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New Ray Medicine
新銳醫藥

New Ray Medicine International Holding Limited

新銳醫藥國際控股有限公司

(Incorporated in Bermuda with limited liability)

(Stock Code: 6108)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2021

FINANCIAL HIGHLIGHTS

For the six months ended 30 June 2021:

- The Group recorded a revenue of approximately HK\$214,491,000 for the six months ended 30 June 2021, which has increased by approximately 208.8% when compared to that of approximately HK\$69,470,000 for the corresponding period in 2020.
- The Group recorded a change from a net loss attributable to owners of the Company of approximately HK\$36,434,000 for the six months ended 30 June 2020 to a net profit attributable to owners of the Company of approximately HK\$1,133,000 for the six months ended 30 June 2021.
- The Board does not recommend the payment of any interim dividend for the six months ended 30 June 2021 (2020: nil).

As at 30 June 2021:

- The Group had a gearing ratio (defined as total bank and other borrowings divided by total equity) of zero as at 30 June 2021 (31 December 2020: zero).

The board (the “**Board**”) of directors (the “**Directors**”) of New Ray Medicine International Holding Limited (the “**Company**”) is pleased to present the unaudited condensed consolidated results of the Company and its subsidiaries (collectively, the “**Group**”) for the six months ended 30 June 2021 (“**Period**”) together with the comparative unaudited figures for the corresponding period in 2020 as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2021

	Notes	Six months ended 30 June	
		2021 (Unaudited) HK\$'000	2020 (Unaudited) HK\$'000
Revenue	4	214,491	69,470
Cost of sales		(194,388)	(64,567)
		20,103	4,903
Other income, gains and losses	5	(578)	(1,512)
Selling and distribution expenses		(7,437)	(4,845)
Administrative expenses		(10,196)	(10,526)
Finance costs		(52)	(51)
Share of profit of associates	12	1,110	488
Impairment loss on trade and other receivables		(1,817)	(2,855)
Impairment loss on interest in an associate		–	(22,235)
Profit (loss) before tax		1,133	(36,633)
Income tax credit	6	–	199
Profit (loss) for the period attributable to owners of the Company	7	1,133	(36,434)
Other comprehensive income (expense) for the period:			
<i>Items that will not be reclassified to profit or loss:</i>			
Fair value gain (loss) on equity instruments at fair value through other comprehensive income		17,371	(17,857)
Exchange difference arising on translation of functional currency to presentation currency			
– Subsidiaries		5,043	(5,704)
– Associates		283	(1,069)
Other comprehensive income (expense) for the period		22,697	(24,630)
Total comprehensive income (expense) for the period		23,830	(61,064)
Profit (loss) for the period attributable to owners of the Company		1,133	(36,434)
Total comprehensive income (expense) for the period attributable to owners of the Company		23,830	(61,064)
Earnings (loss) per share			
– Basic and diluted (<i>HK cent</i>)	9	0.07	(2.18)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2021

	<i>Notes</i>	As at 30 June 2021 (Unaudited) <i>HK\$'000</i>	As at 31 December 2020 (Audited) <i>HK\$'000</i>
Non-current assets			
Property, plant and equipment	10	11,832	12,826
Right-of-use assets	10	20,828	21,351
Prepayment for a distribution right		13,110	14,858
Intangible assets		7,852	8,713
Club debenture		601	594
Equity instruments at fair value through other comprehensive income	11	208,787	139,465
Interests in associates	12	–	102,958
		263,010	300,765
Current assets			
Inventories	13	81,008	60,788
Trade and other receivables	14	244,170	219,010
Prepayment for a distribution right		3,846	3,802
Bank balances and cash		68,671	65,755
		397,695	349,355
Current liabilities			
Other payables	15	19,542	32,079
Lease liabilities	10	507	975
		20,049	33,054
Net current assets		377,646	316,301
Total assets less current liabilities		640,656	617,066
Non-current liabilities			
Lease liabilities	10	1,183	1,423
Deferred tax liabilities		9,719	9,719
		10,902	11,142
		629,754	605,924
Capital and reserves			
Share capital	16	83,592	83,592
Share premium and reserves		546,162	522,332
Equity attributable to owners of the Company		629,754	605,924

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2021

1. GENERAL INFORMATION

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

The shares of the Company are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”). The addresses of the registered office and principal place of business in Hong Kong of the Company are Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda and Room 911B, 9th Floor, Tower 1, Silvercord, No. 30 Canton Road, Kowloon, Hong Kong, respectively.

The Company is an investment holding company. Its major operating subsidiaries are principally engaged in the distribution and trading of pharmaceutical products and the provision of marketing and promotion services in the PRC.

The Company’s functional currency is Renminbi (“**RMB**”). However, the condensed consolidated financial statements are presented in Hong Kong dollars (“**HK\$**”) for the convenience of shareholders as it is listed in Hong Kong.

