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 2022

2022 FINANCIAL HIGHLIGHTS

- The Group recorded a revenue of approximately HK$89.8 million for the year ended 31 December 2022 (2021: approximately HK$335.4 million), representing a decrease of approximately 73.2% as compared to 2021.

- The Group's gross profit was approximately HK$7.6 million for the year ended 31 December 2022 (2021: approximately HK$28.5 million), representing a decrease of approximately 73.3% as compared to 2021.

- Net loss attributable to owners of the Company was approximately HK$77.9 million for the year ended 31 December 2022 (2021: loss of approximately HK$2.8 million), representing an increase of approximately 2,682.1% as compared to 2021.

- The Board does not recommend the payment of a final dividend for the year ended 31 December 2022 (2021: Nil).

- The Group had a gearing ratio (defined as total bank and other borrowings divided by total equity) of zero as at 31 December 2022 (2021: approximately 1.8%).

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 2022 (the "**Year**") together with the comparative figures for 2021, as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2022

	Notes	**2022** ***HK$'000***	2021 *HK$'000*
Revenue	3	**89,771**	335,380
Cost of sales		**(82,134)**	(306,892)
		7,637	28,488
Other income, gains and losses, net	5	**(6,694)**	2,642
Selling and distribution expenses		**(13,633)**	(12,632)
Administrative expenses		**(20,363)**	(18,283)
Finance costs		**(177)**	(280)
Share of profit of associates		**–**	1,110
Impairment loss on trade and other receivables		**(4,624)**	(4,653)
Impairment loss on inventories		**(42,432)**	–
Loss before taxation		**(80,286)**	(3,608)
Income tax credit	6	**2,339**	784
Loss for the year attributable to owners of the Company	7	**(77,947)**	(2,824)
Other comprehensive (expense) income for the year			
Items that will not be reclassified subsequently to profit or loss:			
Exchange difference arising on translation of functional currency to presentation currency			
– Subsidiaries		**(24,507)**	9,338
– Associates		**–**	283
Fair value (loss) gain on equity instruments at fair value through other comprehensive income		**(14,854)**	19,851
Other comprehensive (expense) income for the year		**(39,361)**	29,472
Total comprehensive (expense) income for the year attributable to owners of the Company		**(117,308)**	26,648
Loss per share	9		
Basic and diluted *(HK cents)*		**(4.66)**	(0.17)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2022

	Notes	2022 HK$'000	2021 HK$'000
Non-current assets			
Property, plant and equipment		**15,300**	10,933
Right-of-use assets		**19,075**	20,420
Prepayment for a distribution right		**6,835**	11,381
Intangible asset		**4,627**	7,012
Club debenture		**560**	612
Equity instruments at fair value through other comprehensive income		**64,115**	127,654
Financial asset at fair value through profit or loss		**25,470**	–
Interest in associate		**–**	–
		135,982	178,012
Current assets			
Inventories		**35,230**	125,307
Trade and other receivables	10	**210,642**	204,661
Prepayment for a distribution right		**3,582**	3,914
Bank balances and cash		**154,413**	150,153
		403,867	484,035
Current liabilities			
Other payables	11	**6,862**	7,429
Lease liabilities		**985**	543
Tax payable		**–**	147
Bank borrowing		**–**	11,375
		7,847	19,494
Net current assets		**396,020**	464,541
Total assets less current liabilities		**532,002**	642,553
Non-current liabilities			
Lease liabilities		**293**	921
Deferred tax liabilities		**6,052**	9,060
		6,345	9,981
		525,657	632,572
Capital and reserves			
Share capital	12	**83,592**	83,592
Share premium and reserves		**442,065**	548,980
Equity attributable to owners of the Company		**525,657**	632,572

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

1. GENERAL

New Ray Medicine International Holding Limited was incorporated on 9 August 2012 and registered as an exempted company with limited liability in Bermuda.

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

The Company is an investment holding company. Its principal subsidiaries are principally engaged in the distribution and trading of pharmaceutical products and the provision of marketing and promotion services in the People's Republic of China (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.

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.

1. GENERAL (Cont'd)

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 positions 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 WinHealth International (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. The said case management conference was subsequently fixed on 24 August 2022. At the said case management conference held on 24 August 2022, it was ordered that, among other things, a second case management conference was fixed to be held on 2 December 2022. The Company received a notice of trial on 17 January 2023, informing the Company that the hearing date of the case has reserved from 30 July to 7 August 2024 and the pre-trial review is scheduled to be heard on 16 April 2024.

As disclosed in notes 19 and 20 to the consolidated financial statements of the Company for the year ended 31 December 2022, 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 acquisitions 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.

In respect of the Artificial Transactions alleged by the SFC in the Petition, the management performed an 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 2022 and 2021.

