to the conditions imposed by the SFC.

As at 31 December 2021 and the date of this announcement, the Group held 117,602,000 TH Shares, representing approximately 1.56% of the total issued share capital of Town Health. Town Health and its subsidiaries are principally engaged in the provision of medical and dental services in Hong Kong, managing healthcare networks and the provision of third party medical network administrator services in Hong Kong, the provision of medical and dental services in the PRC, the provision of hospital management services and related services and leasing of properties. Based on the annual results announcement of Town Health for the year ended 31 December 2021, after a long period of economic shutdown, Hong Kong and Mainland China ushered in the long-awaited recovery in 2021. However, with the outbreak of variant viruses in 2022, the latest wave of the pandemic and the tightening of anti-pandemic measures have put a new round of pressure on economic activities and also dampened economic sentiment, making the pace of recovery in 2022 likely to be slowed down. Although the development of the pandemic and various uncertainties in the external environment have created hidden worries for the economy to return to normal, Town Health will adjust its business strategies in a timely manner according to the current economic situation, striving to cultivate new opportunities in the midst of crises and open a new situation in changes. It will seize market opportunities to consolidate the businesses in Hong Kong, develop the market in Mainland China, and continue to provide the public with

reliable and high-quality medical and healthcare services. In 2022, as the pandemic prevention and control situation in Hong Kong and Mainland China is severe, the medical staff of Town Health are determined to shoulder the responsibility of protecting the safety and health of citizens, and will continue to stick to the front line of fighting the pandemic. In Hong Kong, the pandemic has deteriorated rapidly since February 2022, with an unprecedented large-scale outbreak, and the number of local daily infections has repeatedly hit new highs. Facing the most severe battle since the outbreak of the pandemic, Town Health believes that increasing the vaccination rate is crucial to the prevention and control of the pandemic. It will continue to operate a number of community vaccination centres and vaccination stations in public hospitals, and provide citizens with convenient vaccination channels through its designated medical centres, outreach vaccination teams, and mobile vaccination stations, so as to provide a herd immunity barrier for the community. The pandemic is expected to last for a period of time. In this protracted battle against the pandemic, Town Health will continue to fulfill its responsibilities and go all out to work with the public to overcome the pandemic.

As at 31 December 2021, the Group's securities investment listed in Hong Kong (other than the TH Shares) had a fair value of approximately HK\$2.4 million. During the Year, the Group accepted the relevant provisional allotment of rights shares under the rights issue conducted by China Demeter Financial Investments Limited ("China Demeter") (stock code: 8120) in 2021 and disposed of the rights shares with the sale proceeds of approximately HK\$15,000 and an increase in fair value from the disposal of approximately HK\$15,000 was recorded in other comprehensive income of the Group.

Save as disclosed above, the Group did not dispose of any equity securities listed in Hong Kong during the Year. Besides, due to an increase in the fair value of certain listed securities investments, a fair value gain (inclusive of the fair value gain on the TH Shares) of approximately HK\$19.6 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.

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

Saike International

As at 31 December 2021, the Group held 25 ordinary shares, representing 25% equity interest in Saike International, with the net investment costs of the Group attributable to 25 ordinary shares of approximately RMB43.8 million. As at 31 December 2021, the fair value of the Group's investment in Saike International was approximately RMB44 million and accounted for approximately 8.1% of the Group's total assets. A fair value gain on the Group's investment in Saike International of approximately HK\$1.9 million has been recognised in other comprehensive income for the Year. No dividend income was received from Saike International for the Year.