As stated in the consolidated financial statements of the Company for the year ended 31 December 2020, the Securities and Futures Commission (“**SFC**”) on 6 October 2017 issued a direction to suspend trading in the shares of the Company with effect from 6 October 2017 (the “**Suspension**”) as it appeared to the SFC that, *inter alia*, the Company’s announcements in relation to the acquisition of 50% interest in Saike International Medical Group Limited (“**Saike International**”) and the Company’s announcements in relation to the acquisition of 15% interest in Eternal Charm International Limited (now known as WinHealth International Company Limited) (“**WinHealth International**”) (collectively, 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 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 would, until further notice, withhold exercising its right to delist the Company under Rule 6.01A(2)(b)(i) of the Listing Rules should trading in the Company’s securities remain suspended on 31 January 2020. If the Stock Exchange is not satisfied that the Company has taken and is taking all reasonable steps to procure a resumption of trading, the Stock Exchange is likely to proceed to delist the Company without further delay.

On 30 October 2020, the Company announced that the Company has also engaged BT Corporate Governance Limited (“**BT CGL**”) 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, namely, Mr. Zhou Ling (“**Mr. Zhou**”) and Mr. Dai Haidong (“**Mr. Dai**”) who retired and resigned from their position as executive Directors 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 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 (currently 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) 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**”).

No order or relief is sought against the Company in the Petition. The Petition has been fixed to be heard on 11 May 2021.

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

As disclosed in note 20 to the consolidated financial statements of the Company for the year ended 31 December 2020, the Acquisitions were related to the sale and purchase agreements which the Group entered into with purportedly independent third parties to acquire the then two associates, Saike International and WinHealth International (see note 20 to the consolidated financial statements of the Company for the year ended 31 December 2020 for details), which were completed in 2015 and 2017 respectively and the costs of Acquisitions amounted to RMB95,000,000 and RMB47,250,000 respectively. 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.

As at 30 June 2021, the fair value of 25% of the issued share capital of Saike International is approximately HK\$49,316,000 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 has no power to appoint any director to the board of directors of Saike International since 1 March 2021 and only the single largest shareholder who owns 50% equity interest in Saike International has the power to appoint directors of Saike International.

As at 30 June 2021, the fair value of the Group’s interest in WinHealth International is approximately HK\$80,767,000 (31 December 2020: approximately HK\$74,468,000), which has 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 20(d) to the consolidated financial statements of the Company for the year ended 31 December 2020 for details).

In respect of the Artificial Transactions alleged by the SFC in the Petition, the management performed assessment to identify any financial impact on the consolidated financial statements of the Company. Since all the balances related to the Artificial Transactions were settled before the end of 2018, the management concluded that there would be no financial effect on the consolidated financial statements of the Company for the years ended 31 December 2020 and 2019.

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

2. BASIS OF PREPARATION

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

The condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements and should be read in conjunction with the Group’s annual financial statements for the year ended 31 December 2020.

3. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis, except for certain financial instruments which are measured at fair value. Other than additional accounting policies resulting from application of amendments to Hong Kong Financial Reporting Standards (“**HKFRSs**”), the principal accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2021 are the same as those presented in the Group’s annual financial statements for the year ended 31 December 2020.

Application of new and amendments to HKFRSs

In the Period, the Group has applied, for the first time, the following new and amendments to HKFRSs issued by the HKICPA which are mandatorily effective for the annual period beginning on or after 1 January 2021 for the preparation of the Group’s condensed consolidated financial statements:

Amendments to HKAS 39, HKFRS 4, HKFRS 7, Interest Rate Benchmark Reform – Phase 2
HKFRS 9 and HKFRS 16

The application of the amendments to HKFRSs in the current period has had no material impact on the Group's financial positions and performance for the current and prior periods and/or on the disclosures set out in these condensed consolidated financial statements.

4. REVENUE AND SEGMENT INFORMATION

The Group is principally engaged in the distribution and trading of pharmaceutical products and the provision of marketing and promotion services in the PRC. Information reported to the chief operating decision maker (the "CODM"), being the executive Directors, for the purposes of resources allocation and assessment of segment performance focuses on the types of business activities.

During the Period, the Group's reportable and operating segments are as follows:

- (i) Distribution and trading of pharmaceutical products – distribution and trading of injection drugs; and
- (ii) Provision of marketing and promotion services – provision of marketing and promotion services of drugs.