1. GENERAL (Cont'd)

The investment has been classified as an equity instrument at fair value through other comprehensive income ("**FVTOCI**") after the partial disposal of the Group's 25% equity interest in Saike International on 10 February 2021 and loss of significant influence on Saike International 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 2022, all the Group's shares of Saike International were disposed of. After the disposal, the Group did not hold any interest in Saike International (31 December 2021: the Group held 25% equity interest in Saike International, and the fair value of the Group's interest in Saike International is approximately HK$53,816,000).

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, 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.

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, has not resulted in any conclusive finding nor conclusion.

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

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 2022 for the preparation of the consolidated financial statements:

Amendments to HKFRS 3	Reference to the Conceptual Framework
Amendments to HKAS 16	Property, Plant and Equipment – Proceeds before Intended Use
Amendments to HKAS 37	Onerous Contracts – Cost of Fulfilling a Contract
Amendments to HKFRSs	Annual Improvements to HKFRSs 2018–2020

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 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 (including the October 2020 and February 2022 Amendments to HKFRS 17)	Insurance Contracts[1]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investors and its Associate or Joint Venture[2]
Amendments to HKFRS 16	Lease Liability in a Sale and Leaseback[3]
Amendments to HKAS 1	Classification of Liabilities as Current or Non-current and related amendments to Hong Kong Interpretation 5 (2020)[1]
Amendments to HKAS 1 and HKFRS Practice Statement 2	Disclosure of Accounting Policies[1]
Amendments to HKAS 8	Definition of Accounting Estimates[1]
Amendments to HKAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction[1]

[1] Effective for annual periods beginning on or after 1 January 2023.
[2] Effective for annual periods beginning on or after a date to be determined.
[3] Effective for annual periods beginning on or after 1 January 2024.

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.

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:

	2022	2021
	HK$'000	*HK$'000*
Distribution and trading of pharmaceutical products	**83,754**	329,621
Provision of marketing and promotion services	**6,017**	5,759
	89,771	335,380

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 2022

	Distribution and trading of pharmaceutical products *HK$'000*	**Provision of marketing and promotion services** *HK$'000*	**Total** *HK$'000*
REVENUE			
External sales and segment revenue	**83,754**	**6,017**	**89,771**
RESULT			
Segment (loss) profit	**(44,979)**	**5,560**	**(39,419)**
Other income, gains and losses, net			**(6,694)**
Selling and distribution expenses			**(13,633)**
Administrative expenses			**(20,363)**
Finance cost			**(177)**
Loss before taxation			**(80,286)**
Included in arriving at segment (loss) profit:			
Impairment loss on trade and other receivables	**(4,624)**	**–**	**(4,624)**
Impairment loss on inventories	**(42,432)**	**–**	**(42,432)**

4. SEGMENT INFORMATION (Cont'd)

Year ended 31 December 2021

	Distribution and trading of pharmaceutical products *HK$'000*	Provision of marketing and promotion services *HK$'000*	Total *HK$'000*
REVENUE			
External sales and segment revenue	329,621	5,759	335,380
RESULT			
Segment profit	18,514	5,321	23,835
Other income, gains and losses, net			2,642
Selling and distribution expenses			(12,632)
Administrative expenses			(18,283)
Finance cost			(280)
Share of profit of associates			1,110
Loss before taxation			(3,608)
Included in arriving at segment profit:			
Impairment loss on trade and other receivables	(4,653)	–	(4,653)

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:

	2022 ***HK$'000***	2021 *HK$'000*
Customer A[1]	**15,993**	83,285
Customer B[1]	**21,818**	N/A[2]
Customer C[1]	**9,240**	N/A[2]

[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, NET

	2022	2021
	HK$'000	*HK$'000*
Incentives received from government grants *(note)*	**123**	30
Bank interest income	**2,655**	1,211
Interest income from promissory note	**237**	–
Sundry income	**65**	60
Dividend income from equity instruments at FVTOCI	**478**	87
Net exchange (loss) gain	**(10,630)**	4,245
Gain (loss) on disposal of property, plant and equipment	**378**	(5)
Loss on partial disposal of interest in an associate	**–**	(1,420)
Loss on investment ceased to be an associate	**–**	(1,566)
	(6,694)	2,642

Note: During the Year, the Group was granted incentives of RMB44,000 (equivalent to approximately HK$51,000) (2021: RMB25,000 (equivalent to approximately HK$30,000)) by local government in Hangzhou, the PRC for the purpose of enhancing the development of the Group, the conditions of which had been fulfilled. The government subsidy of HK$72,000 (2021: nil) was granted by the Government of the Hong Kong Special Administrative Region for the 2022 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

	2022	2021
	HK$'000	*HK$'000*
Current tax:		
PRC Enterprise Income Tax ("**EIT**")	**–**	–
(Under-provision) over-provision in prior year:		
Hong Kong profits tax	**–**	(147)
	–	(147)
Deferred tax	**2,339**	931
	2,339	784

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 2022 and 2021.