Saike International and its subsidiaries are principally engaged in the trading of medical devices, medical equipment and medical consumables in the PRC. Based on the latest unaudited consolidated financial statements of Saike International for the 11 months ended 30 November 2021, it recorded an unaudited consolidated profit of approximately RMB1.4 million. The Chinese government has launched a centralised volume-based procurement program for certain high-value medical commodities in 2020. With the implementation of the procurement program, the average selling price of certain medical products in the market has dropped for over 90% as compared to its original bidding price. In 2021, eight departments including the National Healthcare Security Administration jointly issued the Guiding Opinions on the Implementation of the Nationally Organised and Centralised Volume-based Procurement and Use of High-Value Medical Consumables (Yi Bao Fa [2021] No. 31) (關於開展國家組織高值醫用耗材集中帶量採購和使用的指導意見(醫保發[2021]31號)). In accordance with the general idea of national organisation, alliance procurement and platform operation, all provinces across the country formed a procurement alliance, and appointed representatives to form a nationally organised high-value medical consumables joint procurement office, which organised the “nationally organised and centralised volume-based procurement joint prosthesis”, and started to carry out volume-based procurement for the high-value medical consumables with large clinical usage, high purchase amount and mature clinical use. This new procurement program has exerted price pressure on some medical commodities and caused uncertainty on the profitability of the medical devices industry in the PRC.

On 29 March 2022, Major Bright, a wholly-owned subsidiary of the Company, as vendor, Wing Yin 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.) (“Qingdao Songshan”) as guarantor entered into a sale and purchase agreement for the disposal of 25 ordinary shares of Saike International, at the consideration of RMB44.0 million (equivalent to approximately HK\$54.1 million). As at the date of this announcement, completion of the disposal has not yet taken place. Please refer to the announcement of the Company dated 29 March 2022 for further details of the disposal.

HCMPS Healthcare Holdings Limited (“HCMPS”)

As at 31 December 2021, the Group held approximately 14% equity interest in HCMPS (formerly known as C&C International Healthcare Group Limited) with a fair value of approximately HK\$19.7 million. As at 31 December 2021, the fair value of the Group’s investment in HCMPS accounted for approximately 3.0% of the Group’s total assets. A fair value loss on the Group’s investment in HCMPS of approximately HK\$6.9 million has been recognised in other comprehensive expense for the Year. No dividend income was received from HCMPS for the Year.

HCMPS 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 HCMPS for the nine months ended 31 October 2021, it recorded an unaudited consolidated profit of approximately HK\$14.3 million. The fair value loss on the Group's investment in HCMPS was mainly due to the deteriorating financial performance of HCMPS as a result of the outbreak of the Covid-19 pandemic in 2021. However, the aging population and the increasing demand for corporate medical solutions services in Hong Kong are favourable to the continuing development of HCMPS' business in the long term.

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\$150.2 million in total as at 31 December 2021 (2020: approximately HK\$65.8 million), among which approximately 16.8% (2020: approximately 65%) were denominated in Hong Kong dollars, approximately 57.3% (2020: approximately 35%) were denominated in Renminbi and approximately 25.9% (2020: nil) were denominated in the United States dollars. The Group obtained a Renminbi variable-rate short-term loan from a bank during the Year, which is secured by the Group's building with a carrying amount of HK\$14,661,000. As at 31 December 2021, the Group's total bank borrowing was approximately HK\$11.4 million, which is repayable by 1 year. The loan carries interest at a variable rate of PRC 1-year loan prime rate (LPR) of 3.85% per annum.

The Group's gearing ratio (defined as total bank and other borrowings divided by total equity) was approximately 1.8% as at 31 December 2021 (2020: 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 in Hong Kong dollars and the United States dollars 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 2021, the Group had 27 employees (2020: 29). Staff costs for the Year, including Directors' emolument, amounted to approximately HK\$8.7 million (2020: approximately HK\$8.6 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 2021, the Group did not have any significant contingent liabilities.

Material Acquisitions or Disposals and Significant Investments

Disposal of 25% of the issued share capital of Saike International

On 30 November 2020, Major Bright as vendor, Wing Yin as purchaser and Qingdao Songshan as guarantor of the purchaser entered into a sale and purchase agreement ("Disposal Agreement") in relation to the disposal of 25 ordinary shares of Saike International ("Saike Sale Shares"), representing 25% of the issued share capital of Saike International. Major Bright conditionally agreed to sell, and Wing Yin conditionally agreed to purchase, the Saike 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. Immediately after completion of the disposal, the Group held 25% of the issued share capital of Saike International.

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 Wing Yin.