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

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

Six months ended 30 June 2021 (unaudited)

	Distribution and trading of pharmaceutical products <i>HK\$'000</i>	Provision of marketing and promotion services <i>HK\$'000</i>	Total <i>HK\$'000</i>
REVENUE			
External sales and segment revenue	<u>211,682</u>	<u>2,809</u>	<u>214,491</u>
RESULT			
Segment profit	<u>15,690</u>	<u>2,596</u>	18,286
Other income, gains and losses			(578)
Selling and distribution expenses			(7,437)
Administrative expenses			(10,196)
Finance costs			(52)
Share of profit of associates			<u>1,110</u>
Profit before tax			<u><u>1,133</u></u>

Six months ended 30 June 2020 (unaudited)

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

Information of assets and liabilities for reportable and operating segments is not provided to CODM for their review. Therefore, no analysis of the Group's assets and liabilities by reportable and operating segments is presented.

Geographical information

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

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

5. OTHER INCOME, GAINS AND LOSSES

	Six months ended 30 June	
	2021	2020
	(Unaudited)	(Unaudited)
	<i>HK\$'000</i>	<i>HK\$'000</i>
Bank interest income	603	740
Dividend income from equity instruments at FVTOCI	–	174
Net exchange gain (loss)	1,774	(2,556)
Gain on disposal of property, plant and equipment	–	1
Government subsidies (<i>note</i>)	29	116
Loss on partial disposal of interest in an associate	(1,420)	–
Loss on deemed disposal of interest in an associate	(1,566)	–
Others	2	13
	578	(1,512)

Note: During the six months ended 30 June 2021, the Group was granted incentives of RMB25,000 (equivalent to approximately HK\$29,000) by local government in Hangzhou, the PRC for the purpose of enhancing the development of the Group. The management of the Company consider there is reasonable assurance that the conditions of these incentives will be fulfilled and hence these government incentives were recognised in profit or loss.

6. INCOME TAX CREDIT

	Six months ended 30 June	
	2021 (Unaudited) HK\$'000	2020 (Unaudited) HK\$'000
Current tax:		
PRC Enterprise Income Tax	–	–
Deferred Tax	–	199
	<hr/>	<hr/>
Total tax credit for the period	–	199
	<hr/> <hr/>	<hr/> <hr/>

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

7. PROFIT (LOSS) FOR THE PERIOD

	Six months ended 30 June	
	2021 (Unaudited) HK\$'000	2020 (Unaudited) HK\$'000
Profit (loss) for the period has been arrived at after charging:		
Depreciation of property, plant and equipment	1,163	1,147
Depreciation of right-of-use assets	758	760
Amortisation of intangible assets (included in cost of sales)	956	884
Amortisation of prepayment for a distribution right (included in cost of sales)	1,912	1,769
Cost of inventories recognised as an expense	191,520	61,914
	<hr/> <hr/>	<hr/> <hr/>

8. DIVIDENDS

The Board does not recommend the payment of any interim dividend for the Period (six months ended 30 June 2020: nil).

9. EARNINGS (LOSS) PER SHARE

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

	Six months ended 30 June	
	2021 (Unaudited) HK\$'000	2020 (Unaudited) HK\$'000
Profit (loss)		
Profit (loss) for the period attributable to owners of the Company for the purpose of basic and diluted earnings (loss) per share	1,133	(36,434)
Number of shares		
Weighted average number of ordinary shares for the purpose of basic and diluted earnings (loss) per share	<u>1,671,846,657</u>	<u>1,671,846,657</u>

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

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

During the Period, the Group acquired property, plant and equipment of approximately HK\$18,000 (six months ended 30 June 2020: approximately HK\$76,000).

During the Period, the Group did not have any new lease agreement. During the six months ended 30 June 2020, the Group entered into two lease agreements with lease terms of 2 years. On lease commencement, the Group recognised right-of-use assets of approximately HK\$997,000 and lease liabilities of approximately HK\$997,000.

11. EQUITY INSTRUMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

Equity instruments at FVTOCI comprise:

	As at 30 June 2021 (Unaudited) HK\$'000	As at 31 December 2020 (Audited) HK\$'000
Listed investments:		
– Equity securities listed in Hong Kong	60,784	38,397
Unlisted investments:		
– Equity securities	<u>148,003</u>	<u>101,068</u>
Total	<u>208,787</u>	<u>139,465</u>
Analysed for reporting purposes as:		
Non-current assets	<u>208,787</u>	<u>139,465</u>

12. INTERESTS IN ASSOCIATES

	As at 30 June 2021 (Unaudited) HK\$'000	As at 31 December 2020 (Audited) HK\$'000
Cost of unlisted investments in associates	–	118,631
Share of post-acquisition profit and other comprehensive income	–	50,753
Exchange difference arising on translation	–	(5,692)
	–	163,692
Impairment loss	–	(60,734)
	–	102,958

As at 31 December 2020, the interests in associates mainly represented 50% equity interest in Saike International, a company incorporated in the BVI in July 2014.

