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

2022
ANNUAL REPORT

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CORPORATE INFORMATION

Board of Directors

Executive Directors

Ms. Wang Qiuqin *(Chairman and Chief Executive Officer)*
Mr. Huo Zhihong
Mr. Chu Xueping

Independent Non-executive Directors

Mr. Leung Chi Kin
Ms. Li Sin Ming, Ivy
Mr. Sy Lai Yin, Sunny

Board Committees

Audit Committee

Ms. Li Sin Ming, Ivy *(Chairman)*
Mr. Leung Chi Kin
Mr. Sy Lai Yin, Sunny

Remuneration Committee

Mr. Leung Chi Kin *(Chairman)*
Ms. Li Sin Ming, Ivy
Mr. Sy Lai Yin, Sunny

Nomination Committee

Mr. Leung Chi Kin *(Chairman)*
Ms. Li Sin Ming, Ivy
Mr. Sy Lai Yin, Sunny

Corporate Governance Committee

Ms. Wang Qiuqin *(Chairman)*
Mr. Huo Zhihong
Mr. Sy Lai Yin, Sunny

Company Secretary

Mr. Lai Kwok Wa, *HKICPA*

Auditor

Moore Stephens CPA Limited
Certified Public Accountants
Registered Public Interest Entity Auditor

Stock Code

6108

Registered Office

Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

Headquarters

B–C, 37/F
Dikai International Center
19 Dangui Road
Hangzhou, the People's Republic of China ("**PRC**")

Principal Place of Business in Hong Kong

Room 911B, 9th Floor
Tower 1, Silvercord
No. 30 Canton Road
Kowloon, Hong Kong

Principal Banker

Agricultural Bank of China

Principal Share Registrar and Transfer Office

Conyers Corporate Services (Bermuda) Limited
Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

Hong Kong Branch Share Registrar and Transfer Office

Tricor Investor Services Limited
17/F
Far East Finance Centre
16 Harcourt Road
Hong Kong

Website

www.newraymedicine.com

FINANCIAL SUMMARY

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%).

	2018 HK$'000	2019 HK$'000	2020 HK$'000	2021 HK$'000	**2022** **HK$'000**
Operating results					
Revenue	372,441	118,632	133,214	335,380	**89,771**
Gross profit	47,403	14,875	10,931	28,488	**7,637**
(Loss)/profit before tax	39,197	(43,792)	(69,901)	(3,608)	**(80,286)**
(Loss)/profit for the year	33,204	(44,109)	(69,731)	(2,824)	**(77,947)**
Profitability					
Gross profit margin	12.7%	12.5%	8.2%	8.5%	**8.5%**
Net profit margin	8.9%	N/A	N/A	N/A	**N/A**
Assets and liabilities					
Total assets	768,072	678,907	650,120	662,047	**539,849**
Equity attributable to owners of the Company	725,384	654,483	605,924	632,572	**525,657**
Total liabilities	42,688	24,424	44,196	29,475	**14,192**
Bank balances and cash	146,101	88,668	65,755	150,153	**154,413**
Quick ratio (times)	10.0	22.4	8.7	18.4	**47.0**
Current ratio (times)	12.0	22.4	10.6	24.8	**51.5**

CHAIRMAN'S STATEMENT

On behalf of the board (the "**Board**") of directors (the "**Directors**") of New Ray Medicine International Holding Limited (the "**Company**", together with its subsidiaries, the "**Group**"), I am pleased to present the annual results of the Group for the year ended 31 December 2022 (the "**Year**"). 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.

The Group remains prudently optimistic in spite of the headwind that the industry will face in the future. 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 drugs. The Group believes that the pharmaceutical industry will be fueled with new opportunities and momentum for growth in the long term. The policies will bring challenges for many pharmaceutical enterprises, in particular the small and medium-sized ones, which will accelerate the consolidation and concentration of the market players in the industry. The Group will closely monitor the guidelines of the national policy and adapt to the market changes. The Group will endeavour to maximise return for shareholders by focusing on proprietary drugs with promising marketing and sales performance and looking for new opportunity to acquire new distribution rights, with the aforesaid the Group is poised to benefit from this development.

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

Finally, on behalf of the Board, I would like to express my sincere gratitude to our shareholders, investors, suppliers, distributor customers and business partners for their strong support to the Group. I would also like to express my heartfelt appreciation to our Directors and all staff for their diligence and contribution throughout the Year.

Wang Qiuqin
Chairman and Executive Director

Hong Kong
29 March 2023

MANAGEMENT DISCUSSION AND ANALYSIS

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.

Business Review

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

The table below sets out the revenue and gross profit margin of the Group (by segment) for the 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.

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.

MANAGEMENT DISCUSSION AND ANALYSIS

Environmental Policies and Performance

The Group recognises the importance of environmental protection. The Group has introduced various steps and procedures to ensure all resources are efficiently utilised. The Group has well-established practices in reducing electricity consumption, recycling ink cartridges and toner cartridges. In addition, it encourages its employees to participate in environmental protection activities which benefit the community as a whole. Further discussions on the Group's environmental policies and performance are set out in the Environmental, Social and Governance ("**ESG**") report in this report.

Relationships with Stakeholders

The Group maintains good partnership with its employees, has close cooperation with its suppliers and provides reliable products and services to its customers so as to operate in a sustainable manner.

The Group cooperates with suppliers and customers in order to improve its effectiveness and efficiency in the supply chain and to reduce the relevant costs by capitalising on the distributors' functions including formulating marketing and promotion strategies tailored for local markets; speeding up product delivery and payment collection process; improving efficiencies of customers by allowing them to keep fewer inventories on hand and ensuring timely replenishment of inventories.

The Group's employees have accumulated extensive experience in the PRC pharmaceutical industry. The Group believes that with their industry expertise and strong execution capability, the employees will be able to successfully implement the Group's strategies in the growing pharmaceutical distribution industry in the PRC.

Compliance with Applicable Laws and Regulations which have a Significant Impact on the Group

The pharmaceutical industry in the PRC is highly regulated by the PRC government. The Law on the Administration of Pharmaceuticals of the PRC (《中華人民共和國藥品管理法》) provides the basic legal framework in respect of the administration of pharmaceutical products in the PRC and covers a number of aspects such as manufacturing, distributing, packaging, pricing and advertising with respect to pharmaceutical products. The regulations made under the Law on the Administration of Pharmaceuticals contain the detailed rules for the administration of pharmaceuticals in the PRC.

The Group is a reputable drug distributor in Zhejiang province, the PRC. In the PRC, a drug distributor must obtain various permits and licences, including the Business Licence, the Pharmaceutical Operation Permit, the Good Supply Practice Certificate before it starts business in relation to the distribution of pharmaceutical products.

Pharmaceutical Operation Permit and Business Licence

An approval must be obtained from the China Food and Drug Administration of the PRC (中華人民共和國國家食品藥品監督管理總局) ("**CFDA**") at the provincial level before a company starts its business in relation to wholesale of pharmaceutical products. After the approval has been obtained, the relevant department will issue a Pharmaceutical Operation Permit. According to the Measures on the Administration of the Pharmaceutical Operation Permit (《藥品經營許可證管理辦法》), a Pharmaceutical Operation Permit is valid for 5 years. The enterprise which holds such permit should apply to the original issuing authority for a new Pharmaceutical Operation Permit 6 months prior to the expiry for the extension of its permit. In addition, before commencing a business, a wholesale or retail pharmaceutical distribution company must also obtain a Business Licence from the relevant Municipal Administration for Market Regulation.

Compliance with Applicable Laws and Regulations which have a Significant Impact on the Group *(Continued)*

Pharmaceutical Operation Permit and Business Licence *(Continued)*

In this connection, the Group has obtained the Pharmaceutical Operation Permit granted by Zhejiang Food and Drug Administration (浙江省藥品監督管理局) ("**ZFDA**"), which is the competent drug administrative authority of Zhejiang province, the province in the PRC where the Group registers for its pharmaceutical distribution operation. The Group has also obtained the Business Licence granted by and registered with the relevant Municipal Administration for Market Regulation in accordance with applicable PRC laws and regulations. The Pharmaceutical Operation Permit is valid till 14 November 2024.

Good Supply Practices ("GSP")

A drug retailer or wholesaler may start to conduct its business only after it has obtained a GSP certificate issued by the competent office of CFDA. GSP constitutes the basic standards for management of drug supply business. The current applicable GSP standards provide that drug suppliers must strictly control its drug operation, including the qualification of relevant employees, the business operation site, the warehouses, the test equipment and facilities, the standards for management and quality standards. According to the Administrative Measures for Certification of Good Supply Practices (《藥品經營質量管理規範認證管理辦法》) and the Good Supply Practices for Medicine Distribution Quality (《藥品經營質量管理規範》), a GSP certificate is valid for 5 years generally and may be renewed for another 5 years within 3 months prior to its expiry.

In this regard, the Group has obtained the GSP certificate granted by ZFDA. The GSP certificate is valid till 14 November 2024.

During the Year, no material breach of laws and regulations that have a significant impact on the Group's business and operations was noted by the Group.

Principal Risks and Uncertainties

There are certain principal risks and uncertainties related to the business of the Group in the PRC pharmaceutical industry. The principal risks and uncertainties are:

- the reliance on the Group's suppliers and distributor customers – the Group's business relies on the pharmaceutical products provided by its suppliers which are in turn distributed through the distributor customers of the Group to ultimate customers such as hospitals and medical institutions in the PRC. However, the Group does not have long-term commitments with these suppliers and distributor customers. In order to minimise the risk, the Group will continue to diversify the existing product portfolio and expand the distribution networks; and

- the government policies of the pharmaceutical industry in the PRC – the pharmaceutical industry in the PRC is highly regulated, a substantial amount of the pharmaceutical products distributed by the Group are subject to the government price controls or other price controls in the PRC. To mitigate the impact of the government policies on the pharmaceutical industry in the PRC, the Group will continue to diversify the portfolio of products distributed by it.

MANAGEMENT DISCUSSION AND ANALYSIS

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.

Financial Review *(Continued)*

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$2.3 million (2021: approximately HK$0.8 million). 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.

Financial Review *(Continued)*

Equity instruments at fair value through other comprehensive income *(Continued)*

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

As at 31 December 2022 and the date of this report, 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.

Financial Review *(Continued)*

Equity instruments at fair value through other comprehensive income *(Continued)*

(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.

Financial Review *(Continued)*

Equity instruments at fair value through other comprehensive income *(Continued)*

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

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

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.

Financial Review *(Continued)*

Employee Information *(Continued)*

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 RMB50.0 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.

Financial Review *(Continued)*

Material Acquisitions or Disposals and Significant Investments *(Continued)*

Signing of the Cooperation Agreement and the establishment of the Target Company *(Continued)*

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 RMB50.0 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.

Financial Review *(Continued)*

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).

Rights Issue

On 9 December 2016, the Company announced to raise approximately HK$343.6 million before expenses on the basis of three rights shares ("**Rights Shares**") for every one existing share in issue held on the record date at the subscription price of HK$0.275 per Rights Share by way of the rights issue of 1,249,344,000 ordinary shares ("**Rights Issue**"). The subscription price of HK$0.275 per Rights Share represented a discount of 31.25% to the closing price of HK$0.400 per share of the Company on 9 December 2016, being the date of the underwriting agreement. The Directors considered that the Rights Issue would provide funding to the Group for financing investments which would diversify the Group's investment portfolio and bring new income source to the Group or foster a closer business relationship between the Group and the invested entities so as to enable the two groups complement each other with a view to bringing more benefits to each other. The Rights Issue was approved by the independent shareholders of the Company at the special general meeting of the Company held on 26 January 2017.

The completion of the Rights Issue took place on 6 March 2017. A total of 1,249,344,000 ordinary shares of the Company were allotted and issued pursuant to the Rights Issue and the net proceeds after deduction of expenses from the Rights Issue were approximately HK$330.0 million. On this basis, the net issue price per Rights Share was approximately HK$0.264 and the aggregate nominal value of the Rights Shares was HK$62,467,200. Details of the Rights Issue are set out in the Company's announcements dated 9 December 2016, 26 January 2017, 27 January 2017 and 3 March 2017, the circular of the Company dated 10 January 2017 and the prospectus of the Company dated 10 February 2017.

The actual use of the net proceeds from the Rights Issue as at 31 December 2022 was as follows:

Intended use of proceeds	Actual use of proceeds as at 31 December 2022
Net proceeds from the Rights Issue of approximately HK$330.0 million were intended to be used in the following manner:	
(1) approximately HK$143.2 million for the possible acquisition of interest in HCMPS and/or other potential acquisitions of medical and healthcare related business when opportunities arise (Notes a & b)	approximately HK$25.5 million has been utilised for the acquisition of 5% of the issued share capital of HCMPS at a consideration of HK$25.5 million in cash approximately HK$117.7 million has been utilised for the partial settlement of the consideration for the acquisition of approximately 1.55% of the then total issued share capital of Town Health, the issued shares of which are listed on the Main Board of the Stock Exchange (Stock Code: 3886) at a total consideration of HK$144 million (excluding stamp duty and related expenses) in the open market in April 2017

Financial Review *(Continued)*

Rights Issue *(Continued)*

Intended use of proceeds	Actual use of proceeds as at 31 December 2022
(2) approximately HK$28.8 million for the acquisition of 11% of the issued share capital of China Biotech Services Holdings Limited ("**China Biotech**") (Note b)	approximately HK$28.8 million has been utilised for the partial settlement of the consideration for the acquisition of approximately 11% of the issued share capital of China Biotech, the issued shares of which are listed on GEM of the Stock Exchange (Stock Code: 8037) at a total consideration of approximately HK$33.4 million in cash
(3) approximately HK$43.0 million for the acquisition of 12% of the issued share capital of WinHealth International	approximately HK$53.4 million (of which HK$10.4 million was from the Relevant Proceeds (as defined below)) has been utilised for the acquisition of 15% of the issued share capital of WinHealth International at a consideration of RMB47.25 million (equivalent to approximately HK$53.4 million) in cash
(4) approximately HK$17.0 million for the repayment of the Group's bank borrowings in the PRC	approximately HK$17.0 million has been utilised for the repayment of the bank borrowing of a subsidiary of the Company in the PRC
(5) approximately HK$40.0 million for expanding the product range of imported prescription drugs	approximately HK$40.0 million has been utilised for the payment of the distribution right of an imported prescription tablet drug in the PRC
(6) approximately HK$8.0 million for improving marketing, sales and promotional capabilities	approximately HK$8.0 million has been utilised for improving marketing, sales and promotional capabilities
(7) approximately HK$50.0 million for the acquisition of the equity interests (in part or in full) of pharmaceutical companies which are principally engaged in overseas pharmaceutical business in the PRC apart from the acquisition of 12% of the issued share capital of WinHealth International ("**Relevant Proceeds**") (Note c)	approximately HK$10.4 million has been utilised for the partial settlement of the consideration for the acquisition of 15% of the issued share capital of WinHealth International as described above

Financial Review *(Continued)*

Rights Issue *(Continued)*

Intended use of proceeds	Actual use of proceeds as at 31 December 2022
	During the Year, the Company did not use any net proceeds from the Rights Issue. As at 31 December 2022, the total unutilised proceeds were approximately HK$39.6 million. The unutilised proceeds were from the Relevant Proceeds which shall be used for the acquisition of the equity interests (in part or in full) of pharmaceutical companies which are principally engaged in overseas pharmaceutical business in the PRC apart from the acquisition of 12% of the issued share capital of WinHealth International. Due to the instability of the economy and the impact of the Covid-19 pandemic, the Company took a cautious approach in scouting suitable business or investments opportunities in the past. As at the date of this report, the Company was still on the lookout of appropriate acquisition and investment opportunities or targets. The Company will continue to try its best endeavour to identify suitable investment. Based on the best estimation of the present and future business market conditions in the PRC and the business prospect of the Group, it is expected that the unutilised proceeds for the intended purpose will be fully used by 31 December 2023. The remaining unutilised proceeds from the Rights Issue will be used as intended. Currently, the Company placed such unutilised proceeds as short term interest-bearing deposits.