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

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

7. LOSS FOR THE YEAR

	2022 *HK$'000*	2021 *HK$'000*
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	**5,053**	2,923
Other staff's salaries, bonus and other benefits	**12,903**	5,359
Contributions to retirement benefits scheme, excluding directors	**404**	433
Total staff costs	**18,360**	8,715
Depreciation of property, plant and equipment	**3,081**	2,292
Depreciation of right-of-use assets	**1,481**	1,525
Amortisation of prepayment for a distribution right (included in cost of sales)	**3,741**	3,857
Amortisation of intangible asset (included in cost of sales)	**1,870**	1,929
Auditor's remuneration	**1,450**	1,700
Legal and professional fees (included in administrative expenses)	**1,478**	6,833
Donations	**292**	554
(Gain) loss on disposal of property, plant and equipment	**(378)**	5
Impairment loss on trade and other receivables	**4,624**	4,653
Impairment loss on inventories	**42,432**	–
Equity-settled share-based payment expenses	**10,393**	–
Cost of inventories recognised as an expense (excluded impairment loss on inventories)	**76,067**	300,668

8. DIVIDENDS

No dividend was paid or proposed for holders of ordinary shares of the Company during the years ended 31 December 2022 and 2021, 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:

	2022 *HK$'000*	2021 *HK$'000*
Loss for the year attributable to owners of the Company for the purposes of basic and diluted loss per share	**(77,947)**	(2,824)

	Number of ordinary shares	
	2022 *'000*	2021 *'000*
Number of shares		
Weighted average number of ordinary shares for the purposes of basic and diluted loss per share	**1,671,847**	1,671,847

The computation of diluted loss per share does not assume the exercise of the Company's outstanding share options since their assumed exercise would result in decrease in loss per share for the year ended 31 December 2022. No diluted earnings per share for the year ended 31 December 2021 was presented as there was no potential ordinary shares in issue for 2021.

10. TRADE AND OTHER RECEIVABLES

	2022	2021
	HK$'000	*HK$'000*
Trade receivables	**70,688**	88,544
Less: allowance for credit loss	**(36,689)**	(32,814)
Trade receivables (net of allowance for credit loss)	**33,999**	55,730
Other prepayments	**650**	568
Other deposits	**375**	393
Prepayments to suppliers	**40,522**	12,231
Deposits paid to suppliers (net of allowance for credit loss)	**114,686**	126,280
Value-added tax recoverable	**4,038**	8,654
Promissory note from disposal of equity instrument at FVTOCI *(note)*	**15,948**	–
Others	**424**	805
	210,642	204,661

Note:

In respect of the consideration of RMB44,000,000 (equivalent of HK$53,816,000) for disposal of the remaining 25% equity shares of Saike International, RMB30,000,000 (equivalent to HK$33,584,000) was settled during the Year, and the remaining RMB14,000,000 (equivalent to HK$15,948,000) was settled by the issue of a promissory note bearing interest at a rate of 4% per annum due on 14 November 2022. At the end of the reporting period, the directors of the Company have performed impairment assessment, and concluded that there has been no significant increase in credit risk since Wing Yin Holding Limited ("**Wing Yin**") has paid the interest during the Year. Accordingly, any loss allowance for promissory note is measured at an amount equal to 12m ECL. No loss allowance was recognised as at 31 December 2022 in accordance with HKFRS 9 as the amount is immaterial. The amount of RMB14,000,000 was fully settled on 28 February 2023.

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.

	2022	2021
	HK$'000	*HK$'000*
Trade receivables:		
0–30 days	**3,296**	16,892
31–60 days	**4,574**	13,322
61–90 days	**1,578**	8,390
91–180 days	**9,794**	9,837
181–365 days	**14,757**	7,289
	33,999	55,730

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.