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

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

On 30 November 2020, Major Bright (as vendor) entered into the sale and purchase agreement with an independent third party, Wing Yin Holdings Limited (“**Wing Yin**”) (as purchaser) and its guarantor, for the disposal of 25% of the issued share capital of Saike International at a maximum consideration of RMB44,000,000 (equivalent to approximately HK\$51.8 million) (subject to adjustment) (“**Disposal Agreement**”). On 10 February 2021, all the conditions precedent set out in the Disposal Agreement were fulfilled and the completion of the disposal in accordance with the terms and conditions of the Disposal Agreement took place on the same day. Immediately after completion, the Group holds 25% of the issued share capital of Saike International.

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. In accordance with the terms and conditions of the shareholders’ agreement, the Directors considered that the Group lost significant influence over Saike International because the Group has no power to appoint any director to the board of Saike International. Since then, Saike International ceased to be an associate of the Group and the retained equity interests of the Group in Saike International were reclassified as equity instruments at FVTOCI on 1 March 2021. The fair value of the retained equity interests in Saike International on the date of reclassification to equity instruments at FVTOCI was HK\$51,952,000 with a loss on deemed disposal of interest in an associate of HK\$1,566,000 recognised in the profit or loss of the Company for the six months ended 30 June 2021.

13. INVENTORIES

	As at 30 June 2021 (Unaudited) HK\$'000	As at 31 December 2020 (Audited) HK\$'000
Finished goods	81,008	60,788

14. TRADE AND OTHER RECEIVABLES

	As at 30 June 2021 (Unaudited) HK\$'000	As at 31 December 2020 (Audited) HK\$'000
Trade receivables	103,391	38,150
Less: allowance for credit loss	(32,100)	(29,931)
Trade receivables (net of allowance for credit loss)	71,291	8,219
Other prepayments	337	567
Other deposits	393	393
Prepayments to suppliers	32,551	38,124
Deposits paid to suppliers (net of allowance for credit loss)	135,884	162,762
Value-added tax recoverable	3,532	8,759
Others	182	186
	244,170	219,010

The Group allows a credit period ranging from 0 to 365 days to its trade customers. The following is an ageing analysis of trade receivables net of allowance for credit losses presented based on the dates of goods delivery notes, which approximated the respective revenue recognition dates, at the end of the reporting periods:

	As at 30 June 2021 (Unaudited) HK\$'000	As at 31 December 2020 (Audited) HK\$'000
Trade receivables:		
0 – 30 days	30,500	1,058
31 – 60 days	12,620	388
61 – 90 days	15,275	6,729
91 – 180 days	12,896	44
181 – 365 days	–	–
Over 365 days	–	–
	71,291	8,219

Before accepting any new customer, the Group assesses the potential customer's credit quality and defines credit limits by the customer. Credit limits attributed to customers are reviewed periodically. Majority of the trade receivables that are neither past due nor impaired have no default payment history.

Prepayments and deposits paid to suppliers represent the prepayments and deposits paid for purchase of pharmaceutical products. The Group was required to make prepayments and trade deposits to certain suppliers to secure regular supply of products. The amount of prepayments to suppliers varied with the terms of supplier contracts entered into with different suppliers, which was determined based on the amount of goods purchased from the suppliers. The amounts of trade deposits required vary on a case by case basis. The deposits paid will be refunded upon expiry of contracts.

Included in the Group's deposits paid to suppliers balance with aggregate gross carrying amount of approximately HK\$144,179,000 (31 December 2020: approximately HK\$171,057,000) and the Group has provided for impairment loss of approximately HK\$8,295,000 (31 December 2020: approximately HK\$8,295,000) as at 30 June 2021.

15. OTHER PAYABLES

	As at 30 June 2021 (Unaudited) HK\$'000	As at 31 December 2020 (Audited) HK\$'000
Deposits received from customers	985	1,093
Deposit received from partial disposal of interest in an associate	–	5,941
Deposit received from disposal of an equity instrument at FVTOCI	12,018	–
Contract liabilities	1,059	21,002
Other tax payables	3	1
Accruals	5,477	4,042
	<u>19,542</u>	<u>32,079</u>

16. SHARE CAPITAL

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

Ordinary shares

	Number of shares '000	Amount HK\$'000
Authorised:		
At 1 January 2020, 30 June 2020, 31 December 2020 and 30 June 2021	<u>3,000,000</u>	<u>150,000</u>
Issued and fully paid:		
At 1 January 2020, 30 June 2020, 31 December 2020 and 30 June 2021	<u>1,671,847</u>	<u>83,592</u>

MANAGEMENT DISCUSSION AND ANALYSIS

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

Overview

For the Period, the total revenue of the Group was approximately HK\$214,491,000, representing an increase of approximately 208.8% as compared to that for the corresponding period in 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 the first half of 2021, 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 Period. Meanwhile, through proactively organising and participating in various academic promotion activities in the PRC during the Period, 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 profit for the Period primarily due to (i) the increase in the gross profit due to the increase in the sales of the Group's Product (1.0g); and (ii) the absence of impairment losses in respect of the Group's interest in Saike International for the Period, while there was an impairment loss of the Group's interest in Saike International of approximately HK\$22,235,000 for the six months ended 30 June 2020.