Note a: It was disclosed in the prospectus of the Company in relation to the Rights Issue dated 10 February 2017 that, among others, the Company intended to apply HK$83.5 million for the second tranche acquisition of approximately 17% of the issued share capital of HCMPS in accordance with the sale and purchase agreement dated 18 October 2016 and the supplemental agreement dated 30 November 2016 entered into by and among Major Bright, a subsidiary of the Company, the Company and JFA Capital. As at 13 March 2017, as it was unlikely for the Company to obtain the shareholders' approval on or before the long stop date of 31 March 2017 for the second tranche acquisition and the parties could not come to a consensus as to the extension of the long stop date, the parties agreed not to proceed with the second tranche acquisition and the Board decided to apply the said HK$83.5 million to the possible acquisition of interest in HCMPS and/or other potential acquisitions of medical and healthcare related business when opportunities arose. Details of the change of use of proceeds are disclosed in the Company's announcement dated 13 March 2017.

Note b: It was disclosed in the prospectus of the Company in relation to the Rights Issue dated 10 February 2017 that, among others, the Company intended to apply HK$88.5 million for the acquisition of approximately 29% of the issued share capital of China Biotech in two tranches. On 16 March 2017, approximately HK$28.8 million of the net proceeds were used for financing the first tranche acquisition of approximately 11% of the issued share capital of China Biotech and the related professional fees. As at 27 March 2017, as it was unlikely for the Company and the vendor to obtain their respective shareholders' approvals on or before the long stop date of 30 April 2017 for the second tranche acquisition and the parties could not come to a consensus as to the extension of the long stop date, the parties agreed not to proceed with the second tranche acquisition and the Board decided to apply the remaining proceeds of HK$59.7 million to other potential acquisitions of medical and healthcare related business when opportunities arose. Details of the change of use of proceeds are disclosed in the Company's announcement dated 27 March 2017.

Note c: For further details in relation to the application of the net proceeds of HK$10.4 million to finance the acquisition of an additional 3% equity interest in WinHealth International by the Group and the reasons for the acquisition of such additional interest, please refer to the announcement of the Company dated 14 March 2017.

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Review *(Continued)*

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 report, 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.

Financial Review *(Continued)*

Suspension and Resumption of Trading in Shares *(Continued)*

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.

Financial Review *(Continued)*

Suspension and Resumption of Trading in Shares *(Continued)*

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.

Financial Review *(Continued)*

Litigation *(Continued)*

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.

BIOGRAPHICAL DETAILS OF THE DIRECTORS AND SENIOR MANAGEMENT

Executive Directors

Ms. Wang Qiuqin ("**Ms. Wang**"), aged 45, is the chairman of the Board, an executive Director, the chief executive officer of the Company and the chairman of the corporate governance committee ("**Corporate Governance Committee**") of the Board and an authorised representative of the Company for the purpose of Rule 3.5 of the Listing Rules. Ms. Wang graduated from Zhejiang University (浙江大學) majoring in Chinese language and literature in 1999 and China Medical University (中國醫科大學) majoring in pharmacy in 2016 through a distance learning program. Ms. Wang has over 17 years of experience in the pharmaceutical distribution industry in the PRC. Ms. Wang was the merchandising assistant of Zhejiang Xin Rui Pharmaceutical Co., Ltd. (浙江新銳醫藥有限公司) ("**Zhejiang Xin Rui**"), a wholly-owned subsidiary of the Company, from April 2006 to April 2008 and has been the merchandising manager of Zhejiang Xin Rui since May 2008. She is responsible for the overall business operations of the Group. She is also a director of a number of subsidiaries of the Company. Ms. Wang would serve as an executive Director for a term of two years commencing on 27 June 2022 and is subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the Bye-laws.

Mr. Huo Zhihong ("**Mr. Huo**"), aged 44, has been an executive Director and a member of the Corporate Governance Committee since 27 June 2018. Mr. Huo graduated from Heilongjiang Bing Qi Gong Ye Zhi Gong University (黑龍江兵器工業職工大學) majoring in mechanical engineering in 2001. Mr. Huo has over 22 years of experience in the pharmaceutical distribution industry in the PRC. Mr. Huo was the sales representative of Heilongjiang Hong Ning Pharmaceutical Co., Ltd. (黑龍江鴻寧醫藥有限公司) from 2001 to 2004, the sales supervisor of Beijing Qi Huang Pharmaceutical Co., Ltd. (北京岐黃製藥有限公司) from 2004 to 2006, the head of Commercial Department of South China District of Zhejiang Otsuka Pharmaceutical Co., Ltd. (浙江大塚製藥有限公司) from 2006 to 2008, the deputy general manager of Guangzhou Shimalong Pharmaceutical Co., Ltd. (廣州獅馬龍藥業有限公司) from 2008 to 2014, the deputy general manager of Guangzhou Kang Ying Xin Medical Equipment Co., Ltd. (廣州康瀅鑫醫療器械有限公司) from 2014 to 2017 and has been the general manager of Cheng Mai Yi Jia Technology Advisory Co., Ltd. (澄邁壹佳技術諮詢有限公司) since June 2017. He is responsible for the operation of the Group's business and the overall sales and marketing strategies of the Group. Mr. Huo would serve as an executive Director for a term of two years commencing on 27 June 2022 and is subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the Bye-laws.

Mr. Chu Xueping ("**Mr. Chu**"), aged 51, has been an executive Director since 18 June 2021. Mr. Chu graduated from Dalian Medical University (大連醫科大學) majoring in pharmacy in 1993. Mr. Chu has over 11 years of experience in the pharmaceutical industry in the PRC. Mr. Chu was the deputy general manager of 北京品尚品醫藥科技有限公司 (Beijing Pin Shang Pin Medicine Technology Co. Ltd., the English name is for identification purpose only) from 2011 to 2015 and has been the deputy president of Hainan Noken Pharmaceutical Co., Ltd. (海南諾爾康藥業有限公司) since 2016. Mr. Chu would serve as an executive Director for a term of two years commencing on 18 June 2021 and is subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the Bye-laws. As at the date of this report, Mr. Chu beneficially owned 30% of the total issued shares of Eagle Amber Holdings Limited, a substantial shareholder of the Company holding 426,672,000 ordinary shares of the Company, representing approximately 25.52% of the total issued shares of the Company.

BIOGRAPHICAL DETAILS OF THE DIRECTORS AND SENIOR MANAGEMENT

Independent Non-executive Directors

Mr. Leung Chi Kin ("**Mr. Leung**"), aged 73, has been an independent non-executive Director since 26 September 2013. He is also the chairman of the remuneration committee ("**Remuneration Committee**") and the nomination committee ("**Nomination Committee**") and a member of the audit committee ("**Audit Committee**") of the Board. Mr. Leung was an elected member of the Shatin District Council in Hong Kong from 1994 to 2011. Mr. Leung was also awarded a Medal of Honour by the Government of Hong Kong. Mr. Leung was an independent non-executive director of Hanergy Thin Film Power Group Limited (formerly known as Hanergy Solar Group Limited and Apollo Solar Energy Technology Holdings Limited) (stock code: 566) during the period from 1 May 2008 to 25 November 2009 and Silk Road Energy Services Group Limited (formerly known as China Natural Investment Company Limited) (stock code: 8250) during the period from 27 November 2009 to 26 November 2012, the issued shares of which are listed on the Main Board of the Stock Exchange and GEM, respectively. Mr. Leung would serve as an independent non-executive Director for a term of two years commencing on 1 October 2021 and is subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the Bye-laws.

Ms. Li Sin Ming, Ivy ("**Ms. Li**"), aged 47, has been an independent non-executive Director since 20 June 2017. She is also the chairman of the Audit Committee and a member of the Remuneration Committee and the Nomination Committee. She holds a Bachelor's Degree of Business Administration (Honours) in Accounting from the Hong Kong Baptist University. Ms. Li is a Certified Public Accountant of the Hong Kong Institute of Certified Public Accountants and a fellow of the Association of Chartered Certified Accountants. Ms. Li has over 25 years of accounting and auditing experience. Ms. Li worked in various audit firms and the finance department of several companies. Ms. Li would serve as an independent non-executive Director for a term of two years commencing on 20 June 2021 and is subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the Bye-laws.

Mr. Sy Lai Yin, Sunny ("**Mr. Sy**"), aged 42, has been an independent non-executive Director since 24 September 2018. He is also a member of the Audit Committee, the Remuneration Committee, the Nomination Committee and the Corporate Governance Committee. He graduated from Washington University with a Bachelor's Degree of Science in Business Administration. He was awarded a degree of Master of Science in Business Administration by Washington University in December 2001. He has over five years of experience in accounting and auditing with an international accountancy and professional services firm. Mr. Sy has also been a director of Bradbury Securities Limited, a corporation licensed to carry on Type 1 (dealing in securities) and Type 4 (advising on securities) regulated activities under the SFO since 2008. Mr. Sy Lai Yin, Sunny was appointed as an independent non-executive director, a member of the remuneration committee and a member and the chairman of the audit committee of the board of directors of Chen Lin Education Group Holdings Limited (stock code: 1593) with effect from 7 July 2021. Mr. Sy would serve as an independent non-executive Director for a term of two years commencing on 24 September 2022 and is subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the Bye-laws.

Senior Management

Mr. Lai Kwok Wa ("**Mr. Lai**"), aged 38, joined the Group in June 2012, and is the company secretary and the financial controller of the Company. Mr. Lai has over 15 years of experience in auditing and accounting. Prior to joining the Group, Mr. Lai worked in the audit department of an international accounting firm in Hong Kong. Mr. Lai obtained a Bachelor's Degree of Business Administration in Accounting in 2007 from the City University of Hong Kong. He is a Certified Public Accountant of the Hong Kong Institute of Certified Public Accountants.

REPORT OF THE DIRECTORS

The Directors present their annual report and the audited consolidated financial statements of the Company for the Year.

Principal Activities

The Company is an investment holding company. The Group is principally engaged in the distribution and trading of pharmaceutical products and the provision of marketing and promotion services in the PRC.

Principal Subsidiaries and Associates

Details of the principal subsidiaries and associates as at 31 December 2022 are set out in notes 20 and 38 to the consolidated financial statements respectively.

Results and Appropriations

The results of the Group for the Year are set out in the consolidated statement of profit or loss and other comprehensive income on page 67 of this report.

Dividend

The Board does not recommend the payment of a final dividend for the Year (2021: nil).

Donations

Charitable donations made by the Group during the Year amounted to approximately HK$292,000 (2021: approximately HK$554,000).

Property, Plant and Equipment

Details of movements in the property, plant and equipment of the Group during the Year are set out in note 14 to the consolidated financial statements.

Share Capital

There was no movement in the share capital of the Company during the Year. Details of the share capital of the Company during the Year are set out in note 29 to the consolidated financial statements and the section headed "Share Option Scheme" in this report of the Directors.

Pre-emptive Rights

There is no provision for pre-emptive rights under the bye-laws of the Company ("**Bye-laws**") and the laws of Bermuda, the jurisdiction in which the Company was incorporated, which would oblige the Company to offer new shares on a pro-rata basis to its existing shareholders.

Reserves and Distributable Reserves

Details of movements in the reserves of the Group during the Year are set out in the consolidated statement of changes in equity on page 70 of this report. As at 31 December 2022, the reserves available for distribution to the Company's shareholders were approximately HK$418,934,000 (2021: approximately HK$426,185,000). Further details are set out in note 30 to the consolidated financial statements.

REPORT OF THE DIRECTORS

Business Review

A fair review of the business of the Group during the Year, particulars of important events affecting the Group during the Year, an analysis of the Group's performance using financial key performance indicators, and an indication of likely future developments in the Group's business are provided in the sections headed "Chairman's Statement" and "Management Discussion and Analysis" of this report. Description of the principal risks and uncertainties faced by the Group can be found throughout this report, particularly in the sub-section headed "Principal Risks and Uncertainties" in the section headed "Management Discussion and Analysis" of this report. Also, the capital risk management of the Company can be found in note 31 to the consolidated financial statements. In addition, discussions on the Group's relationships with its key stakeholders, the Group's environmental policies and performance and the Group's compliance with laws and regulations are also provided in the sub-sections headed "Relationships with Stakeholders", "Environmental Policies and Performance" and "Compliance with Applicable Laws and Regulations which have a Significant Impact on the Group" in the section headed "Management Discussion and Analysis" of this report respectively. These discussions form part of this report of the Directors.

Directors

The Directors who held office during the Year and as at the date of this report are:

Executive Directors

Ms. Wang Qiuqin *(Chief Executive Officer)*
Mr. Huo Zhihong
Mr. Chu Xueping

Independent Non-executive Directors

Mr. Leung Chi Kin
Ms. Li Sin Ming, Ivy
Mr. Sy Lai Yin, Sunny

Directors' Service Contracts

Each of Ms. Wang Qiuqin, Mr. Huo Zhihong and Mr. Chu Xueping entered into a service contract with the Company for a term of two years commencing on 27 June 2022, 27 June 2022 and 18 June 2021, respectively. Mr. Leung Chi Kin, Ms. Li Sin Ming, Ivy and Mr. Sy Lai Yin, Sunny entered into a letter of re-appointment with the Company for a term of two years commencing on 1 October 2021, 20 June 2021, and 24 September 2022 respectively. They are all subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the Bye-laws.

Pursuant to Bye-law 84(1) of the Bye-laws, at each annual general meeting one-third of the Directors for the time being (or, if their number is not a multiple of three, the number nearest to but not less than one-third) shall retire from office by rotation provided that every Director shall be subject to retirement at least once every three years. Accordingly, Mr. Huo Zhihong and Mr. Sy Lai Yin, Sunny will retire from office by rotation at the annual general meeting and, being eligible, will offer themselves for re-election at the annual general meeting.