On 1 March 2021, Major Bright entered into a shareholders' agreement with the other shareholders of Saike International, namely, Ms. Zhao Lei and Wing Yin. The Group lost significant influence over Saike International as the Group had no power to appoint any director to the board of directors of Saike International under the shareholders' agreement. Since then and as at 31 December 2021, Saike International ceased to be an associate of the Group and the Group's interest in Saike International was classified as an equity instrument at FVTOCI.

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.

Disposal of approximately 7.87% of the issued share capital of WinHealth International

On 20 April 2021 (after trading hours), Major Bright as vendor, and WinHealth International as purchaser entered into the original share repurchase agreement ("Original Share Repurchase Agreement"), pursuant to which Major Bright conditionally agreed to sell, and WinHealth International conditionally agreed to purchase, 162,806 ordinary shares of WinHealth International ("WinHealth Sale Shares") at the consideration of RMB68,000,000 (equivalent to approximately HK\$81.7 million) ("WinHealth Disposal"). The WinHealth Sale Shares represented approximately 8.11% of the issued share capital of WinHealth International as at the date of the Original Share Repurchase Agreement.

On 30 July 2021, Major Bright and WinHealth International entered into a supplemental agreement (together with the Original Share Repurchase Agreement, referred to as the "Share Repurchase Agreement") to extend the long stop date for the satisfaction of the conditions precedent to the Original Share Repurchase Agreement from 16 August 2021 to 16 September 2021 (or such other date as Major Bright and WinHealth International may agree in writing).

As informed by WinHealth International on 4 August 2021, subsequent to the signing of the Original Share Repurchase Agreement on 20 April 2021, WinHealth International allotted and issued new shares to one of its existing shareholders. Based on the representations of WinHealth International, immediately after the allotment and issue of the new shares, the shareholding of Major Bright in WinHealth International was diluted from approximately 8.11% to approximately 7.87%.

The disposal was approved by the shareholders of the Company at a special general meeting held on 2 September 2021. All the conditions precedent set out in the Share Repurchase Agreement were fulfilled and completion of the disposal took place on 6 September 2021. Immediately after completion of the WinHealth Disposal, the Group ceased to hold any equity interest in WinHealth International and its subsidiaries.

For further details of the WinHealth Disposal, please refer to the announcements of the Company dated 20 April 2021, 30 July 2021, 5 August 2021, 2 September 2021 and 6 September 2021 and the circular of the Company dated 12 August 2021.

Save as disclosed above, the Group did not make any material investments, acquisitions or disposals during the Year.

Capital Structure

The capital of the Company comprises ordinary shares. As at 31 December 2021, the Group had shareholders' equity of approximately HK\$632.6 million (2020: approximately HK\$605.9 million).

The Group obtained a Renminbi variable-rate short-term loan from a bank during the Year, which is secured by the Group's building with a carrying amount of HK\$14.7 million. As at 31 December 2021, the Group's total bank borrowing was approximately HK\$11.4 million, which is repayable by 1 year. The loan carries interest at a variable rate of PRC 1-year loan prime rate (LPR) of 3.85% per annum.

Pledge of Assets

As at 31 December 2021, the Group pledged the buildings and right-of-use assets with an aggregate carrying amount of approximately HK\$24.2 million (2020: approximately HK\$9.5 million) to secure general banking facilities granted to the Group and a short term bank borrowing.

Save as disclosed above, as at 31 December 2021, the Group had no charges on its assets.

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.

Suspension and Resumption of Trading in Shares

Trading in the Company's shares was suspended with effect from 9:00 a.m. on 6 October 2017. The Company received a letter from the SFC dated 6 October 2017 in relation to a direction under Section 8(1) of the Securities and Futures (Stock Market Listing) Rules (Chapter 571V, the laws of Hong Kong), pursuant to which the SFC directed the Stock Exchange to suspend trading in the securities of the Company as it appeared to the SFC that the Company's announcements dated 14 February 2015, 20 March 2015, 26 June 2015 and 16 July 2015 in relation to the acquisition of 50% interest in Saike International and the Company's announcements dated 5 December 2016 and 14 March 2017 in relation to the acquisition of the then 15% interest in WinHealth International may have contained materially false, incomplete or misleading information. In view of the suspension, on 12 January 2018,