Business review

During the Period, the revenue of the Group was contributed by (i) the distribution and trading of pharmaceutical products; and (ii) the provision of marketing and promotion services, in the PRC. The major category of the pharmaceutical products distributed by the Group is injection drugs.

Revenue and segment information

The table below sets out the revenue of the Group (by business segment) for the six months ended 30 June 2021 and 2020 respectively.

	Revenue contributed by each business segment for the six months ended 30 June			
	2021 (Unaudited)		2020 (Unaudited)	
	HK\$'000	%	HK\$'000	%
(1) Distribution and trading of pharmaceutical products	211,682	98.7	67,615	97.3
(2) Provision of marketing and promotion services	<u>2,809</u>	<u>1.3</u>	<u>1,855</u>	<u>2.7</u>
Total	<u><u>214,491</u></u>	<u><u>100.0</u></u>	<u><u>69,470</u></u>	<u><u>100.0</u></u>

(1) *Distribution and trading of pharmaceutical products*

This segment generated a revenue of approximately HK\$211,682,000 for the Period (six months ended 30 June 2021: approximately HK\$211,682,000), representing an increase of approximately 213.1% as compared to that for the corresponding period in 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 Period. Meanwhile, through proactively organising and participating in various academic promotion activities in the PRC during the Period, 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\$2,809,000 for the Period (six months ended 30 June 2021: approximately HK\$2,809,000) representing an increase of approximately 51.4% as compared to that for the corresponding period in 2020. Under the implementation of the "Two-Invoice" System (兩票制) in the PRC since 2017, the Group started to develop its business of the provision of marketing and promotion services in respect of pharmaceutical products in the PRC. The Group's marketing and promotion model involves formulating marketing and promotion strategies and conducting academic promotion programs of the Group's products in return for service income from the suppliers. The increase in revenue of the Group generated from this segment for the Period was mainly due to the increase in the sales of the pharmaceutical products under the Group's provision of marketing and promotion services.

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 and fifth batches were completed in February 2021 and June 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.

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.

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 the second half of 2021, the Group will continue to enhance its product portfolio, distribution channels and marketing and promotion strategy in order to achieve a better and sustainable long-term development of the Group.

Continue to enhance and expand the sales and marketing capabilities

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

To focus on our core businesses

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

Financial review

Revenue

The total revenue for the Period was approximately HK\$214,491,000, representing an increase of approximately 208.8% from approximately HK\$69,470,000 for the six months ended 30 June 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 first half of 2021, 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 Period. Meanwhile, through proactively organising and participating in various academic promotion activities in the PRC during the Period, 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 Period was approximately HK\$194,388,000, representing an increase of approximately 201.1% from approximately HK\$64,567,000 for the six months ended 30 June 2020. The increase in cost of sales was mainly due to the increase in sales volume of the Product (1.0g) during the Period.

Gross profit and gross profit margin

Gross profit increased by approximately HK\$15,200,000, or approximately 310.0%, from approximately HK\$4,903,000 for the six months ended 30 June 2020 to approximately HK\$20,103,000 for the Period mainly attributable to the increase in sales volume of the Product (1.0g) during the Period. The Group's gross profit margin for the Period was approximately 9.4%, which has increased by 2.3 percentage points when compared to the corresponding period in 2020.

Other income, gains and losses

The net other losses for the Period were approximately HK\$578,000 (six months ended 30 June 2020: approximately HK\$1,512,000). The decrease in net other losses was primarily attributable to the net exchange gains of approximately HK\$1,774,000 recorded for the Period (six months ended 30 June 2020: net exchange losses of approximately HK\$2,556,000), despite that the decrease in net other losses was partially offset by the loss on partial disposal of interest in Saike International of approximately HK\$1,420,000 (six months ended 30 June 2020: nil) and loss on deemed disposal of interest in Saike International of approximately HK\$1,566,000 (six months ended 30 June 2020: nil).

Selling and distribution expenses

Selling and distribution expenses for the Period were approximately HK\$7,437,000, representing an increase of approximately 53.5% from approximately HK\$4,845,000 for the six months ended 30 June 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 Period were approximately HK\$10,196,000, representing a decrease of approximately 3.1% from approximately HK\$10,526,000 for the six months ended 30 June 2020. Such decrease was mainly due to the decrease in salary expenses under the implementation of the Group's cost control measures during the Period.