None of the Directors who is being proposed for re-election at the forthcoming annual general meeting of the Company has a service contract with the Company or any of its subsidiaries which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

Independent Non-executive Directors

The Company has received from each of the existing independent non-executive Directors an annual confirmation of his/her independence pursuant to Rule 3.13 of the Listing Rules. The Company considers that each of the independent non-executive Directors is independent.

Directors' and Chief Executive's Interests and Short Positions in Shares, Underlying Shares and Debentures

As at 31 December 2022, the interests and short positions of the Directors and the Chief Executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of the Listed Issuers ("**Model Code**"), were as follows:

Name of Director	Capacity	Number of ordinary shares (Note 2)	Position	Approximate percentage of the total issued shares (Note 1)
Ms. Wang Qiuqin	Beneficial owner	16,600,000	Long	0.99% (Note 2)
Mr. Chu Xueping	Beneficial owner	16,600,000	Long	0.99% (Note 2)

Note 1: The total number of 1,671,846,657 shares of the Company in issue as at 31 December 2022 has been used for the calculation of the approximate percentage.

Note 2: These interests are underlying shares of the Company in respect of share options granted by the Company pursuant to the Scheme (as defined below) adopted by the Company on 25 October 2013. Such underlying shares of the Company had an exercise period from 14 June 2022 to 13 June 2027 with an exercise price of HK$0.287 per share.

Substantial Shareholders' Interests and Short Positions in Shares and Underlying Shares

As at 31 December 2022, the following persons (other than the Directors and the chief executive of the Company) had interests or short positions in the shares or underlying shares of the Company as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO.

(i) Substantial shareholders' interest in shares and underlying shares of the Company

Name of shareholder	Capacity	Number of ordinary shares	Position	Approximate percentage of the total issued shares (Note 1)
Eagle Amber Holdings Limited (Note 2)	Beneficial owner	426,672,000	Long	25.52%
Zhang Jiang (Note 2)	Interest of a controlled corporation	426,672,000	Long	25.52%
Dai Xiaosong (Note 2)	Interest of a controlled corporation	426,672,000	Long	25.52%

Substantial Shareholders' Interests and Short Positions In Shares and Underlying Shares *(Continued)*

(ii) Other persons' interest in shares and underlying shares of the Company

Name of shareholder	Capacity	Number of ordinary shares	Position	Approximate percentage of the total issued shares (Note 1)
Zhou Ling (Note 3)	Beneficial owner and interest of spouse	161,400,000	Long	9.65%
Yang Fang (Note 3)	Beneficial owner and interest of spouse	161,400,000	Long	9.65%
Qian Shenglei	Beneficial owner	119,752,000	Long	7.16%

Note 1: The total number of 1,671,846,657 shares of the Company in issue as at 31 December 2022 has been used for the calculation of the approximate percentage.

Note 2: Eagle Amber Holdings Limited is beneficially owned by Zhang Jiang and Dai Xiaosong as to 35.0% and 35.0% respectively. As such, Zhang Jiang and Dai Xiaosong were deemed to be interested in the 426,672,000 shares of the Company held by Eagle Amber Holdings Limited under Part XV of the SFO.

Note 3: Mr. Zhou Ling beneficially owns 132,188,952 shares of the Company. Ms. Yang Fang beneficially owns 29,211,048 shares of the Company. Mr. Zhou Ling is the spouse of Ms. Yang Fang. Accordingly, Mr. Zhou Ling was deemed to be interested in all the 29,211,048 shares of the Company held by Ms. Yang Fang by virtue of the SFO and Ms. Yang Fang was deemed to be interested in all the 132,188,952 shares of the Company held by Mr. Zhou Ling under Part XV of the SFO.

Save as disclosed above, as at 31 December 2022, the Company has not been notified by any persons (other than the Directors or chief executive of the Company) who had any interests or short positions in the shares or underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO.

Major Customers and Suppliers

For the Year, the Group's five largest customers accounted for approximately 64.8% of the Group's total revenue and the Group's largest customer accounted for approximately 24.3% of the Group's total revenue. For the Year, the Group's four largest suppliers accounted for 100% of the Group's total purchases and the Group's largest supplier accounted for more than 90% of the Group's total purchases.

None of the Directors or any of their close associates, or any shareholder of the Company (which to the knowledge of the Directors owns more than 5% of the Company's issued shares), had any interest in any of the five largest customers or suppliers of the Group for the Year.

Directors' Interest in Competing Business

None of the Directors nor their respective close associates had any interest in a business, apart from the businesses of the Group, which competes or is likely to compete, either directly or indirectly, with the businesses of the Group pursuant to Rule 8.10 of the Listing Rules during the Year.

Directors' Rights to Acquire Shares or Debentures

Save as disclosed in the section headed "Share Option Scheme" in this report of the Directors, at no time during the Year was the Company or any of its subsidiaries, a party to any arrangement to enable the Directors or the chief executive of the Company or their spouse or children under 18 years of age to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

Contracts of Significance

There were no transactions, arrangements or contracts of significance, to which the Company, or any of its subsidiaries was a party and in which any Director (including any person who at any time during the Year was a Director) or an entity connected with a Director is or was materially interested, either directly and indirectly, subsisting at the end of the Year or at any time during the Year.

No contracts concerning the management and administration of the whole or any substantial part of the business of the Group were entered into or existed during the Year.

Share Option Scheme

The Company adopted a share option scheme (the "**Scheme**") on 25 October 2013 to provide the Company with a flexible means of giving incentive to rewarding, remunerating, compensating and/or providing benefits to the eligible persons and for such other purposes as the Board may approve from time to time. Pursuant to the Scheme, the Directors may grant share options to the eligible persons prescribed in the Scheme (including but not limited to directors, employees and consultants of each member of the Group and entity in which a member of the Group holds an equity interest), to subscribe for ordinary shares in the Company for a consideration of HK$1 for each lot of share options granted. Share options granted should be accepted within 21 days from the date of grant. The exercise price of the share options is determined by the Directors, and shall be at least the highest of (i) the closing price of the Company's ordinary shares on the date of grant; (ii) the average closing price of the Company's ordinary shares for the five business days immediately preceding the date of grant; and (iii) the nominal value of an ordinary share. The maximum number of ordinary shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Scheme and any other share option schemes of the Company shall not exceed 30% (or such higher percentage as may be allowed under the Listing Rules) of the total number of ordinary shares of the Company in issue from time to time.

The total number of ordinary shares issued and to be issued upon exercise of the options granted to each individual under the Scheme and any other option schemes of the Company (including exercised, cancelled and outstanding options) in any 12-month period shall not exceed 1% of the total number of ordinary shares of the Company in issue.

As at 1 January 2022, 31 December 2022 and the date of this report, the maximum number of ordinary shares of the Company which could be issued upon exercise of all options granted or, as the case may be, that may be granted under the existing Scheme limit is 166,579,200 ordinary shares of HK$0.05 each, representing approximately 9.96% of the issued share capital of the Company.

The Scheme shall be valid and effective for a period of 10 years commencing on 25 October 2013, being the date of its adoption. The remaining life of the Scheme is approximately 0.5 year.

There were no share options outstanding under the Scheme as at 31 December 2021 and no share options were granted by the Company under the Scheme during the years ended 31 December 2021.

Share Option Scheme *(Continued)*

During the Year, the Company granted share options to two Directors and certain employees of the Group which entitled the holders thereof to subscribe for an aggregate of 143,200,000 ordinary shares of the Company at an exercise price of HK$0.287 per share. The closing price of the shares of the Company on 13 June 2022, being the date immediately before the date of grant, was HK$0.275 per share. Consideration received by the Group for the grant of the share options was HK$1.00 paid by each grantee upon acceptance of the share options granted. The share options granted were not exercised nor cancelled by the Company under the Scheme during the Year. As all such options were granted prior to the prevailing Listing Rules governing share scheme having become effective on 1 January 2023, all such options are not subject to any vesting period nor performance target.

The number of ordinary shares that may be issued in respect of options granted under all scheme(s) of the Company during the year ended 31 December 2022 is 143,200,000 Shares, and divided by the weighted average number of Shares of 1,671,846,657 Shares for the year ended 31 December 2022, is 8.6%.

The options were granted on 14 June 2022. The estimated fair value of the options granted on that date is approximately HK$10,393,000. The fair value of share options granted was priced using a binomial option pricing model which requires the management's estimates of and assumptions on significant calculation inputs, including the estimated life of share options granted, the volatility of share price and expected dividend yield. Changes in the subjective input assumptions could materially affect the fair value estimate. Details of the grant of share options by the Company are disclosed in the announcement of the Company dated 14 June 2022.

Particulars of the Scheme are set out in note 33 to the consolidated financial statements.

Senior Management's Remuneration

The annual remuneration of the members of the senior management (other than Directors) by bands for the Year is set out below:

	Number of senior management (other than Directors)
HK$2,000,000 to HK$2,500,000	1

The remuneration of each of the Directors for the Year is set out in note 11 to the consolidated financial statements.

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.

Corporate Governance

Principal corporate governance practices adopted by the Company are set out in the section headed "Corporate Governance Report" of this report.

Related Party Transactions

During the Year, the related party transactions in relation to the compensation of key management personnel who are Directors or chief executive of the Company in 2022 as disclosed in note 37(i) and 37(ii) to the consolidated financial statements respectively fell under the definition of "connected transaction" or "continuing connected transaction" (as the case may be) and they are fully exempt under Chapter 14A of the Listing Rules. The Directors confirm that the Company has complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules.

Save as disclosed above, there were no other transactions which constituted connected transaction(s) or continuing connected transaction(s) of the Company under Chapter 14A of the Listing Rules during the Year.

Subsequent Events

Details of the subsequent events after the end of the Year are set out in note 39 to the consolidated financial statements.

Emolument Policy

The emolument policy of the employees of the Group is devised by the Board on the basis of the positions, duties and performance of the employees.

The emoluments of the Directors are decided by the Board, having regard to the Group's operating results, individual performances and comparable market statistics.

Retirement Benefit Scheme

Details of the retirement benefit scheme are set out in note 34 to the consolidated financial statements.

Equity-linked Agreements

Other than the Scheme as disclosed under the section headed "Share Option Scheme" in this report of the Directors and note 33 to the consolidated financial statements, no equity-linked agreements were entered into by the Company during the Year or subsisted at the end of the Year. The disclosure in the above section and note to the consolidated financial statements forms part of this report of the Directors.

Permitted Indemnity

Subject to applicable laws, every Director shall be entitled to be indemnified out of the assets and profits of the Company against all actions, costs, charges, losses, damages and expenses which he/she may sustain or incur in the execution of his/her duties or otherwise in relation thereto pursuant to the Bye-laws. The Company has maintained appropriate directors and officers liability insurance for all the Directors. The relevant provisions in the Bye-laws and the directors and officer's liability insurance are currently in force and were in force throughout the Year.

Sufficiency of Public Float

Based on information that is publicly available to the Company and within the knowledge of the Directors, as at the latest practicable date prior to the issue of this report, the Company maintained a sufficient prescribed public float of more than 25% of the Company's issued shares as required under the Listing Rules.

Auditor

The Company appointed Moore Stephens CPA Limited ("**Moore Stephens**") as the auditor of the Company for the Year. Moore Stephens will retire and, being eligible, offer itself for re-appointment at the forthcoming annual general meeting. A resolution to re-appoint Moore Stephens and to authorise the Directors to fix its remuneration will be proposed at the forthcoming annual general meeting.

Dividend Policy

Policy on declaration of dividend of the Company is in place. According to the dividend policy, when determining whether to declare any dividend in the future and the amount of dividend to be declared, the Company shall consider various factors, including but not limited to, the Group's level of cash and retained earnings, the actual and projected financial performance, the projected level of capital expenditure and other investment plans and restrictions on payment of dividends imposed on the Group by its financing arrangement (if any). The Company does not have any pre-determined dividend distribution proportion or distribution ratio. The Board will review the dividend policy from time to time.

Review By Audit Committee

The audited consolidated financial statements of the Company for the Year have been reviewed by the Audit Committee.

Audit Qualification for the year ended 31 December 2022

Details of the Audit Qualification and its impact on the Company's financial position

As set out in the "Independent Auditor's Report" on pages 60 to 66 of this report, the audit qualification is related to the disclosure of related party transactions and its related balances of the acquisition of 50% interest in Saike International and the acquisition of the then 15% interest in WinHealth International by the Group in 2015 and 2017 respectively (collectively, the "**Acquisitions**") as disclosed in the notes 19 to 20 to the consolidated financial statements ("**Audit Qualification**").

Up to the date on which the audited consolidated financial statements of the Company for the year ended 31 December 2022 were authorised for issued, the IBC investigation into the issues relating to the Acquisitions and the matters alleged in the Petition in relation to the Acquisitions were still ongoing and no conclusive finding or conclusion had been reached. Moore Stephens CPA Limited, the auditor of the Company, expressed a qualified opinion on the audited consolidated financial statements of the Company for the year ended 31 December 2022 as they were unable to obtain sufficient appropriate audit evidence to satisfy themselves as to the matters which are the subject matters of the IBC investigation and the matters alleged in the Petition in relation to the Acquisitions, including whether the Acquisitions were in fact related party transactions. As advised by the auditor of the Company, the Audit Qualification is only related to the completeness and accuracy of the disclosure of related party transactions and its related balances relating to the acquired equity interests in the relevant entities involved in the Acquisitions.

The latest status of the IBC investigation and the Petition

As far as the IBC investigation is concerned, up to the date of this report, the IBC investigation is still ongoing. Subject to and pending the disposal of the Petition the hearing date of which has reserved from 30 July to 7 August 2024, the IBC investigation is expected to be completed by 31 December 2024.

The management's position and the action plan of the Company

The management of the Company understands that the Audit Qualification is a result of limitation of scope about the completeness of disclosure of related party transactions and balances in the audited consolidated financial statements of the Company for the year ended 31 December 2022 as the Company's auditor was unable to obtain sufficient appropriate audit evidence to satisfy themselves as to the matters which are the subject matters of the IBC investigation and the matters alleged in the Petition in relation to the Acquisitions, including whether the Acquisitions were in fact related party transactions. The management of the Company has reviewed the Audit Qualification and is in agreement with the Company's auditor with respect to the Audit Qualification.

After the publication of the 2018 annual report of the Company, the Company engaged legal counsel to provide advice on whether any connected person (as defined in the Listing Rules) was involved in the Acquisitions for the purpose of assisting the IBC in carrying out the investigation. Grant Thornton Advisory Services Limited was appointed as the independent investigator to the IBC to assist in the investigation. The Company has been rendering support and assistance in the investigation conducted by the Independent Investigator. The Company also engaged legal counsel to represent it in the Petition and handle all matters relating to the Petition.