the Board established an independent board committee (“IBC”) comprising two independent non-executive Directors, namely Ms. Li Sin Ming, Ivy and Mr. Leung Chi Kin with Ms. Li Sin Ming, Ivy being appointed as the chairman of the IBC. The principal duties of the IBC include (i) to conduct an independent investigation into the issues relating to the above acquisitions and to obtain external legal or other independent professional advice, if required; and (ii) to deal with the issues and matters in relation to the suspension. Mr. Sy Lai Yin, Sunny, an independent non-executive Director appointed on 24 September 2018, was also appointed as a member of the IBC on the same day. As at the date of this announcement, the IBC’s investigation into the affairs of the two acquisitions was still under progress. Grant Thornton Advisory Services Limited (“Independent Investigator”) was appointed as an independent investigator to the IBC to assist in the investigation. The Independent Investigator was in the progress of preparing its draft independent investigation report. The Company 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.

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.

On 21 March 2022, the Company has been informed that the SFC has considered the information submitted by the Company, and the SFC has, by notice to the Stock Exchange, and will, pursuant to section 9(3) of the Securities and Futures (Stock Market Listing) Rules (Chapter 571V of the laws of Hong Kong) (“SMLR”), permit resumption in the dealings of the Shares subject to the following conditions (“Resumption Conditions”):

- (1) the Company shall publish an announcement in respect of, among others, the Resumption Conditions and the results of internal control review report conducted by BTCGL (“IC Report”);

- (2) the Company undertakes to:
 - (a) implement all the recommendations for improvement made by BTCGL in the IC Report;
 - (b) procure BTCGL to perform a follow-up review as at 31 December 2021 to assess whether the recommendations in the IC Report have been properly implemented by the Company; and
 - (c) procure BTCGL to submit a report on the follow-up review to the Company and the SFC Executive for review at the same time;
- (3) the Company shall publish an announcement regarding the results of the follow-up review; and
- (4) the Company's current management shall provide an undertaking that they will ensure strict adherence to the revised code of conduct and compliance with the revised internal control systems in managing the Company's business.

The first Resumption Condition was fulfilled by the Company's publication of announcement dated 21 March 2022.

With reference to the second Resumption Condition, the Company (i) has enhanced the relevant internal control policies and procedures as recommended by BTCGL and will maintain proper records and reports together with the relevant supporting documents; (ii) will procure BTCGL to perform a follow-up review as at 31 December 2021 to assess whether BTCGL's recommendations in the IC Report have been properly implemented by the Company; and (iii) procure BTCGL to submit a report on the follow-up review to the Company and the SFC Executive for concurrent review.

With reference to the fourth Resumption Condition, the current members of the Board and senior management of the Company have provided an undertaking that they will ensure strict adherence to the revised code of conduct and compliance with the revised internal control system in managing the Company's business.

BTCGL reviewed the Group's internal control system with an observation period of 1 January 2015 to 31 May 2020, and with focus on (i) investments in companies; (ii) conflict of interest; (iii) management of the Company (including assessment of whether directors and staff in positions of senior management have the appropriate qualifications and experience to manage the Company); (iv) corporate governance; (v) business transactions; and (vi) risk assessment. For the details of the internal control deficiencies and the recommendations to the Company made by BTCGL, please refer to the Company's announcement dated 21 March 2022.

The SFC has notified the Stock Exchange that the trading in the Shares will be permitted to recommence pursuant to section 9(3) of the SMLR with effect from 9:00 a.m. on 22 March 2022.

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, 30 October 2020, 29 January 2021, 30 April 2021, 30 July 2021, 29 October 2021, 31 January 2022 and 21 March 2022. Further announcement shall be made by the Company in respect of the follow-up review report as required under the third Resumption Condition in due course.

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 (“Court”) by the SFC pursuant to section 214 of the 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, 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 was fixed to be heard on 11 May 2021.