11. OTHER PAYABLES

	2022	2021
	HK$'000	*HK$'000*
Deposits received from customers	**884**	966
Contract liabilities	**999**	421
Accruals	**4,979**	6,042
	6,862	7,429

12. SHARE CAPITAL OF THE COMPANY

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

	Number of shares	**Amount**
	'000	***HK$'000***
Ordinary shares		
Authorised:		
At 1 January 2021, 31 December 2021, 1 January 2022 and 31 December 2022	**3,000,000**	**150,000**
Issued and full paid:		
At 1 January 2021, 31 December 2021, 1 January 2022 and 31 December 2022	**1,671,847**	**83,592**

All ordinary shares issued during the years ended 31 December 2022 and 2021 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), which was 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, sixth and seventh batches were completed in February 2021, June 2021, November 2021 and July 2022, 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) to improve our sales and marketing capabilities and make efforts 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$89.8 million, representing a decrease of approximately 73.2% as compared to 2021. The decrease in revenue was mainly attributable to a decrease in the sales of the Group's major product under the second generation of Cephalosporins (二代頭孢產品) (1.0g) ("**Product**") in 2022. During the Year, the trading activities and business operations of the Group have slowed down due to the resurgence of coronavirus disease (Covid-19) cases in mainland China and the adverse impact from the further strengthened policy on the adoption of stratified and categorised management of antibacterial drugs in various regions in mainland China. As a result, the demand for the Product declined during the Year. The Group recorded a net loss of approximately HK$77.9 million for the Year (2021: loss of approximately HK$2.8 million), representing an increase of approximately 2,682.1% as compared to 2021. The increase was primarily due to (i) the substantial decrease in the gross profit owing to the decrease in the revenue of the Group's Product as a result of (a) the resurgence of coronavirus disease (Covid-19) cases in mainland China in 2022, causing the slowdown in the trading activities and business operations of the Group and (b) the adverse impact from the further tightened policy on the adoption of stratified and categorised management of antibacterial drugs in various regions in mainland China; (ii) the decrease in gross profit owing to the decrease in sales volume of the Product along with the fixed amortisation costs, classified as cost of sales, which have remained unchanged for the Year; (iii) the recognition of equity-settled share-based payment expenses of approximately HK$10.4 million for the grant of share options by the Group to the Directors and employees in June 2022 and the Group did not record such expenses for the year ended 31 December 2021; (iv) the recognition of the net exchange losses of approximately HK$10.6 million for the Year as compared to the net exchange gain of approximately HK$4.2 million for year ended 31 December 2021; (v) the recognition of the impairment loss on inventories of approximately HK$42.4 million for the Year due to the slow-moving inventories that are close to their expiry date; and (vi) the recognition of the impairment loss on trade and other receivables of approximately HK$4.6 million.

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), which was 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, followed by the fourth, fifth, sixth and seventh batches, which were completed in February 2021, June 2021, November 2021 and July 2022 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.

The seventh batch of the volume-based procurement ("**7th Batch**") was completed in July 2022. The 7th Batch involved 60 varieties of pharmaceutical products, and the average price of the shortlisted varieties was reduced by approximately 48% as compared to the average original bidding prices.

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 above-mentioned 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 intends to seek to acquire distribution rights of new products to enhance its product portfolio. Looking ahead to 2023, the Group will continue to enhance its product portfolio, distribution channels, marketing, and promotion strategy in order to achieve a better and sustainable long-term development.

(b) Continue to enhance and expand the sales and marketing capabilities

In order to strengthen its competitive advantages over its competitors in the PRC, the Group will continue to enhance its local distribution network and sales and marketing capabilities. In addition, the Group has been exploring different opportunities to enhance its distribution capabilities.

(c) Focus on long term growth

As a long-term business strategy, the Group intends to focus on its core businesses of the distribution and trading of pharmaceutical products and the provision of marketing and promotion services in respect of pharmaceutical products in the PRC by reallocating its resources to the future development of these 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.

The table below sets out the revenue and gross profit margin of the Group (by segment) for the Year and the year ended 31 December 2021 respectively.

	Revenue contributed from each business segment				**Gross profit margin**	
	2021		**2022**		2021	**2022**
	HK$'000	%	***HK$'000***	**%**	%	**%**
(1) Distribution and trading of pharmaceutical products	329,621	98.3	**83,754**	**93.3**	7.0	**2.5**
(2) Provision of marketing and promotion services	5,759	1.7	**6,017**	**6.7**	N/A	**N/A**
Total	335,380	100.0	**89,771**	**100**		

(1) Distribution and trading of pharmaceutical products

This segment generated revenue of approximately HK$83.8 million for the Year (2021: approximately HK$329.6 million), representing a decrease of approximately 74.6% as compared to 2021. The decrease in revenue in this segment was primarily attributable to the slowdown in trading activities and business operations of the Group due to the resurgence of coronavirus disease (Covid-19) cases in mainland China during the Year and the adverse impact from the further strengthened policy on the adoption of stratified and categorised management of antibacterial drugs in various regions in mainland China. As a result, the demand for the Product has declined during the Year.