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. The Company has enhanced the relevant internal control policies and procedures as recommended by BTCGL. Based on the internal control follow-up review performed by BTCGL with an observation period of 1 January 2021 to 31 January 2022, BTCGL is of the view that the Group has implemented the recommendations made by the BTCGL and no further deficiencies and/or weaknesses are identified during the internal control follow-up review. BTCGL is not aware of any material deficiencies and/or irregularities during the course of the internal control follow-up review. The Company has established internal control system to manage and monitor the process of investments in companies, conflict of interest, corporate governance, business transactions and risk assessment.

Audit Qualification for the year ended 31 December 2022 *(Continued)*

The management's position and the action plan of the Company *(Continued)*

As the Group's remaining equity interests in the entities acquired under the Acquisitions were disposed of during this Year, and the IBC investigation and the Petition were still ongoing and the outcome of the Petition and the conclusion of the IBC investigation are uncertain, the auditor of the Company was unable to obtain sufficient appropriate audit evidence to satisfy themselves on completeness and accuracy of the disclosure of related party transactions and its related balances in respect of such remaining equity interests and/or its disposal during this Year. Accordingly, the Audit Qualification remained unsolved in this Year.

The Group has taken and will continue to take measures to remove the Audit Qualification as soon as practicable. The management of the Company has reviewed the Audit Qualification and is in agreement with the Company's auditor with respect to the Audit Qualification.

Audit Committee's view on the Audit Qualification

The Audit Committee has reviewed the Audit Qualification and also the management's position and assessment and measures undertaken by the Group to address the Audit Qualification. On 24 March 2023, the Audit Committee also had discussions with the Company's auditor, after which the Audit Committee has comprehended that the cause of the Audit Qualification is, as mentioned above, the insufficient appropriate audit evidence obtained by the Company's auditor to ascertain, among others, whether the Acquisitions were in fact related party transactions which would thereby impact the related balances in the consolidated financial statements of the Company in subsequent years up to this Year. The Audit Committee is in agreement with the management of the Company with respect to the Audit Qualification. The Audit Committee's view is based on (i) a review of the management's position and assessment and measures undertaken by the Group to address the Audit Qualification; (ii) a review of the latest status of the IBC investigation and the Petition; and (iii) discussions between the Audit Committee, the Company's auditor and the management of the Company regarding the Audit Qualification.

Next financial statements

As advised by the auditor of the Company, they concurred with the views of the Directors and the audit committee of the board of Directors that the impact and relevance in respect of (1) the completeness and accuracy of the disclosure of related party transactions and its related balances; and (2) the IBC investigation and the Petition even still ongoing, is insignificant to the Group's consolidated financial statements for the year ending 31 December 2022 and onwards. Therefore, the Audit Qualification would be removed in the financial year commencing from 1 January 2023.

The Company will assist the IBC in expediting the investigation and try its best endeavour to complete the investigation with the assistance of the Independent Investigator as soon as practicable. The Company will also continue to seek legal advice in respect of the Petition with an aim to resolve the matters in relation to the Petition as soon as practicable.

On behalf of the Board

Wang Qiuqin
Chairman, Chief Executive Officer and Executive Director

29 March 2023

CORPORATE GOVERNANCE REPORT

The Board is pleased to present this Corporate Governance Report for the Year.

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 C.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.

Directors' Securities Transactions

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") set out in Appendix 10 to the Listing Rules as the Company's code of conduct regarding Directors' securities transactions. Having made specific enquiries of all Directors, all the Directors confirmed that they had complied with the required standard set out in the Model Code throughout the Year.

Integrity

The Group strives to maintain high standards of business ethics and corporate governance across all activities and operations of the Group. The Directors, senior management, and employee are all required to act lawfully, ethically, and responsibly. The staff handbook of the Group sets out the requires standards and norms, including the code of conduct, for all staff. Frequent training is conducted from time to time to reinforce the required standards and norms in respect of ethics and integrity. The Group also established and implemented the anti-corruption policy and the whistleblowing policy to enhance the awareness of internal corporate justice.

Commitment

The Group's strategy in business development and management is to achieve long-term, steady and sustainable growth while taking due considerations into environmental, social and governance aspects.

CORPORATE GOVERNANCE REPORT

Board of Directors

During the Year, the Board comprised the following members:

Executive Directors
Ms. Wang Qiuqin *(Chairman and Chief Executive Officer)*
Mr. Huo Zhihong
Mr. Chu Xueping

Independent Non-Executive Directors
Mr. Leung Chi Kin
Ms. Li Sin Ming, Ivy
Mr. Sy Lai Yin, Sunny

As at the date of this report, the Board comprises six members, three of which are executive Directors, namely, Ms. Wang Qiuqin who is the Chairman and the Chief Executive Officer, Mr. Huo Zhihong and Mr. Chu Xueping. Three other members are independent non-executive Directors, namely Mr. Leung Chi Kin, Ms. Li Sin Ming, Ivy and Mr. Sy Lai Yin, Sunny. There is no relationship among the members of the Board including financial, business, family or other material/ relevant relationship. The biographical details of the Directors are set out in the section headed "Biographical Details of the Directors and Senior Management" on pages 23 and 24 of this report.

All Directors are subject to retirement by rotation and re-election at the annual general meeting of the Company at least once every three years in accordance with the bye-laws of the Company as amended from time to time and the requirements of the Listing Rules.

The Board is responsible for formulating the Group's business strategies and overall policies, and monitoring the performance of the management and corporate governance functions. The executive Directors are delegated with the power to develop business strategies and to execute and implement the policies in the day-to-day business operation of the Group. The independent non-executive Directors provide their professional advice to the Group whenever necessary. The management is responsible for executing the Group's business strategies and monitoring the day-to-day business operation of the Group.

Composition of the Board, including the names of the independent non-executive Directors, is disclosed in all corporate communications to the shareholders of the Company.

All Directors have full and timely access to all the information and accounts of the Group. The Directors may seek independent professional advice in appropriate circumstances, at the expense of the Company. The Company will, upon request, provide separate independent professional advice to the Directors to assist them to discharge their duties to the Company. The Company has arranged appropriate insurance cover in respect of legal action against the Directors.

Attendance of Directors at Meetings

The attendance of the Directors at various meetings held during the Year are set out below:

	Number of meetings attended/held						
	Annual General meeting	Special General meetings	Board meetings	Audit Committee meetings	Nomination Committee meeting	Remuneration Committee meeting	Corporate Governance Committee meeting
Mr. Huo Zhihong	1/1	1/1	20/20	N/A	N/A	N/A	1/1
Ms. Wang Qiuqin *(Chairman and Chief Executive Officer)*	1/1	1/1	20/20	N/A	N/A	N/A	1/1
Mr. Chu Xueping	1/1	1/1	20/20	N/A	N/A	N/A	N/A
Mr. Leung Chi Kin	1/1	1/1	20/20	3/3	1/1	1/1	N/A
Ms. Li Sin Ming, Ivy	1/1	1/1	20/20	3/3	1/1	1/1	N/A
Mr. Sy Lai Yin, Sunny	1/1	1/1	20/20	3/3	1/1	1/1	1/1

Board Meetings

Apart from the said meetings, matters requiring Board approval were also arranged by means of circulation of written resolutions of all Board members.

Directors' Continuous Professional Development

All Directors confirmed that they had complied with code provision C.1.4 of the CG Code during the Year by participating in continuous professional development. The Company has from time to time provided training materials about the latest developments in the laws, rules and regulations relating to Directors' duties and responsibilities to all Directors. All Directors had been confirmed that he/she had read the training materials. It is the Company's practice to have all Directors to participate in continuous professional development to develop and refresh their knowledge and skills. This is to ensure that their contribution to the board remains informed and relevant. The Company has been being responsible for arranging and funding suitable training, placing an appropriate emphasis on the roles, functions and duties of a director of a listed company.

Chairman and Chief Executive Officer

During the Year, Ms. Wang Qiuqin was the Chairman of the Board and the Chief Executive Officer of the Company during the Year and up to the date of this report. Such practice deviates from Code Provision C.2.1 which stipulates that the roles of the chairman and chief executive officer should be separate and should not be performed by the same individual. In view of Ms. Wang Qiuqin's extensive experience in the industry and deep understanding of the Group's businesses, the Board believes that vesting the roles of both Chairman and Chief Executive Officer upon Ms. Wang Qiuqin provides the Group with strong and consistent leadership, allows for more effective planning and execution of long-term business strategies and enhances efficiency in decision-making. As all major decisions are made in consultation with members of the Board and relevant Board committees, and there are independent non-executive Directors on the Board offering independent perspectives, the Board is of the view that there are adequate safeguards in place to ensure sufficient balance of powers within the Board.

Company Secretary

Mr. Lai Kwok Wa is the company secretary of the Company. The company secretary is responsible for facilitating the Board process, including the communications among the Board members and shareholders of the Company and advising the Board on corporate governance matters. The company secretary has confirmed that he has taken not less than 15 hours of relevant professional training during the Year.

Independent Non-Executive Directors

The Company has three independent non-executive Directors, one of them has appropriate professional qualification or accounting or related financial management expertise. The Company has received a written confirmation of independence from each of the existing independent non-executive Directors pursuant to the requirement of Rule 3.13 of the Listing Rules. The Company considers that each of the independent non-executive Directors is and has remained independent in accordance with the independence guidelines set out in the Listing Rules. During the Year, the Chairman held one meeting with the independent non-executive Directors without the presence of other Directors and All Directors have access to the advice and services of the Company Secretary to ensure that the Board procedures and all applicable laws, rules and regulations, are followed.

Term of Appointment of Non-Executive Directors

All the independent non-executive Directors have been appointed for a term of two years.

Mr. Leung Chi Kin, Ms. Li Sin Ming, Ivy and Mr. Sy Lai Yin, Sunny entered into a letter of re-appointment with the Company for a term of two years commencing on 1 October 2021, 20 June 2021 and 24 September 2022 respectively.

Remuneration Committee

The Board has established a remuneration committee of the Board ("**Remuneration Committee**") with its role and functions set out in its specific written terms of reference in accordance with the provisions set out in the CG Code, which are published on the websites of the Stock Exchange and the Company. The principal duties of the Remuneration Committee are to formulate the Company's remuneration policy and to make recommendations on the remuneration packages of the Directors and senior management of the Company to the Board for approval. The Company's remuneration policy is based on the positions, duties and performances of the employees. The employees' remuneration varies according to their positions, which may include salary, overtime allowance, bonus, shares option and various subsidies. The Remuneration Committee is also responsible for reviewing and/or approving matters relating to share option schemes of the Company. The performance appraisal system varies according to the positions of the employees. The performance appraisal is supervised by the performance management committee.

During the Year and up to the date of this report, the Remuneration Committee comprised the following Directors:

Name of Director	Position
Mr. Leung Chi Kin *(Chairman)*	Independent non-executive Director
Ms. Li Sin Ming, Ivy	Independent non-executive Director
Mr. Sy Lai Yin, Sunny	Independent non-executive Director

During the Year, one meeting of the Remuneration Committee was held to make recommendation to the Board on the Company's policy and structure for all remuneration of the Directors and the senior management of the Company and recommend the Board on the remuneration packages of all executive Directors, non-executive Directors and the senior management of the Company. All members of the Remuneration Committee attended the meeting during the Year.

Remuneration Policy

The emolument of the Group's employees is mainly determined based on (i) the prevailing market level of remuneration, (ii) the individual performance and (iii) their working experience.

The Company formulates the remuneration policy to retain and attract the executive staff to achieve the success of the Group and to encourage the executive staff to pursue appropriate growth strategies while taking into account the performance of individual staff and their job duties and responsibilities. The Group should conduct a performance review and formal assessments at least once a year to review the Group employees' overall performance, achievements, and room for improvement.

The remuneration policies of the executive Directors and senior management of the Company are determined with reference to various factors including (i) qualification, performance, and personal abilities; (ii) the position and duty of the executive; (iii) the prevailing market level of remuneration; and (iv) the financial performance of the Group. The Group should conduct an annual review in order to offer a reasonable remuneration package to attract, retain and motivate the Directors and senior management to serve the Group.

The Directors' fee of independent non-executive Directors is determined with reference to their respective duty and responsibility in the Company and is reviewed annually.

Nomination Committee

The Board has established a nomination committee of the Board ("**Nomination Committee**") with its role and functions set out in its specific written terms of reference in accordance with the provisions set out in the CG Code, which are published on the websites of the Stock Exchange and the Company.

During the Year and up to the date of this report, the Nomination Committee comprised the following Directors:

Name of Director	Position
Mr. Leung Chi Kin *(Chairman)*	Independent non-executive Director
Ms. Li Sin Ming, Ivy	Independent non-executive Director
Mr. Sy Lai Yin, Sunny	Independent non-executive Director

The major responsibilities of the Nomination Committee are to review the structure, size and composition of the Board, formulate and implement the policy for nominating candidates for election by shareholders at general meetings of the Company (either to fill a casual vacancy or as an addition to the Board) and assess the independence of independent non-executive Directors, propose the re-election of retiring Directors and the appointment or re-appointment of and succession planning for the Directors. All Directors' appointments will be based on meritocracy, having due regard for the benefits of diversity on the Board. Details of the board diversity policy are set out in the section headed "Board Diversity Policy" below. The process for the nomination of Directors is led by the Nomination Committee, which has been made on a merit basis. The Company also has a board diversity policy (the "**Board Diversity Policy**") and a nomination policy (the "**Nomination Policy**") in place. The Nomination Policy aims at applying the principles of the Board Diversity Policy and other provisions under the Listing Rules to improve transparency of the process and criteria adopted by the Nomination Committee in selecting and recommending candidates to the Board on the appointment or reappointment of Directors (including INED(s)).

Nomination Committee *(Continued)*

In identifying candidates qualified to become members of the Board, the Nomination Committee will give adequate consideration to the Board Diversity Policy and the Nomination Policy. While all Board appointments will continue to be made on a merit basis, a number of factors will also be taken into account, including but not limited to age, skills, regional and industry experience, cultural and educational background, race, gender and other qualities so as to ensure that the Board boasts a balance of skills, experiences as well as a diversity of perspectives. In forming its perspective on diversity, the Nomination Committee will also take into account factors based on the Company's own business model and specific needs from time to time.

According to the bye-laws of the Company, any Director appointed by the Board as an addition to the Board or to fill a casual vacancy shall be subject to re-election by the shareholders of the Company after appointment. All Directors are subject to retirement by rotation and re-election at the annual general meeting of the Company at least once every three years.

During the Year, two meetings of the Nomination Committee were held to review the structure and composition of the Board and make recommendations to the Board on the respective appointment of Ms. Wang Qiuqin and Mr. Chu Xueping as the Chairman and an executive Director. All members of the Nomination Committee attended the meetings during the Year.