Share of profit of associates

Share of profit of associates was approximately HK\$1,110,000 for the Period which was contributed by Saike International, representing an increase of approximately 127.5% from approximately HK\$488,000 for the six months ended 30 June 2020. The increase in share of profit of associates was mainly due to the improvement in the financial performance of Saike International during the period from 1 January 2021 to 28 February 2021. On 1 March 2020, 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. 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 30 June 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 Period was zero (six months ended 30 June 2020: nil). The Group had no taxable profit for tax provision.

Profit for the Period

Profit for the Period was approximately HK1,133,000, as compared to a loss of approximately HK\$36,434,000 for the corresponding period in 2020.

The Group recorded a net profit for the Period primarily due to (i) the increase in the gross profit due to the increase in the sales of the Group's Product (1.0g); and (ii) the absence of impairment losses in respect of the Group's interest in Saike International for the Period, while there was an impairment loss of the Group's interest in Saike International of approximately HK\$22,235,000 for the six months ended 30 June 2020.

Liquidity and financial resources

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

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

As at 30 June 2021, the Group had net cash and cash equivalents amounting to approximately HK\$68,671,000 (31 December 2020: approximately HK\$65,755,000), among which approximately 51% (31 December 2020: approximately 65%) were denominated in Hong Kong dollars and approximately 49% (31 December 2020: approximately 35%) were denominated in Renminbi. The Group did not have any bank loan as at 30 June 2021 and 31 December 2020. The Group had a gearing ratio (defined as total bank and other borrowings divided by total equity) of zero as at 30 June 2021 (31 December 2020: zero).

Contingent liabilities

As at 30 June 2021, the Group had no material contingent liabilities.

Material investments, acquisitions and disposals

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

On 30 November 2020, Major Bright 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.) 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 30 June 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 has conditionally agreed to sell, and WinHealth International has 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\$80.9 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%. As at 30 June 2021, Major Bright was beneficially interested in approximately 7.87% of the issued share capital of WinHealth International.

A special general meeting of the Company convened for the WinHealth Disposal will be held on 2 September 2021 to approve, among others, the Share Repurchase Agreement and the transactions contemplated thereunder. As at 30 June 2021 and the date of this announcement, completion of the WinHealth Disposal has not taken place.

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

Except for the above, the Group did not make any material investments, acquisitions or disposals during the Period.

Capital structure

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

Pledge of assets

As at 30 June 2021, the Group pledged the buildings and right-of-use assets with an aggregate carrying amount of approximately HK\$9,481,000 (31 December 2020: approximately HK\$9,479,000) to secure general banking facilities granted to the Group.

Equity instruments at FVTOCI

The Group's equity instruments at FVTOCI include (i) equity instruments at FVTOCI listed in Hong Kong 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 are incorporated in the Cayman Islands and the BVI with limited liability and stated at fair value based on valuations prepared by independent valuers.

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

As at 30 June 2021, the Group's securities investment in the shares of Town Health ("**TH Shares**") (a company whose shares are listed on the Main Board of the Stock Exchange with stock code: 3886) had a fair value of approximately HK\$58.2 million and an investment amount of approximately HK\$144.0 million. As at 30 June 2021, the fair value of the Group's investment in Town Health accounted for approximately 8.8% of the Group's total assets. The Group recognised a fair value gain on its investment in the TH Shares of approximately HK\$21.9 million for the Period. No dividend income was received from Town Health for the Period.

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 Securities and Futures Commission ("**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 recommence 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 30 June 2021 and the date of this announcement, the Group held 120,000,000 TH Shares, representing approximately 1.59% of the then total issued share capital of Town Health. Based on the interim results announcement of Town Health for the six months ended 30 June 2021, as there are signs that the pandemic is contained in Hong Kong, the economic recovery is expected to be much stronger in the second half of 2021. Town Health will continue to closely monitor the pandemic, adapt to market trends and adjust the business strategy in time, and follow the four development strategies, namely, improving service quality, expanding service scope, improving operational efficiency and strengthening collaboration with China Life Insurance (Group) Company and its subsidiaries, so as to ensure that it will achieve progress while maintaining stability in adverse circumstances. Town Health will also continue to fulfill the social responsibility as a healthcare enterprise, offer reliable support to the government and citizens, staying together with citizens to win the fight against the pandemic and repaying the public for their long-term trust and support to Town Health.

As at 30 June 2021, the Group's securities investment listed in Hong Kong (other than the TH Shares) had a fair value of approximately HK\$2.6 million.

During the Period, the Group did not dispose of any equity securities listed in Hong Kong. Besides, due to an increase in the fair value of certain listed securities investments, a fair value gain (inclusive of the fair value gain on the TH Shares) of approximately HK\$22.4 million was recognised under the FVTOCI (non-recycling reserve) during the Period. The Group will continue to monitor its investments cautiously in view of recent uncertain market conditions.