(2) Provision of marketing and promotion services

This segment generated revenue of approximately HK$6.0 million for the Year (2021: approximately HK$5.8 million), representing an increase of approximately 3.4% as compared to 2021. Under the implementation of the "Two-Invoice" System (兩票制) in the PRC since 2017, the Group has started to develop its business of the provision of marketing and promotion services in respect of pharmaceutical products in the PRC. The Group's marketing and promotion model involves formulating marketing and promotion strategies and conducting academic promotion programs of the Group's products in return for service income from the suppliers. The revenue generated by this segment was relatively stable for the Year as compared to that for the year ended 31 December 2021.

FINANCIAL REVIEW

Revenue

The total revenue for the Year was approximately HK$89.8 million, representing a decrease of approximately 73.2% from approximately HK$335.4 million for the year ended 31 December 2021. The decrease in revenue was primarily attributable to the slowdown in trading activities and business operations of the Group due to the resurgence of coronavirus disease (Covid-19) cases in mainland China during the Year and the adverse impact from the further strengthened policy on the adoption of stratified and categorised management of antibacterial drugs in various regions in mainland China. As a result, the demand for the Product has declined during the Year.

Cost of sales

The cost of sales for the Year was approximately HK$82.1 million, representing a decrease of approximately 73.2% from approximately HK$306.9 million for the year ended 31 December 2021. The decrease in cost of sales was in line with the decrease in sales volume of the Product during the Year.

Gross Profit and Gross Profit Margin

Gross profit decreased by approximately HK$20.9 million, or approximately 73.3%, from approximately HK$28.5 million for the year ended 31 December 2021 to approximately HK$7.6 million for the Year. The significant decrease in gross profit of the Group for the Year was mainly attributable to the decrease in sales volume of the Product along with the fixed amortisation costs, classified as cost of sales, remaining unchanged when compared to 2021. The Group's gross profit margin for the Year was approximately 8.5%, which remains unchanged when compared to 2021.

Other Income, Gains and Losses, Net

The net other losses for the Year were approximately HK$6.7 million (2021: gain of approximately HK$2.6 million). Such change was primarily attributable to the increase in net exchange losses of approximately HK$10.6 million recorded for the Year (2021: gains of approximately HK$4.2 million).

Selling and Distribution Expenses

Selling and distribution expenses for the Year were approximately HK$13.6 million, representing an increase of approximately 7.9% from approximately HK$12.6 million for the year ended 31 December 2021. The increase in selling and distribution expenses was primarily attributable to the recognition of the equity-settled share-based payment expenses of approximately HK$3.1 million for the grant of share options by the Group to the Directors and employees in June 2022 (2021: nil) and partially offset by the decrease in the marketing service fee and delivery expenses in line with the decrease in sales volume of the Product.

Administrative Expenses

Administrative expenses for the Year were approximately HK$20.4 million, representing an increase of approximately 11.5% from approximately HK$18.3 million for the year ended 31 December 2021. Such increase was mainly due to the recognition of the equity-settled share-based payment expenses of approximately HK$7.3 million for the grant of share options by the Group to the Directors and employees in June 2022 (2021: nil) and partially offset by the decrease in the legal and professional fees during the Year.

Share of Profit of Associates

The Group did not record any share of profit of associates for the Year (2021: approximately HK$1.1 million). Share of profit of associates of approximately HK$1.1 million for the year ended 31 December 2021 was contributed by Saike International. 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. The Group ceased to hold any equity interest in Saike International and its subsidiaries as at 31 December 2022.

Impairment loss on trade and other receivables

The Group has provided for impairment loss on trade and other receivables of approximately HK$4.6 million (2021: impairment loss of HK$4.7 million) during the Year based on the provision matrix.

Impairment loss on inventories

The Group has provided for impairment losses on inventories of approximately HK$42.4 million (2021: nil) in respect of the slow-moving inventories which were close to their expiry date as at 31 December 2022.

Income Tax Credit

Income tax credit for the Year was approximately HK$2,339,000 (2021: approximately HK$784,000). The increase in income tax credit was primarily due to the decrease in deferred tax of approximately HK$2.3 million for the Year.

Loss for the Year

Loss for the Year was approximately HK$77.9 million, representing an increase of approximately 2,682.1% from approximately HK$2.8 million for the year ended 31 December 2021.

The Group recorded a net loss for the Year primarily due to (i) the substantial decrease in the gross profit owing to the decrease in the revenue of the Group's major product as a result of (a) the resurgence of coronavirus disease (Covid-19) cases in mainland China in 2022 causing the slowdown in the trading activities and business operations of the Group and (b) the adverse impact from the further tightened policy on the adoption of stratified and categorised management of antibacterial drugs in various regions in mainland China; (ii) the decrease in gross profit owing to the decrease in sales volume of the Product along with the fixed amortisation costs, classified as cost of sales, which has remained unchanged for the Year; (iii) the recognition of equity-settled share-based payment expenses of approximately HK$10.4 million for the grant of share options by the Group to the Directors and employees in June 2022, and the Group did not record such expenses for the year ended 31 December 2021; (iv) the recognition of the net exchange losses of approximately HK$10.6 million for the Year as compared to the net exchange gain of approximately HK$4.2 million for year ended 31 December 2021; (v) the recognition of the impairment loss on inventories of approximately HK$42.4 million due to the slow-moving inventories that close to their expiry date as at 31 December 2022; and (vi) the recognition of the impairment loss on trade and other receivables of approximately HK$4.6 million.