Board Diversity Policy

The Board adopted a board diversity policy setting out the approach to achieve diversity on the Board. The Company considers that a diversity of board members can be achieved through consideration of a number of aspects, including but not limited to gender, age, cultural and educational background, professional experience, skills and knowledge. In forming its perspective on diversity, the Company will also take into account factors based on its own business model and specific needs from time to time. The Company endeavours to ensure that the Board has an appropriate balance of skills, experience and diversity of perspectives that are required to support the execution of its business strategy and in order for the Board to be effective. All Directors' appointments will be based on meritocracy and candidates will be considered against objective criteria, having due regard to the benefits of diversity on the Board.

The Nomination Committee has a primary responsibility of identifying suitably qualified candidates to become members of the Board and, in carrying out this responsibility, will give adequate consideration to this diversity policy. The Nomination Committee will review the board diversity policy, as appropriate, to ensure its effectiveness. The Nomination Committee will discuss any revisions that may be required, and recommend any such revisions to the Board for consideration and approval.

The Board considered that independent non-executive Directors can enhance the effectiveness and decision-making process of the Board by providing independent views, objective judgment and constructive challenge to the Board and management of the Group.

The Company is committed to gender equality by providing fair recruitment, training and promotion opportunities for all employees throughout the Group for the Year. Having reviewed the Board composition, the Board recognises the importance and benefits of gender diversity at the Board level and shall continue to take initiatives to identify female candidate(s) to enhance the gender diversity among the Board members.

Nomination Policy

In selecting and evaluating candidates for directorship of the Company, the Nomination Committee may make reference to the directors' nomination policy of the Company which contains the directors' nomination procedures. The directors' nomination policy aims at applying the principles of the board diversity policy and other provisions under the Listing Rules to improve transparency of the nomination process and criteria adopted by the Nomination Committee in selecting and recommending candidates as Directors. Under the directors' nomination policy, the Nomination Committee will review the perspectives, skills and experience of the candidate and determine:

(a) whether (and how) the candidate can contribute his/her perspectives, skills and experience to the Board; and

(b) whether (and how) the candidate can contribute to the diversity of the Board under the principles of the board diversity policy.

Any Director may nominate a person for appointment or election by the Board as a Director or by the Shareholders at the general meeting upon first obtaining the following information:

(a) a written consent given by the candidate to be appointed, elected or re-elected (as the case may be) as a Director stating his/her consent for acting as a Director and the supply and disclosure of his information as required under the Listing Rules and other applicable laws and regulations;

(b) details of the character, qualifications, background, experience and other business interests of the candidate for the purpose of Rules 3.09, 3.10 and 3.12 of the Listing Rules, together with supporting documents evidencing the same (if applicable);

(c) (for a candidate whom may be nominated as an independent non-executive Director) details assessing the candidate's independence under Rule 3.13 of the Listing Rules and Code Provisions A.3.3 (Recommended Best Practice) and together with supporting documents evidencing the same (if applicable);

(d) details of the candidate's information, together with supporting documents evidencing the same (if applicable), as required to be disclosed under Rule 13.51(2) of the Listing Rules;

(e) (for a candidate whom may be nominated as an independent non-executive Director at a general meeting) explanation from the candidate for information required under Code Provision A.5.5 of the CG Code;

(f) (for a candidate whom may be nominated to be appointed as a member of the Audit Committee) details assessing the candidate's independence under Code Provision C.3.2 of the CG Code, together with supporting documents evidencing the same; and

(g) up-to-date contact details of the candidate.

Upon the candidate's fulfilment of the above criteria, the Nomination Committee shall convene a meeting to discuss and consider the recommendation of the candidate to the Board for appointment as a Director.

Audit Committee

The Board has established an audit committee of the Board ("**Audit Committee**") with written terms of reference in accordance with the provisions set out in the CG Code, which are published on the websites of the Stock Exchange and the Company. The principal duties of the Audit Committee are to review the Company's financial statements, accounts and interim and annual results and to provide advice and comments thereon to the Board. The Audit Committee is also responsible for reviewing and supervising the Group's financial reporting, risk management and internal control procedures.

During the Year and up to the date of this report, the Audit Committee comprised the following Directors:

Name of Director	Position
Ms. Li Sin Ming, Ivy *(Chairperson)*	Independent non-executive Director
Mr. Leung Chi Kin	Independent non-executive Director
Mr. Sy Lai Yin, Sunny	Independent non-executive Director

The Audit Committee held three meetings during the Year. During the meetings, the Audit Committee reviewed the financial results of the Group for the year ended 31 December 2021 and the six months ended 30 June 2022, financial reporting, risk management and internal control systems of the Group and assessed the need to set up an internal audit function of the Company. All meetings were convened with the presence of the Company's external auditor so that the members of the Audit Committee could exchange their views and concerns on the financial reporting process of the Group with the auditor of the Company. All members of the Audit Committee attended the meetings during the Year.

Corporate Governance Committee

The Board has established the Corporate Governance Committee with written terms of reference in accordance with the provisions set out in the CG Code and Corporate Governance Report contained in Appendix 14 to the Listing Rules, which are published on the website of the Company.

Its primary functions are (i) to develop and review the Company's policies and practices on corporate governance and make recommendations to the Board; (ii) to review and monitor the training and continuous professional development of Directors and senior management of the Group; (iii) to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements; (iv) to develop, review and monitor the code of conduct and compliance manual (if any) applicable to the Directors and employees of the Group; (v) to review the Company's compliance with the CG Code and disclosure in the Corporate Governance Report as required under Appendix 14 to the Listing Rules; and (vi) to consider, review and decide other matters, as authorised by the Board.

Corporate Governance Committee *(Continued)*

During the Year and up to the date of this report, the Corporate Governance Committee comprised the following Directors:

Name of Director	Position
Ms. Wang Qiuqin *(Chairman)*	Executive Director
Mr. Huo Zhihong	Executive Director
Mr. Sy Lai Yin, Sunny	Independent non-executive Director

The Corporate Governance Committee held one meeting during the Year and reviewed (i) the Company's policies and practices on corporate governance; (ii) the training and continuous professional development of Directors and senior management of the Group; (iii) the Company's policies and practices on compliance with legal and regulatory requirements; (iv) the code of conduct and compliance manual applicable to the Directors and employees of the Group; and (v) the Company's compliance with the then prevailing CG Code and disclosure in the Corporate Governance Report as required under the then prevailing Appendix 14 to the Listing Rules and the Company's policies which provide guidance to the Directors, senior management and relevant employees of the Group in handling confidential information and monitoring information disclosure. All members of the Corporate Governance Committee attended the meeting during the Year.

Corporate Governance Functions

The Board and the Corporate Governance Committee have reviewed the Company's policies and practices on corporate governance and compliance with the CG Code applicable during the Year, reviewed and monitored the training and continuous professional development of the Directors and senior management of the Group and reviewed and monitored the Company's policies and practices on compliance with legal and regulatory requirements during the Year.

Accountability and Audit

The Directors acknowledge their responsibility for preparing the financial statements of the Group which give a true and fair view of the state of affairs of the Group and of the profit and cash flows for the Year. The Directors have prepared the financial statements of the Group on a going concern basis, and have applied appropriate accounting policies consistently, in accordance with applicable disclosure requirements under the Listing Rules and pursuant to the relevant statutory requirements.

The statement issued by the auditor of the Company, Moore Stephens CPA Limited, regarding their reporting responsibilities is set out in the section headed "Independent Auditor's Report" on pages 60 to 66 of this annual report.

Internal Controls and Risk Management

The Board acknowledges its responsibility for the internal control of the Group, including risk management, and setting up appropriate policies having regard to the objectives of the Group and the review of the effectiveness of the internal control system, including risk management of the Group. The system of internal control is designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable but not absolute assurance against material misstatement or loss. Controls are monitored by management review on an on-going basis. The Group's internal control systems and risk management systems have been developed with the following features and processes: Management (1) identifies significant risks in the Group's operational environment that may impact the business of the Group; (2) evaluates the impacts of those significant risks identified and the likelihood of the significant risks occurrence; (3) determines the risk management strategies and internal control processes to mitigate the risks; (4) performs on-going monitor and review of the effectiveness of the risk management strategies and internal control processes; and (5) reports to the Board on all findings regularly. The Board (1) determines the Group's risks tolerance level; and (2) oversees the Group's overall design and implementation on risk management and internal control systems.

In order to enhance the Group's system of handling inside information and ensure that inside information is handled and disseminated properly and in accordance with the applicable laws and regulatory requirements, the Group adopts and implements an inside information policy and procedures. Certain reasonable measures have been taken from time to time to ensure that proper safeguards exist to prevent a breach of a disclosure requirement in relation to the Group, which include:

- the access of information is restricted to the Board and a limited number of employees on a need-to-know basis. Employees who are in possession of inside information understand their obligations to keep it confidential under the Group's inside information policy and procedures; and

- the Board would seek independent professional advice to ensure that the Company complies with the disclosure requirements, when appropriate.

The Board has engaged an independent professional firm to review the effectiveness and adequacy of the internal control systems of the Group, covering significant operating cycles for the Year. Such review is conducted annually. The scope of the review has been previously determined and approved by the Board and the Audit Committee. The independent professional firm has reported major findings and areas of improvement to the Board. All the recommendations have been properly followed up by the Group to ensure that they will be implemented within a reasonable period of time. The Board is of the view that the Group's current risk management and internal control systems which cover all material controls, including financial, operational and compliance controls, are adequate and effective throughout the Year. The Board, through the Audit Committee, reviewed the adequacy of resources, staff qualifications and experience, training programmes, and budget of the Group's accounting and financial reporting functions during the Year, and considered that such systems are effective and adequate.

The Board and the Audit Committee have conducted an annual review on the need of setting up an internal audit function and having taken into account the scale of the Group, the Board and the Audit Committee have considered that the setting up of an internal audit function was not necessary for the time being and the Board might consider engaging external services provider to perform the internal audit function in future.

Auditor's Remuneration

The auditor of the Company, Moore Stephens CPA Limited, provided statutory audit services and non-audit services to the Group for the Year. The Audit Committee is responsible for making recommendations to the Board on the appointment, re-appointment, removal and remuneration of the external auditor.

Fees paid or payable by the Group to the Company's auditor for the Year are set out as follows:

Type of services provided	Fees paid/payable
Audit services	HK$1,450,000
Non-audit services	
Letter on the working capital sufficiency statement	HK$130,000

Constitutional Documents

There had been no changes to the Bye-laws during the year. The existing version of the Bye-laws is posted on the designated website of the Stock Exchange (www.hkexnews.hk) and the website of the Company (www.newraymedicine.com).

The Board proposed to seek approval from the Shareholders at the 2023 AGM for the amendments to the Bye-laws in order to (i) bring the Bye-laws in line with the relevant requirements of the applicable laws of Bermuda and the Listing Rules and (ii) make some other housekeeping improvements. Details of such proposed amendments will be published in the circular to be despatched to the Shareholders.

Communication with Shareholders and Investors

Shareholders Communication Policy

The Company considers that effective communication with the shareholders of the Company and stakeholders is essential for enhancing investor relations and understanding of the Group's business, performance and strategies. The Company is committed to enhancing long-term shareholder value through regular communication with its shareholders.

The Company maintains an ongoing dialogue with the shareholders and in particular, through annual general meetings and general meetings. In respect of each matter to be considered at the annual general meeting and the general meetings. The Chairman of the Board and the representatives of the Company will be available at the annual general meeting and the general meeting to meet with the shareholders and answer their enquiries. The Company will also invite representatives of the auditor of the Company to attend the annual general meeting of the Company to answer shareholders' questions about the conduct of the audit, the preparation and content of the auditor's report and the auditing matters.

In addition, the Company provides information in relation to the Group to the shareholders of the Company and investors in a timely manner through a number of formal channels, including publication of interim and annual reports, announcements and circulars. Such published documents together with the corporate information of the Group are also available on the Company's website (www.newraymedicine.com). The Company continues to enhance communication and relationship with Shareholders and investors. Designated management of the Company maintains regular dialogue with institutional investors and analysts to keep them informed of the Group's developments.

Communication with Shareholders and Investors *(Continued)*

Shareholders Communication Policy *(Continued)*

Subject to applicable laws and regulations, including the Listing Rules and the Bye-laws as amended from time to time, shareholders of the Company may convene a general meeting or put forward proposals in accordance with the following provisions:

1. One or more shareholders holding, at the date of deposit of the requisition, not less than one-tenth of the paid-up capital of the Company having the right of voting at general meetings can deposit a written request to convene a special general meeting at the principal place of business of the Company in Hong Kong for the attention of the Board or the Company Secretary.

2. The written request must state the name of the shareholders concerned, their respective shareholdings, the objects of the meeting, including details of the business(es) and resolutions proposed to be considered and approved at the meeting, signed by the shareholders concerned.

3. The request will be verified by the Company's Branch Share Registrar and upon their confirmation that the request is proper and in order, the Company Secretary will ask the Board to convene a special general meeting by serving sufficient notice in accordance with the statutory requirements to all the shareholders. On the contrary, if the request has been verified as not in order, the shareholders concerned will be advised of this outcome and accordingly, a special general meeting will not be convened as requested.

4. If within 21 days of such deposit of the requisition, the Board fails to proceed to convene such meeting, the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

5. The notice period to be given to the shareholders in respect of the special general meeting varies according to the nature of the proposal. For notice of the special general meeting at which the passing of a special resolution is to be considered, such notice shall be arranged to be sent to the shareholders at least 21 clear days or 10 clear business days (whichever is longer) before such special general meeting.

Procedures for shareholders sending enquiries to the Board

1. Enquiries about shareholdings

Shareholders should direct their enquiries about their shareholdings to the Company's Branch Share Registrar, Tricor Investor Services Limited, via its online holding enquiry service at www.tricoris.com, or send email to is-enquiries@hk.tricorglobal.com or go in person to its public counter at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong.

2. Enquiries about corporate governance or other matters to be put to the Board and the Company

The Company does not normally deal with verbal or anonymous enquiries. Shareholders of the Company may send written enquiries to the Company, for the attention of the Board or Company Secretary, by mail to Room 911B, 9th Floor, Tower 1, Silvercord, No. 30 Canton Road, Kowloon, Hong Kong. Shareholders of the Company may call the Company at (852) 2152 2030 for any assistance.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

This Environmental, Social and Governance ("**ESG**") report of the Group aims to highlight its ESG performance during the Year.

The Group is principally engaged in the business of the distribution and trading of pharmaceutical products and the provision of marketing and promotion services in the PRC with headquarters in Zhejiang province in the PRC. Further information about the Group's principal business is disclosed in the sub-section headed "Business Review" in the section headed "Management Discussion and Analysis" in this annual report.

This report covers the Group's overall performance in two subject areas, namely, Environmental and Social aspects of its operations in the PRC, from 1 January 2022 to 31 December 2022, unless otherwise stated. The reporting scope of this report focuses on the distribution and trading of pharmaceutical products of the Group in the PRC, which are operated by the following subsidiaries of the Company including: China New Rich Medicine Holding Co. Limited and Zhejiang Xin Rui Pharmaceutical Co. Ltd. The Group's operation in Hong Kong is excluded from the scope as it is identified to be insignificant to the overall Group's operation. This report should be read in conjunction with the Corporate Governance Report on pages 34 to 45 of this annual report in order to have a full understanding on the Group's relevant performances.