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

Saike International

As at 30 June 2021, the Group held 25% equity interest in Saike International with an investment amount of approximately RMB47.5 million (equivalent to approximately HK\$59.3 million) and a fair value of approximately RMB41.0 million (equivalent to approximately HK\$49.3 million). As at 30 June 2021, the fair value of the Group's investment in Saike International accounted for approximately 7.5% of the Group's total assets. A fair value loss on the Group's investment in Saike International of approximately HK\$2.6 million has been recognised in other comprehensive expense for the Period. No dividend income was received from Saike International for the Period.

Saike International and its subsidiaries (collectively, the “**Saike International Group**”) 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 Period, it recorded an unaudited consolidated profit of approximately RMB2.0 million. The aging population, urbanisation, increase in chronic diseases and household income in the PRC will drive the demand for medical treatments and use of medical devices and consumables, which are favourable to the continuing development of the business of Saike International in the long term. The centralised volume-based procurement program for certain high-value medical commodities launched by the Chinese government in 2020 may offer market share expansion opportunities for domestic distributors, but bring significant margin pressure on the medical commodities covered under the program. This may cause uncertainty on the profitability of the medical devices industry in the PRC and the management of the Group cannot rule out the possibility that such procurement program will be extended to cover the products traded by the Saike International Group in the future. If the procurement program is extended to cover the products traded by the Saike International Group in the future, it is expected that the profit margin of the Saike International Group may be adversely affected.

WinHealth International

As at 30 June 2021, the Group held approximately 7.87% equity interest in WinHealth International with an investment amount of approximately RMB47.25 million (equivalent to approximately HK\$53.4 million) and a fair value of approximately RMB67.2 million (equivalent to approximately HK\$80.8 million). As at 30 June 2021, the fair value of the Group's investment in WinHealth International accounted for approximately 12.2% of the Group's total assets. A fair value gain on the Group's investment in WinHealth International of approximately HK\$6.3 million has been recognised in other comprehensive income for the Period. No dividend income was received from WinHealth International for the Period.

WinHealth International and its subsidiaries (collectively, the “**WinHealth International Group**”) are principally engaged in the distribution of pharmaceutical products in the PRC and have an extensive distribution network through possessing distribution rights of various imported prescription drugs in the PRC. Based on the latest unaudited consolidated financial statements of WinHealth International for the Period, it recorded an unaudited consolidated profit of approximately RMB15.3 million. The aging population, urbanisation, increase in chronic diseases and household income, and wider coverage of medical insurance in the PRC will drive the demand for medical treatments and use of drug, which are favourable to the continuing development of the business of WinHealth International in the long term. Meanwhile, the 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 officially initiated in 11 cities in the PRC in 2018 and the expansion of the volume-based procurement nationwide since 2019. 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 Winhealth International Group into a challenging position and will affect the profitability of these companies in the future.

On 20 April 2021, Major Bright, a wholly-owned subsidiary of the Company, as vendor, and WinHealth International as purchaser entered into the Original Share Repurchase Agreement for the disposal of approximately 7.87% equity interest in WinHealth International at the consideration of RMB68,000,000 (equivalent to approximately HK\$80.9 million). As at the date of this announcement, completion of the disposal has not taken place. Please refer to the section headed “Major investments, acquisitions and disposals – Disposal of approximately 7.87% of the issued share capital of WinHealth International” above for further details of the disposal.

Future plans for material investments

The Group may consider the possibility of disposing of the business or assets in respect of its non-core business currently held by the Group in the coming future.

Employee information

As at 30 June 2021, the Group had 28 employees (31 December 2020: 29). Staff costs, including Directors’ emolument for the Period, amounted to approximately HK\$3,858,000 (six months ended 30 June 2020: approximately HK\$4,210,000). The Group’s remuneration policy is based on positions, duties and performance of the employees. The employees’ remuneration varies according to their positions, which include salaries, overtime allowances, bonuses and/or various subsidies. The Group offers comprehensive and competitive remuneration and benefits packages to all its employees. In addition, the Group has adopted a share option scheme for the purpose of providing incentives and rewards to eligible persons who contribute to the success of the Group’s operations.

The Group also provides other employee benefits including a provident fund scheme for its employees in Hong Kong as required under the Mandatory Provident Fund Schemes Ordinance (Chapter 485, the Laws of Hong Kong), and participates in employee pension schemes organised and governed by the relevant local governments for its employees in the PRC.

Foreign currency risk

The Group carries out its business in the PRC and most of the transactions are denominated in Renminbi. The Group has foreign currency bank balances which expose the Group to foreign currency risk. To mitigate the foreign currency risk, the Group continually assesses and monitors the exposure of the exchange rate fluctuations. During the Period, the Directors did not consider it necessary to adopt a foreign currency hedging policy as the potential impact on the profit or loss of the Group due to the exchange rate fluctuations was immaterial.