Equity instruments at fair value through other comprehensive income

The Group's equity instruments at fair value through other comprehensive income ("**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 of Hong Kong Limited ("**Stock Exchange**"); and (ii) equity instruments at FVTOCI for unlisted investments in companies 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 2022, the Group's securities investment in the shares ("**TH Shares**") in 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$44.7 million and an investment amount of approximately HK$142.0 million. As at 31 December 2022, the fair value of the Group's investment in Town Health accounted for approximately 8.3% of the Group's total assets. The Group recognised a fair value loss of approximately HK$7.1 million on its investment in the TH Shares for the Year. The Group received dividend income from Town Health of approximately HK$176,000 for the Year (2021: nil). During the Year, the Group did not dispose of any of its holding in TH Shares.

As at 31 December 2022 and the date of this results announcement, the Group held 117,602,000 TH Shares, representing approximately 1.74% 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 properties. Based on the annual results announcement of Town Health for the year ended 31 December 2022, as the Pandemic of the century is gradually coming to an end, Hong Kong and the Mainland China have gradually resumed customs clearance with the outside world and the government has further relaxed social distancing measures. Thus, the society and economy are ready for a full recovery. In the critical transition period, Town Health remains cautiously optimistic about the development prospects of the medical and healthcare industry. It will seize the growth momentum of economic and industry recovery and proactively leverage its own advantages, to accelerate the development of Town Health's cross-border medical business between the Mainland China and Hong Kong to help the development of Town Health leap to a new level. Town Health's diversified businesses span Hong Kong and the Mainland China. In the future, it will further improve its medical service chain by considering the opportunities of investments, mergers and acquisitions. Also, it will comprehensively integrate all medical and healthcare resources to build a full-cycle, integrated and one-stop cross-border comprehensive medical and healthcare service ecosystem, covering prevention, diagnosis, outpatient, hospitalization, rehabilitation, nursing, drug delivery and other aspects to meet the various medical and healthcare needs of more than 86 million permanent residents of different life cycles in the cities of the Guangdong-Hong Kong-Macao Greater Bay Area. Town Health seeks to promote the continuous development of medical services through the two-way referral mechanism of primary care services and specialist services; the managed medical network business with the support of medical services will be used to serve the medical and healthcare needs of insurance companies and corporate clients; the managed medical network will increase the business volume of medical services; customers will be diverted by medical services to beauty care and medical beauty and health check brands; smart medical technology will be the bond connecting businesses in Hong Kong and the Mainland China, to open up the comprehensive health layout of health management and hospital management businesses in the Mainland China with all aspects connecting to each other and multidirectional diversion, thus to achieve connectivity, mutual benefit and a win-win situation of the medical and healthcare businesses in Hong Kong and the Mainland China.

As at 31 December 2022, the Group's securities investment listed in Hong Kong (other than the TH Shares) had a fair value of approximately HK$3.9 million. During the Year, the Group acquired certain equity securities listed in Hong Kong amounting to approximately HK$1.4 million. The Group did not dispose of any equity securities listed in Hong Kong during the Year. Due to a decrease in the fair value of certain listed securities investments, a fair value loss (inclusive of the fair value loss on the TH Shares) of approximately HK$7.0 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

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 net 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 Holdings Limited ("**Major Bright**"), a wholly-owned subsidiary of the Company, as vendor, Wing Yin as purchaser and Qingdao Songshan (as defined below) as guarantor entered into a sale and purchase agreement for the disposal of 25 ordinary shares of Saike International, representing 25% of the issued share capital of Saike International, at the consideration of RMB44.0 million (equivalent to approximately HK$54.1 million). As at the date of the disposal agreement, Major Bright held 25% 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 13 July 2022. All the conditions precedent set out in the disposal agreement were fulfilled and completion of the disposal took place on 15 August 2022. Immediately after completion of the disposal, the Group ceased to hold any equity interest in Saike International and its subsidiaries. Please refer to the announcements of the Company, respectively dated 29 March 2022 and 13 July 2022 and the circular of the Company dated 17 June 2022 for further details of the disposal.

A fair value loss on the Group's investment in Saike International of approximately HK$3.7 million has been recognised in other comprehensive income for the Year. No dividend income was received from Saike International for the Year.