Reporting Standards

This report is prepared in accordance with the Environmental, Social and Governance Reporting Guide as set out in Appendix 27 to the Listing Rules ("**HKEx ESG Reporting Guide**"). The Company has complied with the "comply or explain" provisions set out in the HKEx ESG Reporting Guide for the year ended 31 December 2022. The Group's management approaches, strategies, priorities and targets of environmental and social aspects are disclosed in this report.

The ESG Governance Structure

The Group manages its ESG issues by employing a top-down management approach, the Board oversees and formulates the Group's ESG strategies. The Group has set up an ESG working team (the "**ESG team**") that comprises staff from relevant departments. The ESG team is responsible for collecting relevant ESG data, analysing and identifying the Group's ESG issues, and reporting to the Board for the evaluation and subsequent implementation or revision of the Group's ESG strategies.

The Board attaches great importance to the appropriate and effective ESG risk management and internal control. The Board reviews ESG performances and identifies related risks annually.

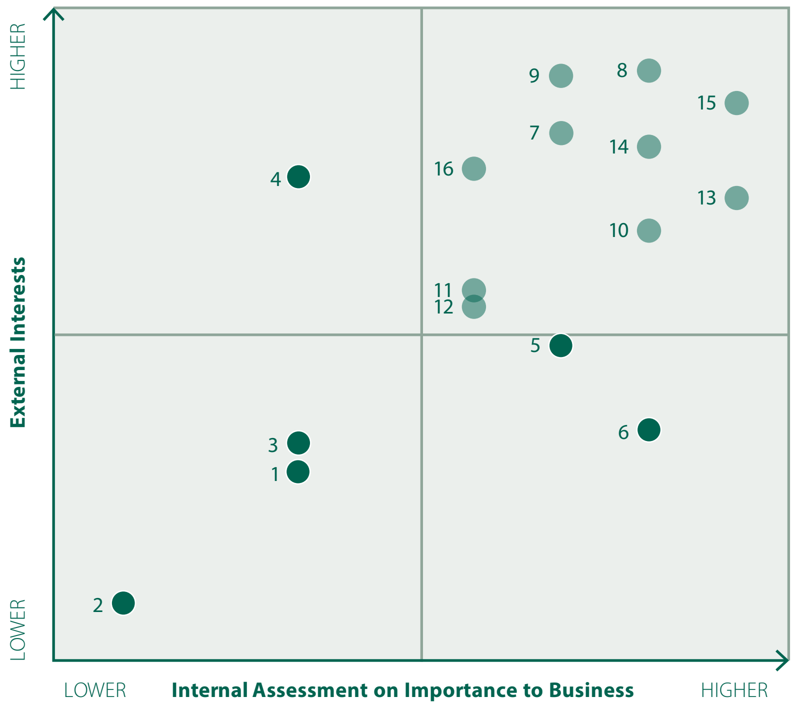
Stakeholder Engagement and Materiality

Reporting Principles

In the preparation of this ESG report, the Group has applied the following reporting principles:

Materiality: In order to identify the most significant aspects of the Group for this report, key stakeholders including employees, suppliers, distributors and customers have been involved in regular engagement meetings to discuss and review areas of attention which help the Group meet its potential growth and be prepared for future challenges. Based on the previously identified material ESG issues, a materiality assessment was conducted during the Year by the Group's stakeholders. The materiality matrix below shows the results of our materiality assessment process:

Materiality of Different Topics from Stakeholder Engagement



Stakeholder Engagement and Materiality *(Continued)*

Reporting Principles *(Continued)*

Environmental		Social	
1	Energy	7	Employment
2	Water	8	Occupational Health and Safety
3	Air Emission	9	Development and Training
4	Waste and Effluent	10	Labour Standards
5	Other Raw Materials Consumption	11	Supply Chain Management
6	Environmental Protection Measures	12	Intellectual Property
		13	Data Protection
		14	Product Quality
		15	Anti-corruption
		16	Community Investment

Quantitative: The details of how the Group quantifies the ESG data in relation to emissions/energy consumption can be found in the respective sections below.

Consistency: Consistent methodologies are employed for a meaningful comparison, using year-on-year data.

The Group has established guidelines to ensure the efficient use of fuel and to reduce air emissions from petrol consumption in its operations, which include switching off the engine whenever the vehicle is idling; and conducting regular vehicle maintenance to ensure optimal engine performance and fuel use.

Stakeholders' Feedback

The Group welcomes stakeholders' feedback on our ESG approach and performance. Please give your suggestions or share your views with us via email at info@newraymedicine.com.

The Company's Sustainability Vision

The Company aims to operate in a sustainable way and targets to become a national leading pharmaceutical distributor. To achieve this goal, the Company plans to continue: (i) expanding through obtaining new exclusive distribution rights in order to diversity its product portfolio; and (ii) enhancing and expanding its market share, local distribution network and marketing efforts in the PRC.

Environmental and Natural Resources

Our Group recognises the importance of environmental protection and the potential impacts that may cause to the natural environment from our operation, and thus strive to minimise our impacts. While we aim to generate revenue for our shareholders and provide the best products and services to our customers, our senior management is also cautious about our environmental impact due to our operational activities, and our compliance with applicable laws and regulatory requirements in the PRC. As our operation covers a wide scope of activities, mainly the distribution and trading of pharmaceutical products in the PRC, we are cautious on identifying our attributable environmental impacts and managing environmental impacts throughout the operations and minimising these attributable impacts if possible.

We have devised an in-house environmental policy with an emphasis on our business environmental management. Whilst environmental awareness programmes have been implemented internally, our customers have been encouraged to join our efforts. Further details and examples of our environmental awareness programmes and activities can be found in the later section of this report.

To cope with the climate change challenge that the world is facing, the Group puts significant effort on environmental protection and reduction of greenhouse gas emissions. The management considered that there are no significant climate-related issues which have impacted or may impact the Group.

Emissions

Air Emissions

The Group took the initiative to examine the issue of air emissions when conducting business activities and the result indicated no significant impact could be reported. Our operations had no significant impact on the environment as our business is not associated with any combustion processes or industrial activities that could lead to direct emissions to the atmosphere, nor did we have any energy generation unit (i.e. diesel generator) in operation.

Our company vehicles generated minor emissions from petroleum consumption. A total of 0.3t of nitrogen oxides, 0.1t particulate matter and 0.1kg of sulphur oxides were produced by vehicle emissions in this reporting year. We will continue to monitor our operation and ensure our air emissions will be maintained at a reasonable level.

Carbon Emissions

Despite the fact that our operations did not contribute significant air pollutant emission, we would still focus our effort on reducing carbon emission and in particular overall carbon footprint. With no direct combustion procedure or energy generation process involved, our operation does not have direct Greenhouse gas emissions. Our Group's carbon emissions are mainly contributed by vehicle emissions and indirect emissions through electricity consumption, which is counted towards our Group's overall carbon footprint. For the delivery of goods, our Group has been collaborating closely with external logistics service providers, trying its best to enhance the efficiency of the supply chain to maintain its economic competitiveness and environmental sustainability. Reducing travelling time and distance is one of our strategic approaches. The key success to stay cost-effective and environmentally sustainable is to optimise the efficiency of the distribution network and communicate with the logistics service providers continuously. We optimise the efficiency of the distribution network and the transportation network so as to save energy and reduce carbon emissions. We estimated our carbon footprint for this reporting year based on electricity consumption and its associated emissions factor provided by our electricity providers (data on electricity consumption is available on the electricity bill from our electricity providers). Our calculation also included the unleaded petroleum consumption in our transportation freight. Consumption data were kept and managed in a database system. With this information available to us, we shall further work with both our employees and external stakeholders to better our performance and minimise our overall carbon emissions. Further information and progress will be disclosed in the subsequent section of this report.

Emissions *(Continued)*

Carbon Emissions *(Continued)*

As a summary, with our efforts to curb the carbon footprint of our Group and based on the data of our electricity consumption and unleaded petroleum consumption, the carbon footprint of our Group in the reporting year was 93.6 tCO_2e, which has slightly decreased by approximately 1.9% when compared to 2021.

Summary of our greenhouse gas (GHG) emissions is as follows:

	unit	2022	2021
Direct GHG emissions – Petrol consumption	tCO_2e	**22.6**	22.6
Indirect GHG emissions – Purchased electricity			
– Office	tCO_2e	**19.1**	18.5
– Warehouse	tCO_2e	**41.3**	43.0
Other Indirect Emission – Business air travel	tCO_2e	**–**	–
Other Indirect Emission – Paper waste disposal at landfills	tCO_2e	**1.0**	1.7
Other Indirect Emission – Electricity used for fresh water and sewage processing	tCO_2e	**9.6**	9.6
Total	tCO_2e	**93.6**	95.4
Intensity	tCO_2e /employee	**3.7**	4.0

Waste Management

As our Group's business does not involve manufacturing or production processes, we are of the view that our operation did not involve handling any hazardous waste, and thus no significant impact was recorded.

Non-hazardous Waste

Non-hazardous waste from the Group's operation is mainly paper waste in its general administration. Our employees are constantly reminded of the "Efficient Usage" concept to minimise paper wastage and unnecessary packaging. For example, notices are posted in different office area, reminding our staff of paper recycling, while continuing other paper saving practices among employees (such as e-documentation). We take the initiative further by driving for a paperless working environment. Our staff are encouraged to work and communicate through emails and e-format documents instead of hard copies. The paper consumption of the Group has decreased by approximately 33.3% in the reporting year when compared to 2021 due to the efficient usage of papers during the reporting year.

The method of handling other non-hazardous waste is to first collect and categorise them, then sell the recyclable non-hazardous waste, including waste plastic materials, to the recycling station. As a result, only insignificant amounts of non-hazardous wastes were disposed of during the reporting year.

Emissions *(Continued)*

Waste Management *(Continued)*

Non-hazardous Waste *(Continued)*

Summary of major non-hazardous waste disposal performances is as follows:

	unit	2022	2021
Office paper	Tonnes	**0.2**	0.3
Packaging materials	Tonnes	**2.5**	8.9
General waste	Tonnes	**54.6**	55.3
Total	Tonnes	**57.3**	64.5
Intensity	Tonnes/employee	**2.3**	2.7

Due to the Group's business nature, the use of packaging materials is not considered as a material ESG issue to the Group.

Use of Resources

As an environmental friendly company, our Group is actively pursuing the culture of "Efficient Usage" of natural resources, setting energy saving policies with a primary focus on electricity, water, petroleum and non-hazardous waste. The Group keeps looking for efficient and sustainable practices in its business operations for better use of resources.

Internal initiatives such as Energy Conservation and Efficiency Policy and Practices in Offices were promoted and successfully implemented throughout the reporting year. In addition, the concept of "Efficient Usage" was incorporated in different parts of our business operations and was proposed as different actionable items. Details and results will be discussed in the sections below.

Resources Conservation

Our Group adopts a cautious approach in resources conservation and introduces different policies in managing and minimising our impacts to the environment during our business operations.

Electricity

Our Group understands that one of energy generation is a heavy fossil fuel combustion process, and would result in the release of air pollutants and greenhouse gases to the atmosphere. Nevertheless, it is difficult to eliminate all energy consumption in most of our business activities. We are cautious about our electricity consumption and trying our best to minimise our impacts. Our electricity consumption is mainly incurred during its business processes to provide services to customers and in its general administration. In order to minimise its consumption of electricity during its business processes, all employees are reminded to switch off light and air-conditioners before leaving work or meeting rooms. During the Year, the Group also implemented a flexible work measure due to the Covid-19 pandemic by allowing our employees to work from home. As such, it could reduce energy consumption in office. The Group is constantly encouraging employees to reduce its carbon footprints through efficient use of electricity. Electricity consumption of the Group has slightly decreased by approximately 1.8% in the reporting year when compared to 2021 due to the decrease in sales volume of the Group during the reporting year.

The energy consumption details are presented below:

	unit	2022	2021
Petrol	kWh	**79.4**	79.6
Electricity			
– Office	kWh	**30.4**	29.4
– Warehouse	kWh	**65.5**	68.3
Total	kWh	**175.3**	177.3
Intensity	kWh/employee	**7.0**	7.4

Emissions *(Continued)*

Resources Conservation *(Continued)*

Water

We require water as a support to our operation. We consume water responsibly in our business processes. Our Group makes every effort to maintain the same level of water usage as in the past and carries out measures of reduction in general water consumption. The Group also educates the employees on water-saving measures. We consume water responsibly in our general administration processes. To further minimise our consumption of water during the general administration processes, all employees are reminded to conserve water resources and avoid unnecessary flushing. In addition, since our Group is not engaged in manufacturing business, we do not have any issue in sourcing water that is fit for purpose.

Summary of water consumption performance is as follows:

	unit	2022	2021
Total water consumption	m^3	**685.0**	686.3
Intensity	m^3/employee	**27.4**	28.6

During the reporting year, the Group was not aware of any material non-compliance with laws and regulations on environmental protection that have a significant impact on the Group, including but not limited to, the Environmental Protection Law of the People's Republic of China (《中華人民共和國環境保護法》), the Prevention and Control of Environmental Pollution by Solid Waste of the People's Republic of China (《中華人民共和國固體廢物污染環境防治法》), the Water Pollution Prevention and Control Law of the People's Republic of China (《中華人民共和國水污染防治法》) and the Prevention and Control of Atmospheric Pollution of the People's Republic of China (《中華人民共和國大氣污染防治法》).

Social

Employment and Labour Practices

The backbone of the Group's business consists of our team of dedicated employees working professionally and responsibly to support our daily operations. The Group rewards their hard work by offering competitive compensation, while treating all of our staff equally and fairly, and complying with laws and regulations has always been one of our Group's guiding principles.

Our employees are entitled to social insurance, medical insurance, body check, annual leave, sick leave, marriage leave, maternity leave, compassionate leave and compensation leave. Details can be found in the Group's Attendance Management Policy. The Group also employs an "Award and Penalty System" in which employees with good performance, responsibility, discipline and act as role models are recognised and given cash bonus, while disciplinary action would be taken if an employee has committed an act of serious misconduct or deceitful behaviours.

Appraisal system is in place to assess the employees' work objectives, performance, attitude and capability. Employees will be promoted with salary adjustment based on the point-based appraisal system and salaries payment scale as written in the Group's Salary Policy.

In general, employees resigning from the Group are required to give one month's written notice stating reason for leaving to their managers. The managers are responsible for hosting a meeting to discuss with employees concerned and are required to fill in relevant documents, which will also be reviewed, discussed and signed by human resources department for final decision. Any appointment, promotion or termination of employment contract will be based on lawful grounds and internal policies. The Group strictly prohibits any kind of unfair or unreasonable dismissals. Further details can be referred to the Group's Dismissal Management Policy.