On 4 May 2021, the SFC, the Company, the 1st Respondent and the 2nd Respondent made a joint application by way of consent summons (“Consent Summons”) in respect of the vacation of the hearing date fixed for the Petition. On 5 May 2021, the Court made an order in terms of the Consent Summons as amended, among other things, that the hearing date of the Petition scheduled to be held on 11 May 2021 be vacated and leave be granted to the parties to fix a case management conference on a date in consultation with counsel’s diaries. Details of the Petition are disclosed in the Company’s announcements dated 18 November 2020 and 10 May 2021.

As at 31 December 2021 and 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 its 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 its shareholders and creditors. In this regard, a corporate governance committee of the Board (“Corporate Governance Committee”) 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 code provisions of the then prevailing CG Code for the Year with the exception of code provisions A.2.1, details of which would be explained below.

Following Mr. Liu Yang’s resignation with effect from 15 May 2021, Ms. Wang Qiuqin, an executive Director and the chief executive officer of the Company (“Chief Executive Officer”), was also appointed as the chairman of the Board (“Chairman”). As Ms. Wang Qiuqin is performing both the roles of the Chairman and the Chief Executive Officer, this constitutes a deviation from Code Provision A.2.1 of the CG Code which requires that the roles of the chairman and chief executive should be separate and should not be performed by the same individual.

The Board believes that while vesting both the roles of the Chairman and the Chief Executive Officer in the same person gains the benefit of ensuring consistent leadership within the Group, the balance of power and authority for that arrangement are not impaired as all major decisions are made in consultation with the Board members and the senior management of the Company. Nevertheless, the Group will review the structure from time to time in light of the prevailing circumstances and may look for suitable candidate to take up the role of the Chairman and will make announcement as and when appropriate.

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 matter described in the Basis for Qualified Opinion section of our report, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2021, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR QUALIFIED OPINION

As disclosed in the auditor's report in respect of the consolidated financial statements for the year ended 31 December 2021 and note 1 to the consolidated financial statements in the 2021 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.

On 21 March 2022, the Company made an announcement that the SFC permitted resumption of trading in the shares of the Company with effect from 22 March 2022. However, up to the date of this auditor’s 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, 19 and 20 to the consolidated financial statements in the 2021 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 the two then 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 2021, the Group holds 25% equity interest in Saike International, and the fair value of the Group’s interest in Saike International (31 December 2020: 50%) is approximately HK\$53,816,000 (31 December 2020: carrying amount of approximately HK\$102,958,000) which had been classified as an equity instrument at fair value through other comprehensive income after the partial disposal of the Group’s 25% equity interest in Saike International and loss of significant influence during the year ended 31 December 2021 (see notes 19(iv) and 20(b) to the consolidated financial statements in the 2021 annual report of the Company for details). On 20 April 2021, the Group entered into a sale and purchase agreement with WinHealth International to sell all the shares of WinHealth International, at a cash consideration of RMB68,000,000 (equivalent to approximately HK\$81,898,000). Completion of the disposal of such equity instrument at fair value through other comprehensive income took place on 6 September 2021 (see note 19(iii) to the consolidated financial statements in the 2021 annual report of the Company for details), and immediately after the completion of the Disposal, the Group did not hold any equity interest in WinHealth International.

As disclosed in note 1 to the consolidated financial statement in the 2021 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 Securities and Futures Ordinance (the “SFO”) (“Petition”) on 17 November 2020, which is related to the Acquisitions.

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 2021 annual report of the Company were in fact related party transactions.

We conducted our audit in accordance with Hong Kong Standards on Auditing (“HKASAs”) 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.

SCOPE OF WORK OF MOORE STEPHENS CPA LIMITED

The financial figures in respect of the Group’s consolidated statement of financial position, consolidated statement of profit or loss and other comprehensive income and the related notes thereto for the Year as set out in the preliminary announcement have been agreed by the Group’s auditor, Moore Stephens CPA Limited, to the amounts set out in the audited consolidated financial statements of the Group for the Year and the amounts were found to be in agreement. The work performed by Moore Stephens CPA Limited in this respect did not constitute an audit, review or other assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no opinion or assurance conclusion has been expressed by Moore Stephens CPA Limited on the preliminary announcement.

REVIEW BY AUDIT COMMITTEE

The annual results 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
Wang Qiuqin
Chairman & Executive Director

Hong Kong, 31 March 2022

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