*HCMPS Healthcare Holdings Limited ("**HCMPS**")*

As at 31 December 2022, 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$15.5 million. As at 31 December 2022, the fair value of the Group's investment in HCMPS accounted for approximately 2.9% of the Group's total assets. A fair value loss on the Group's investment in HCMPS of approximately HK$4.2 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 30 September 2022, it recorded an unaudited consolidated profit of approximately HK$3.1 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 resurgence of the Covid-19 cases in 2022. 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$154.4 million in total as at 31 December 2022 (2021: approximately HK$150.2 million), among which approximately 32.0% (2021: approximately 16.8%) were denominated in Hong Kong dollars, approximately 68.0% (2021: approximately 57.3%) were denominated in Renminbi and nil (2021: 25.9%) were denominated in the United States dollars. The Group did not have any bank loan nor any other borrowing as at 31 December 2022 (31 December 2021: approximately HK$11.4 million).

The Group's gearing ratio (defined as total bank and other borrowings divided by total equity) was zero as at 31 December 2022 (2021: approximately 1.8%).

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. However, the Group has foreign currency bank balances in Hong Kong 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 2022, the Group had 25 employees (2021: 27) with staff costs for the Year including Directors' emolument, amounting to approximately HK$18.4 million (2021: approximately HK$8.7 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 2022, 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 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 guarantors entered into a sale and purchase agreement for the disposal of 25 ordinary shares in Saike International, representing 25% of the issued share capital of Saike International, at the consideration of RMB44.0 million (equivalent to approximately HK$54.1 million). As at the date of the disposal agreement, Major Bright held 25% 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 13 July 2022. All the conditions precedent set out in the disposal agreement were fulfilled and completion of the disposal took place on 15 August 2022. Immediately after completion of the disposal, the Group ceased to hold any equity interest in Saike International and its subsidiaries. Please refer to the announcements of the Company dated 29 March 2022 and 13 July 2022 and the circular of the Company dated 17 June 2022 for further details of the disposal.

Signing of the Cooperation Agreement and the establishment of the Target Company

On 11 July 2022, China New Rich Medicine Holding Co. Limited ("**China New Rich**"), a wholly-owned subsidiary of the Company, 浙江萬馬產業發展集團有限公司 (in English, for identification purpose only, Zhejiang Wanma Industrial Development Group Co., Ltd.) ("**Partner A**") and Mr. Yang Ying ("**Partner B**") entered into a cooperation agreement ("**Cooperation Agreement**") in respect of, among others, the capital contribution and operation and management of the affairs of a target company established in the PRC with limited liability ("**Target Company**").

Pursuant to the Cooperation Agreement, the initial registered capital of the Target Company is RMB50 million (equivalent to approximately HK$58.8 million), and 40%, 39% and 21% of the initial capital contribution shall be made by Partner A, China New Rich and Partner B respectively. China New Rich will contribute an initial capital contribution of RMB19.5 million (equivalent to approximately HK$22.9 million) and Partner A and Partner B will contribute an initial capital contribution of RMB20 million (equivalent to approximately HK$23.5 million) and RMB10.5 million (equivalent to approximately HK$12.4 million) respectively.

In addition to the capital contribution of the initial registered capital of the Target Company, Partner A, China New Rich and Partner B will grant shareholder's loans to the Target Company as initial working capital of approximately RMB4.8 million (equivalent to approximately HK$5.6 million), approximately RMB4.68 million (equivalent to approximately HK$5.5 million) and approximately RMB2.52 million (equivalent to approximately HK$3.0 million) respectively.

On 16 January 2023, Partner A, China New Rich and Partner B entered into a supplemental agreement ("**Supplemental Cooperation Agreement**"). Pursuant to which the registered capital of the Target Company would be increased from RMB50 million to RMB56.3 million and the capital contribution to the initial registered capital of the Target Company by each of the Parties shall be adjusted accordingly. China New Rich would contribute an initial capital contribution of RMB22.0 million (equivalent to approximately HK$25.5 million) and Partner A and Partner B would contribute an initial capital contribution of RMB22.5 million (equivalent to approximately HK$26.2 million) and RMB11.8 million (equivalent to approximately HK$13.8 million) respectively.

In addition, the Supplemental Corporation Agreement has also amended the amount of the shareholder's loan of each party. The revised aggregate shareholder's loan to be made by the parties to the Target Company would be RMB23.7 million whereby, Partner A, China New Rich and Partner B would grant shareholder's loans to the Target Company as initial working capital of approximately RMB9.5 million (equivalent to approximately HK$11.0 million), approximately RMB9.2 million (equivalent to approximately HK$10.8 million) and approximately RMB5.0 million (equivalent to approximately HK$5.8 million) respectively.