Social *(Continued)*

Employment and Labour Practices *(Continued)*

During the reporting year, the Group had no material non-compliance with applicable employment and labour related laws and regulations in relation to compensation and dismissal, recruitment and promotion, working hours and rest periods, equal opportunity, diversity, anti-discrimination, and other benefits and welfare that have a significant impact on our Group including Labour Law of the PRC (中華人民共和國勞動法) and Labour Contract Law of the PRC (中華人民共和國勞動合同法).

Employee Health and Safety

Safety has always been one of the priorities for our Group. We strive to maintain a safe working environment for our employees and regularly review our safety procedures to safeguard employees' well-being.

Our Group has established Safety Protocol according to the applicable laws and regulations relating to health and safety in the PRC such as the Law of the PRC on Prevention and Control of Occupational Diseases (《中華人民共和國職業病防治法》) and the Regulations on Work-Related Injury Insurance (《工傷保險條例》). Our Safety Protocol clearly states our operations maintained with high occupational safety and health standards, and our employees are required to follow our Safety Protocol throughout the operation.

Reminders and instructions in relation to workplace health and safety are also posted in the conspicuous place in office for staff's reference. Employees who violate serious safety procedures can be dismissed according to their employment contracts.

Preventive and control measures are also strictly implemented to ensure the well-being of our employees. For example, the working and resting schedule for our outdoor operations are carefully planned during summer seasons, and frequent rest periods are arranged to minimise the risk to our employees due to direct sunlight exposure under a hot environment. In addition, allowance for cold drinks will be given to employees under such working environment in accordance with Labour Law of the PRC (中華人民共和國勞動法) and Standards for Distribution of High-temperature Subsidies in Zhejiang Province《浙江省高溫補貼發放標準》.

During the reporting year, our Group had no material non-compliance with relevant laws and regulations in relation to a safe working environment and protecting employees from occupational hazards that have a significant impact on our Group. No major accidents were encountered during the Group's business operation and no material injury at workplace was recorded during the past three years including the reporting year.

Development and Training

The Group believes in people development, and our employees are crucial to the sustainable development of our business. Training is an important path to improve the overall quality and provide comprehensive development of the employees and to assure their knowledge and skillset in line with current market trends.

The Group has the vision to assist new employees in adapting to our corporate culture. Specific trainings on corporate culture, rules and regulations and necessary pre-job skills will be provided to all new-recruit. Throughout the reporting year, various training courses covering procurement management, warehouse and delivery management, product knowledge, product storage management, product recall procedure, customer service and complaint procedure, sales and marketing skill, administrative management, risk management, refrigerated products management and emergency preparedness were given to different departments. The Group also encourages employees to pursue their personal development objectives and continue to grow together with the Company.

Social *(Continued)*

Development and Training *(Continued)*

Summary of staff training information during the Year is as follows:

Employee category	Senior Management	Middle Management	Non-Management
Percentage of employees having training during the Year	100.0%	100.0%	100.0%
Average training hours completed per employee	35.8	41.8	21.8

Gender	Male	Female
Percentage of employees having training during the Year	100.0%	100.0%
Average training hours completed per employee	18.0	31.5

Labour Standards

The Group strictly prohibits all forms of child labour and forced labour, and does not hire any person under age 18. During the recruitment process, the Group will conduct background check on potential employee and verify the details concerning the identity of such candidate. The Group 's human resources department strictly abides by the Group's recruitment guidelines throughout the recruitment process. It verifies candidates' identity by checking their identity cards and relevant certificates before employment. In cases of suspected criminal offences, a report should be made to the appropriate authority. In addition, no employees of the Group will be required to work extra hours involuntarily and required to pay compulsory deposits. There was neither child nor forced labour in the Group's operations in the reporting year which was in compliance with Special Protection for Female and Juvenile Workers (女職工和未成年工特殊保護), Chapter VII, and the Labour Law of the PRC (中華人民共和國勞動法) and Provisions on the Prohibition against the Use of Child Labour (State Council Order No. 364)《禁止使用童工規定》(國務院令第364號).

Equal Opportunity

Equal opportunities are given to employees in respect of recruitment, training and development, job advancement, and compensation and benefits. Employees are not discriminated against or deprived of such opportunities due to their gender, ethnic background, religion, colour, sexual orientation, age, marital status, family status, retirement, disability and/or pregnancy.

At the end of 2022, the total headcount in the PRC was 22. The breakdown of the number of the Group's employees by gender and by age is shown in the table below:

Workforce by Gender	Female	Male
As at 31 December 2022	16	6
Turnover rate during the year	5.9%	14.3%

Social *(Continued)*

Equal Opportunity *(Continued)*

Workforce by Age Group	<30	30–50	>50
As at 31 December 2022	3	18	1
Turnover rate during the year	57.1%	–	–

Workforce by Geographical Region	Zhejiang Province	Anhui province	Others
As at 31 December 2022	16	3	3
Turnover rate during the Year	–	–	40.0%

Operating Practices

Supplier Management

Our Group maintains good working relationships with suppliers. We look forward to improving the effectiveness and efficiency in the supply chain and reducing relevant costs by capitalising on distributors' functions for:

- marketing and promotion strategies on local markets;
- speeding up the product delivery and payment collection process; and
- improving efficiencies of customers by increasing stock turnover rate.

The Group's employees have accumulated extensive experience in the PRC pharmaceutical industry. To leverage on our knowledge in the industry, our Group has also introduced internal best practices and measures to enhance our performance working with our suppliers and further our performance.

The Group has obtained the Pharmaceutical Operation Permit (藥品經營許可證) and the Good Supply Practices (GSP) Certificate for Pharmaceutical Products (藥品經營質量管理規範認證證書) ("**GSP Certificate**") from ZFDA in order to carry out our distribution business in the PRC.

Good Supply Practices ("GSP")

GSP constitutes the basic standards for management of drug supply business, and the GSP Certificate issued by the competent office of CFDA is necessary for drug related business operation. The GSP standards provide strict control and operation guideline to drug suppliers, including the qualification of relevant employees, the operation on business sites, the warehouses, the test equipment and facilities, and the standards for management and quality standards. According to the Administrative Measures for Certification of Good Supply Practices (《藥品經營質量管理規範認證管理辦法》) and the Good Supply Practices for Medicine Distribution Quality (《藥品經營質量管理規範》), a GSP Certificate is valid for 5 years generally and may be renewed for another 5 years within 3 months prior to its expiry.

Our Group has successfully obtained the GSP Certificate granted by ZFDA, which is the competent drug administrative authority of Zhejiang province and where the Group has registered for its pharmaceutical distribution operation. Our GSP certificate is valid till 14 November 2024.

During the Year, no material breach of laws and regulations that have a material impact on the Group's business and operations was noted by the Group.

Operating Practices *(Continued)*

Supplier Management *(Continued)*

Supply Chain Management

The Group sourced the best products for our customers. During the reporting year, over 90% of our products were sourced from overseas while the rest were sourced from the PRC. Our prolonged and extensive product sourcing process ensures the quality of our products sourced at the highest compliance standard, and continuous assessments will be performed on existing suppliers on a regular basis and on potential suppliers prior to obtaining new distribution rights of products. In addition, the management will assess the potential suppliers with reference to operation scale, reputation, manufacturing capacity and capabilities, quality of the products, financial performance and historical quality control records. As an extra pre-cautionary measure, the Group appoints an independent search agency to conduct a background search on potential suppliers. The Group is highly attentive to the reputation and reliability of its pharmaceutical product suppliers. Although it does not have specific policy for the management of the environmental and social risks of its supply chain, it evaluates how its suppliers deal with social and environmental issues and ensures that suppliers and their business partners comply with local and international standards on pharmaceutical products. The Group also conducts an annual appraisal of the existing suppliers in order to review the performance of our suppliers and the financial performance of our suppliers.

We believe our industry expertise, strong execution capability and our persistency for the best products allow us to achieve sustainable business growth in the emerging pharmaceutical distribution industry in the PRC.

(i) *Product Responsibility*

The Group partners with about 30 distributors serving customers of over 800 hospitals, clinics and pharmacies. Product quality is a key element of sustainability of the Group's business.

The Group has standard procedures for inspecting and receiving all the purchased or returned pharmaceutical products. In compliance with the laws and regulations such as The Law on the Administration of Pharmaceuticals of the PRC (《中華人民共和國藥品管理法》) and the Good Supply Practices, a system is developed to control product quality. For example, Quality Inspectors in the Quality Assurance Department must be qualified professionals with academic background related to pharmaceutical, medicine, biology or chemistry, and have attended necessary trainings and are in good health conditions.

Quality Inspectors are required to follow standards and contractual agreements to carry out quality assessment for pharmaceutical products. They must verify suppliers, product name, specifications, formulations, quantity, batch number, manufacturing date, expiry date, origin, product certificates and manufacturing factory test report. For imported products, there should be a copy of stamped Import Drug Registration Certificate or Pharmaceutical Product Registration Certificate, and Import Drug Port Inspection Report or Import Drug Clearance Receipt. Quality Inspectors are also required to check the labels, instructions, packaging, drugs' quality and hygiene.

Moreover, the Group will carry out laboratory or clinical testings on the pharmaceutical products on a sample basis to safeguard the quality of the products, which is not compulsory under GSP standards.

For employees in Sales and Marketing Department, the Group has policy on managing the quality of sales practices, ensuring no illegal engagement is involved and protecting the customers in terms of product quality in accordance with national laws and regulations such as The Law on the Administration of Pharmaceuticals of the PRC (《中華人民共和國藥品管理法》) and the GSP, etc.

Operating Practices *(Continued)*

Supplier Management *(Continued)*

Supply Chain Management *(Continued)*

(i) Product Responsibility (Continued)

All the products will be stored in the temperature-controlled warehouse by product type and batch number to ensure that they are sold on a first-in-first-out basis. The Group will maintain the warehouse clean and hygienic. The warehouse staff will handle and transport the products with care to avoid causing any damages to the pharmaceutical products. The quality control inspectors check the temperature of the storage area twice a day. They also undertake maintenance inspection and compile a series of records including the name, the specifications, the batch number, the validity period, the sampling method and numbers, the result of the inspections of the products. Those records will be kept for one to three year(s) after the expiry date of the products. The records can be retrieved from the database system with manager's approval.

To maintain a good working condition and prevent products from contamination, the Group has established policy of the management of environmental hygiene and employees' health condition. For example:

– Employees are responsible for keeping the floor, windows, product shelves and products clean and without dust;

– There is no water leakage, spider web, ashes, insects or rats, cigarettes in the warehouse;

– Employees should ensure proper temperature and good ventilation at working place, with adjustment in different seasons.

There were no products sold or shipped subject to recalls and no complaints related to our products or services were received by the Group in 2022.

For our pharmaceutical products distribution and other related businesses, during the reporting year, no material non-compliance was noted by the Group in relation to the relevant laws and regulations of the PRC concerning health and safety, advertising, labeling and privacy matters, including but not limited to the Law on the Administration of Pharmaceuticals of the PRC (《中國人民共和國藥品管理法》), the Implementation Regulations of the Law on the Administration of Pharmaceuticals of the PRC (《中國人民共和國藥品管理法實施條例》), the Measures on the Administration of the Pharmaceutical Operation Permit (《藥品經營許可證管理辦法》), the Good Supply Practices for Medicine Distribution Quality (《藥品經營質量管制規範》), the Administrative Measures for the Import of Drugs (《藥品進品管理辦法》), which have a material impact on the business of the Group.

(ii) Protection of Intellectual Property and Data Confidentiality

Our Group is dedicated to protecting and enforcing its intellectual property rights. Intellectual property rights are crucial to the Group's sustainable business growth and its ability to differentiate itself from its competitors. The Group's intellectual property rights (such as trademarks) have been registered in accordance with the laws and regulations of the PRC. Our Group makes sure that the protection of its intellectual property rights through registration, maintenance and enforcement measures.

Operating Practices *(Continued)*

Supplier Management *(Continued)*

Supply Chain Management *(Continued)*

(ii) Protection of Intellectual Property and Data Confidentiality (Continued)

Our Group is committed to abiding by the laws in relation to customer privacy, such as the Law of the PRC on the Protection of Consumer Rights and Interests (《中華人民共和國消費者權益保護法》) and other relevant laws and regulations to ensure customers' rights are strictly protected. All personal data of customers collected during the course of business are treated as confidential. The Group has adopted an internal privacy policy to ensure clients' transactions and information are protected. Through internal trainings and confidentiality agreements with its employees, the Group stresses the importance of fulfilling the duties in confidentiality and the legal consequences of violating the agreements to its employees.

(iii) Anti-corruption

The Group adopted a whistleblowing policy (舉報政策) on 15 October 2012, as revised on 18 March 2013 and 31 January 2022 which clearly states guidelines on reporting the following misconduct and malpractice:

- Dishonesty;
- Fraud;
- Corruption;
- Illegal behaviour (including theft, trafficking/taking of drugs, use of violence or threat of using violence and criminal damage to property);
- Discrimination;
- Sexual harassment;
- Breaches against the laws of the PRC or bye-laws;
- Immoral behaviour;
- Extortion;
- Other serious misconduct (including serious mismanagement, serious and significant waste or repeated violations of administrative procedures);
- Dangerous working practices;
- Failure in compliance with the Group's policy;
- Any other act which may result in financial or non-financial loss to the Group.

Under such whistleblowing policy, the employees are encouraged to report any reportable conduct (such as corruption or fraudulent behaviors) directly to the incident manager, Ms. Wang Qiuqin. No reports or related complaints were received from employees in 2022.

The Company has from time to time provided training materials of anti-corruption to all Directors. All Directors had confirmed that he/she had read the training materials.

Operating Practices *(Continued)*

Supplier Management *(Continued)*

Supply Chain Management *(Continued)*

(iii) Anti-corruption (Continued)

During the reporting year, our Group complied with the Law of the PRC on Anti-money Laundering (《中華人民共和國反洗錢法》) and the Anti-Unfair Competition Law of the PRC (《中華人民共和國反不正當競爭法》) and relevant laws and regulations regarding bribery, extortion, fraud and money laundering, which have a material impact on the business of the Group in all material respects.

Community

Our Group understands the importance of our business is to generate and bring in profit to our shareholders, and also being socially responsible to care, serve and give back to our community wherever is needed at the same time.

Community Investment

In recent years, the Group made donations supporting various community activities to fulfill social responsibilities. Together with our staff, our Group is dedicated and committed to fully supporting local charity organisations, NGOs and their volunteering activities by allocating portion of our revenue to build a better local community.

The Group donated approximately HK$292,000 to the organisations that strive to improve the living for the poor in Hangzhou during the reporting year.