Suspension of trading in shares of the Company

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

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

Pursuant to the delisting framework under the Listing Rules which has come into effect on 1 August 2018 (“**Effective Date**”), as the shares of the Company have been suspended from trading on the Stock Exchange for less than 12 months as at the Effective Date, under Rule 6.01A(2)(b)(i) of the Listing Rules, the Stock Exchange may cancel the Company’s listing if trading in the shares of the Company has remained suspended for 18 continuous months from the Effective Date. The 18-month period expired on 31 January 2020. The Company was informed by the Stock Exchange that, (i) after consultation with the SFC, the Stock Exchange will, until further notice, withhold exercising its right to delist the Company under Rule 6.01A(2)(b)(i) of the Listing Rules should trading in the Company’s securities remain suspended on 31 January 2020; (ii) for the avoidance of doubt, this is without prejudice to the Stock Exchange exercising its right under Rule 6.01A of the Listing Rules at a later stage when the Stock Exchange considers appropriate; (iii) the Stock Exchange also reserves all its rights under the Listing Rules; (iv) the Company is reminded of its obligation to procure a resumption of trading as soon as possible; and (v) if the Stock Exchange is not satisfied that the Company has taken and is taking all reasonable steps to procure a resumption of trading, the Stock Exchange is likely to proceed to delist the Company without further delay. As at the date of this announcement, the trading of shares of the Company continues to be suspended and will remain suspended until further notice.

For further details, please refer to the announcements of the Company dated 6 October 2017, 12 January 2018, 25 May 2018, 4 June 2018, 30 July 2018, 1 August 2018, 1 November 2018, 1 February 2019, 2 May 2019, 2 August 2019, 1 November 2019, 8 January 2020, 31 January 2020, 29 April 2020 and 31 July 2020, 30 October 2020, 29 January 2021, 30 April 2021 and 30 July 2021. The Company will keep the shareholders of the Company and potential investors informed of any material developments by way of further announcement(s) as and when appropriate.

Change of directors

On 30 April 2021, Mr. Liu Yang (“**Mr. Liu**”) tendered his resignation as an executive Director and the chairman of the Board (“**Chairman**”) which took effect on 15 May 2021 as he planned to devote more attention and time to his own business engagement. Upon his resignation which became effective on 15 May 2021, Mr. Liu also ceased to be (i) the chairman of the corporate governance committee (“**Corporate Governance Committee**”) of the Board; (ii) a member of the remuneration committee and the nomination committee of the Board; and (iii) an authorised representative of the Company (“**Authorised Representative**”) for the purpose of Rule 3.05 of the Listing Rules on the same day.

Following Mr. Liu’s resignation, Ms. Wang Qiuqin, an executive Director and the chief executive officer of the Company (“**Chief Executive Officer**”), was appointed as the Chairman, the chairman of the Corporate Governance Committee and an Authorised Representative in place of Mr. Liu with effect from 15 May 2021. For further details, please refer to the announcement of the Company dated 30 April 2021.

Mr. Chu Xueping was appointed as an executive Director at the annual general meeting of the Company with effect from 18 June 2021. For further details, please refer to the announcement of the Company dated 18 June 2021 and the circular of the Company dated 17 May 2021.

Litigation

On 17 November 2020, the Company was served a sealed copy of a petition dated 16 November 2020 filed in the High Court of the Hong Kong Special Administrative Region (the “**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 (currently known as WinHealth International Company Limited) (details of such acquisition were disclosed in the announcements of the Company dated 5 December 2016 and 14 March 2017); and
- (3) the 1st Respondent was responsible for misfeasance and/or misconduct which was unfairly prejudicial to the members or any part of the members of the Company, comprising various artificial transactions involving dealings in a number of pharmaceutical products.

In the Petition, the SFC applies for, *inter alia*, an order that the 1st Respondent do pay to the Company the sum of HK\$26 million with interest thereon at such rate and for such period as the Court thinks fit.

No order or relief is sought against the Company in the Petition. The Petition has been fixed to be heard on 11 May 2021.

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 30 June 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.

Compliance with corporate governance code

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

Following Mr. Liu’s resignation with effect from 15 May 2021, Ms. Wang Qiuqin, an executive Director and the Chief Executive Officer, was also appointed as the 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.

Save as disclosed above, the Company had complied with the CG Code to the extent applicable and permissible to the Company during the Period.

Model code for securities transactions by directors

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

Purchase, sale or redemption of the Company’s listed securities

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company’s listed securities during the Period.

Review of Interim Results

The audit committee of the Board has reviewed the unaudited condensed consolidated financial statements of the Group for the Period and this announcement.

On behalf of the Board
New Ray Medicine International Holding Limited
Wang Qiuqin
Chairman & Executive Director

Hong Kong, 31 August 2021

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.