The Group's share of the registered capital and the shareholder's loan had been funded by the internal resources of the Group.

The purpose of the Target Company is to engage in a project which involves the investment and construction of a healthcare industrial park in Shengzhou, Zhejiang Province, the PRC ("**Project**"). The Project includes the acquisition of the land use right of a project land by public tender and the construction, development and operation of the related facilities and buildings thereon. After the signing of the Cooperation Agreement and Supplemental Cooperation Agreement Partner A shall take the lead and China New Rich and Partner B shall cooperate in the application to the Administration for Market Regulation of Zhejiang Province for the establishment of the Target Company. The Group considered that the establishment of the Target Company undertaking the Project presents a good opportunity for the Group to utilise its available funds for a return and to expand investment portfolio with quality assets and to broaden the Group's strategic cooperation opportunities with other stakeholders in the PRC healthcare industry.

In accordance with the terms and conditions of the Cooperation Agreement and Supplemental Cooperation Agreement, the Group will only participate as a passive investor in the Target Company and will not be involved in any management and operational functions of the Target Company and will not have board representation in the Target Company. Upon the establishment of the Target Company, the Group's investment in the Target Company shall be recognised as a financial asset at fair value through profit or loss of the Company and its financial results will not be consolidated with those of the Company.

As at 31 December 2022, the Group held approximately 39% equity interest in Target Company with a fair value of approximately HK$25.5 million. As at 31 December 2022, the fair value of the Group's investment in Target Company accounted for approximately 4.7% of the Group's total assets. No fair value gain or loss has recognised on the Group's investment in Target Company in profit or loss for the Year. No dividend income was received from Target Company for the Year.

Please refer to the announcements of the Company dated 11 July 2022, 26 July 2022 and 16 January 2023 for further details of the Cooperation Agreement and the Supplemental Cooperation Agreement.

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 2022, the Group had shareholders' equity of approximately HK$525.7 million (2021: approximately HK$632.6 million).

Pledge of Assets

As at 31 December 2022, the Group pledged the buildings and right-of-use assets with an aggregate carrying amount of approximately HK$13.0 million (2021: approximately HK$24.2 million) to secure general banking facilities granted to the Group.

Save as disclosed above, as at 31 December 2022, 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) conducting an independent investigation into issues relating to the above acquisitions and obtaining external independent professional advice, if required; and (ii) dealing with 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 results 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 investments in companies, conflict of interest, management of the Company, corporate governance, business transactions and risk assessment.

Pursuant to the delisting framework under the Rules Governing the Listing of Securities on the Stock Exchange ("**Listing Rules**") which has come into effect on 1 August 2018 ("**Effective Date**"), as the shares in 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.

With reference to the third Resumption Condition, the Company has fulfilled the third Resumption Condition by publishing the announcement regarding the results of the IC Follow-up Review. Having consulted with the SFC, the Company is satisfied that all the Resumption Conditions imposed by the SFC for its permission to resume the trading of the Shares in the Company on the Stock Exchange have been fulfilled. For the details of follow-up review report as required under the third Resumption Condition, please refer to the announcements of the Company dated 27 September 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, 21 March 2022 and 27 September 2022.

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 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, namely, Mr. Zhou Ling ("**1st Respondent**") and Mr. Dai Haidong ("**2nd Respondent**"). The 1st Respondent and the 2nd Respondent retired and resigned from their positions 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. The said case management conference was subsequently fixed on 24 August 2022. At the said case management conference held on 24 August 2022, it was ordered that, among other things, a second case management conference was fixed to be held on 2 December 2022. The Company has received the notice of trial on 17 January 2023, informing the Company that the hearing date of the case has reserved from 30 July to 7 August 2024 and the pre-trial review is scheduled to be heard on 16 April 2024.

As at 31 December 2022 and the date of this results 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 the code provisions as set out in the Corporate Governance Code contained in Appendix 14 to the Listing Rules ("**CG Code**") as its own code of corporate governance.

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 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 such 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 matters described in the Basis for Qualified Opinion section of our report, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2022, 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 2022 and note 1 to the consolidated financial statements in the 2022 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, has not resulted in conclusive finding nor conclusion.

As disclosed in notes 1, 19 and 20 to the consolidated financial statements in the 2022 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.

During the year ended 31 December 2021, all the Group's shares of WinHealth International and 25% equity interest in Saike International were disposed of.

During the Year, all the Group's remaining 25% equity interest in Saike International were disposed of. After the disposal, the Group did not hold any interest in Saike International.

As disclosed in note 1 to the consolidated financial statements, 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 2022 annual report of the Company were in fact related party transactions.

We conducted our audit in accordance with Hong Kong Standards on Auditing ("**HKSAs**") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants (the "**Code**"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

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, 29 March 2023

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.