INDEPENDENT AUDITOR'S REPORT

MOORE

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大華馬施雲
會計師事務所有限公司

To the shareholders of New Ray Medicine International Holding Limited
(incorporated in Bermuda with limited liability)

Qualified Opinion

We have audited the consolidated financial statements of New Ray Medicine International Holding Limited (the "**Company**") and its subsidiaries (collectively referred to as the "**Group**") set out on pages 67 to 140, which comprise the consolidated statement of financial position as at 31 December 2022, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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.

Basis for Qualified Opinion *(Continued)*

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.

Basis for Qualified Opinion *(Continued)*

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.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matters described in the Basis for Qualified Opinion section, we have determined the matters below to be the key audit matters to be communicated in our report.

Key audit matters	How our audit addressed the key audit matters
*Assessment of loss allowance for expected credit loss ("**ECL**") on deposits paid to suppliers*	
We identified the assessment of loss allowance for ECL on deposits paid to suppliers as a key audit matter due to significant judgment exercised by the Group's management on the assessment. In determining the loss allowance for ECL on deposit paid to suppliers, a considerable amount of judgement is required in assessing the ultimate realisation of these deposits paid to suppliers, including their current creditworthiness and the risk of default. The assessment on the probability of default and loss given default is based on credit rating adjusted by future economy. As disclosed in notes 4 and 23 to the consolidated financial statements, the carrying amount of deposits paid to suppliers is approximately HK$114,686,000 net of impairment loss allowance of approximately HK$8,078,000 as at 31 December 2022.	Our procedures in relation to the assessment of loss allowance for ECL on deposits paid to suppliers included: • Understood, evaluated and validated the key controls over the impairment assessment of the deposits paid to suppliers, which related to management's identification of events that triggered the provision for impairment of the deposits and estimation of the amount of allowance; • Inspected the agreements entered into between the Group and the suppliers and other relevant information relating to the suppliers as assessed by the Group; • Assessed the reasonableness of the Group's ECL model and the criteria for assessing if there has been significant increase in credit risk and so allowances for financial assets should be measured on a lifetime ECL basis; and • Circulated auditor's confirmations and conducted interview with the suppliers on sampling basis to test the existence of the deposits paid to suppliers as at the end of the reporting period.

Key Audit Matters *(Continued)*

Key audit matters	How our audit addressed the key audit matters
*Valuation of investments in equity instruments at fair value through other comprehensive income ("**FVTOCI**")*	
We identified the valuation of investments in equity instruments at FVTOCI as a key audit matter due to significant judgment exercised by the Group's management on the valuation. As disclosed in notes 4 and 19 to the consolidated financial statements, the fair value of the unquoted equity instruments in equity instruments at FVTOCI is HK$15,540,000 as at 31 December 2022. The valuation is carried out by external independent valuers (the "**Valuers**") engaged by the Group and by the management of the Group. In determining the fair value of the unquoted investments in equity instruments at FVTOCI, the management of the Group has adopted the discounted cash flows method and market approach. Management's estimates are based on cash flow forecast for the relevant business and requires the adoption of certain assumptions such as budgeted sales, gross margin, other related expenses, discount rate and terminal growth rate and based on the market approach with reference to recent transactions. Management has concluded that the adopted methodologies and inputs used in determining the fair value of investments in equity instruments at FVTOCI are reasonable and appropriate.	Our procedures in relation to the valuation of investments in equity instruments at FVTOCI included: • Discussed with management and the Valuers how the Group estimated the fair values of investments in equity instruments at FVTOCI including the valuation model adopted and key assumptions used; • Assessed the competence, capabilities and objectivity of the Valuers performing the valuation; and • Evaluated the reasonableness of the valuation methodology and key assumptions used.

Other Information

The directors of the Company are responsible for the other information. The other information comprises the information included in the annual report, but does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. As described in the Basis for Qualified Opinion section above, we were unable to obtain sufficient appropriate evidence in identifying the related party relationships with the Group. Accordingly, we are unable to conclude whether or not the other information in the directors' report is materially misstated with respect to this matter.

Responsibilities of Directors and Those Charged with Governance for the Consolidated Financial Statements

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors of the Company are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Our report is made solely to you, as a body, in accordance with Section 90 of the Bermuda Companies Act, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

(Continued)

As part of an audit in accordance with HKSAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

(Continued)

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Moore Stephens CPA Limited
Certified Public Accountants

Chan King Keung
Practising Certificate Number: P06057

Hong Kong, 29 March 2023

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	5	**89,771**	335,380
Cost of sales		**(82,134)**	(306,892)
		7,637	28,488
Other income, gains and losses, net	7	**(6,694)**	2,642
Selling and distribution expenses		**(13,633)**	(12,632)
Administrative expenses		**(20,363)**	(18,283)
Finance costs	8	**(177)**	(280)
Share of profit of associates	20	**–**	1,110
Impairment loss on trade and other receivables	10	**(4,624)**	(4,653)
Impairment loss on inventories	21	**(42,432)**	–
Loss before taxation		**(80,286)**	(3,608)
Income tax credit	9	**2,339**	784
Loss for the year attributable to owners of the Company	10	**(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	13		
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	14	**15,300**	10,933
Right-of-use assets	15	**19,075**	20,420
Prepayment for a distribution right	16	**6,835**	11,381
Intangible asset	17	**4,627**	7,012
Club debenture	18	**560**	612
Equity instruments at fair value through other comprehensive income	19	**64,115**	127,654
Financial asset at fair value through profit or loss	19	**25,470**	–
Interest in associate	20	**–**	–
		135,982	178,012
Current assets			
Inventories	21	**35,230**	125,307
Trade and other receivables	22	**210,642**	204,661
Prepayment for a distribution right	16	**3,582**	3,914
Bank balances and cash	24	**154,413**	150,153
		403,867	484,035
Current liabilities			
Other payables	25	**6,862**	7,429
Lease liabilities	26	**985**	543
Tax payable		**–**	147
Bank borrowing	27	**–**	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	26	**293**	921
Deferred tax liabilities	28	**6,052**	9,060
		6,345	9,981
		525,657	632,572

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2022

	Notes	2022 HK$'000	2021 HK$'000
Capital and reserves			
Share capital	29	**83,592**	83,592
Share premium and reserves		**442,065**	548,980
Equity attributable to owners of the Company		**525,657**	632,572

The consolidated financial statements on pages 67 to 140 were approved and authorised for issue by the Board of Directors on 29 March 2023 and are signed on its behalf by:

WANG QIUQIN
DIRECTOR

CHU XUEPING
DIRECTOR

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2022

	Attributable to owners of the Company								
	Share capital HK$'000	Share premium HK$'000	Contributed surplus HK$'000 (note a)	PRC statutory reserve HK$'000 (note b)	Fair value through other comprehensive income ("FVTOCI") (non-recycling) reserve HK$'000 (note c)	Share options reserve HK$'000	Translation reserve HK$'000 (note d)	Retained profits (accumulated losses) HK$'000	Total HK$'000
At 1 January 2021	83,592	607,614	50,167	23,729	(172,671)	–	(10,865)	24,358	605,924
Loss for the year	–	–	–	–	–	–	–	(2,824)	(2,824)
Other comprehensive income for the year	–	–	–	–	19,851	–	9,621	–	29,472
Disposal of equity instruments at fair value through other comprehensive income	–	–	–	–	(250)	–	–	250	–
Translation reserve reclassified upon dilution of interest in an associate and investment ceased to be associate	–	–	–	–	–	–	6,221	(6,221)	–
Total comprehensive income (expense) for the year	–	–	–	–	19,601	–	15,842	(8,795)	26,648
At 31 December 2021	83,592	607,614	50,167	23,729	(153,070)	–	4,977	15,563	632,572
At 1 January 2022	**83,592**	**607,614**	**50,167**	**23,729**	**(153,070)**	**–**	**4,977**	**15,563**	**632,572**
Loss for the year	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(77,947)**	**(77,947)**
Other comprehensive income for the year	**–**	**–**	**–**	**–**	**(14,854)**	**–**	**(24,507)**	**–**	**(39,361)**
Disposal of equity instruments at fair value through other comprehensive income	**–**	**–**	**–**	**–**	**1,831**	**–**	**–**	**(1,831)**	**–**
Total comprehensive income (expense) for the year	**–**	**–**	**–**	**–**	**(13,023)**	**–**	**(24,507)**	**(79,778)**	**(117,308)**
Recognition of equity-settled share-based payments	**–**	**–**	**–**	**–**	**–**	**10,393**	**–**	**–**	**10,393**
At 31 December 2022	**83,592**	**607,614**	**50,167**	**23,729**	**(166,093)**	**10,393**	**(19,530)**	**(64,215)**	**525,657**

Notes:

(a) Included in contributed surplus, HK$70,167,000 represents the difference arising form share swap pursuant to the Group's reorganisation during the year ended 31 December 2013, such amount is net off with HK$20,000,000 dividend declaration during the year ended 31 December 2014.

(b) For the Company's subsidiaries, 浙江新銳醫藥有限公司 (in English, for identification purpose only, Zhejiang Xin Rui Pharmaceutical Co. Ltd.) ("**Zhejiang Xin Rui**") and 浙江泓銳貿易有限公司 (in English, for identification purpose only, Zhejiang Hong Rui Trading Co. Ltd.) ("**Hong Rui Trading**"), as stipulated by the relevant laws and regulations in the People's Republic of China (the "**PRC**"), they are required to maintain a statutory surplus reserve fund. Appropriation to such reserve is made out on 10% of the net profit after taxation as reflected in the statutory financial statements of the PRC subsidiaries in accordance with relevant laws and regulations applicable to PRC enterprises. The statutory surplus reserve fund can be used to make up prior years' losses, if any, and can be applied in conversion into capital by means of capitalisation issue. The statutory surplus reserve can be released to the retained profits upon the dissolution or winding up of the entity.

For 泓銳(杭州)生物醫藥科技有限公司 (in English, for identification purpose only, Hong Rui (Hangzhou) Bio-medical Technology Co. Ltd.) ("**Hong Rui Bio-medical**"), another subsidiary of the Company, as it is a wholly foreign owned enterprise, appropriation to statutory surplus reserve fund is based on the management's discretion.

(c) Any cumulative gains or losses arising from the revaluation of the Group's equity instruments at FVTOCI have been recognised in the FVTOCI (non-recycling reserve) in other comprehensive income. Upon disposal of the equity security, the amount accumulated in other comprehensive income is transferred directly to retained profits.

(d) Translation reserve represents exchange differences relating to the translation of the net assets of the Group from their functional currencies to the Group's presentation currency (i.e. Hong Kong dollar) which are recognised directly in other comprehensive income and accumulated in the translation reserve. Such exchange differences accumulated in the translation reserve will not be reclassified subsequently to profit or loss.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2022

	Notes	2022 HK$'000	2021 HK$'000
OPERATING ACTIVITIES			
Loss before taxation		**(80,286)**	(3,608)
Adjustments for:			
Amortisation of prepayment for a distribution right	10	**3,741**	3,857
Depreciation of property, plant and equipment	14	**3,081**	2,292
Depreciation of right-of-use assets	15	**1,481**	1,525
Amortisation of an intangible asset	17	**1,870**	1,929
Interest expenses	8	**177**	280
Equity-settled share-based payment expenses	33	**10,393**	–
(Gain) loss on disposal of property, plant and equipment	7	**(378)**	5
Loss on partial disposal of interest in an associate	7	**–**	1,420
Loss on investment ceased to be an associate	7	**–**	1,566
Interest income	7	**(2,655)**	(1,211)
Dividend income from equity instruments at fair value through other comprehensive income	7	**(478)**	(87)
Share of profit of associates	20	**–**	(1,110)
Impairment loss on trade and other receivables, net of reversal	10	**4,624**	4,653
Impairment loss on inventories	21	**42,432**	–
Operating cash flows before movements in working capital		**(15,998)**	11,511
Decrease (increase) in inventories		**40,589**	(61,823)
(Increase) decrease in trade and other receivables		**(24,831)**	11,061
Increase (decrease) in trade and other payables		**69**	(19,137)
Cash used in operations		**(171)**	(58,388)
Income tax paid		**(147)**	–
NET CASH USED IN OPERATING ACTIVITIES		**(318)**	(58,388)
INVESTING ACTIVITIES			
Interest received	7	**2,655**	1,211
Dividend received from equity instruments at fair value through other comprehensive income	7	**478**	87
Investment in a financial asset at fair value through profit or loss	19	**(25,470)**	–
Investment in an equity instrument at fair value through other comprehensive income		**(1,401)**	–
Proceeds from disposal of property, plant and equipment		**469**	–
Proceeds from partial disposal of an associate		**–**	46,667
Proceeds from disposal of equity instruments at fair value through other comprehensive income		**33,584**	83,198
Purchases of property, plant and equipment	14	**(8,697)**	(59)

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2022

	Notes	**2022** **HK$'000**	2021 HK$'000
NET CASH FROM INVESTING ACTIVITIES		**1,618**	131,104
FINANCING ACTIVITIES			
Repayment of bank borrowing	36	**(10,411)**	–
New bank borrowing raised	36	**–**	11,375
Interest paid	8	**(113)**	(191)
Payment for principal portion of lease liabilities	36	**(1,936)**	(982)
Payment for interest portion of lease liabilities	36	**(64)**	(89)
NET CASH (USED IN) FROM FINANCING ACTIVITIES		**(12,524)**	10,113
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS		**(11,224)**	82,829
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		**150,153**	65,755
EFFECT OF FOREIGN EXCHANGE RATE CHANGES		**15,484**	1,569
CASH AND CASH EQUIVALENTS AT END OF THE YEAR, represented by bank balances and cash		**154,413**	150,153

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 this 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.

1. GENERAL *(Continued)*

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

On 17 November 2020, the Company was served a sealed copy of a petition dated 16 November 2020 filed in the High Court of Hong Kong (the "**Court**") by the SFC pursuant to section 214 of the Securities and Futures Ordinance ("**SFO**") ("**Petition**"). The Petition named three respondents. Apart from the Company, the other two parties named as respondents by the Petition are two former directors of the Company, namely, Mr. Zhou Ling ("**Mr. Zhou**") and Mr. Dai Haidong ("**Mr. Dai**") who retired and resigned from their 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.

1. GENERAL *(Continued)*

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.

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 (see notes 19(ii) and 20(a) to the consolidated financial statements for details). 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.

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. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. For the purpose of preparation of the consolidated financial statements, information is considered material if such information is reasonably expected to influence decisions made by primary users. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("**Listing Rules**") and by the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments that are measured at fair values at the end of each reporting period, as explained in accounting policies set out below.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of HKFRS 2 "Share-based payment", leasing transactions that are accounted for in accordance with HKFRS 16, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in HKAS 2 "Inventories" or value in use in HKAS 36 "Impairment of assets".

For financial instruments which are transacted at fair value and a valuation technique that unobservable inputs is to be used to measure fair value in subsequent periods, the valuation technique is calibrated so that at initial recognition the results of the valuation technique equals the transaction price.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;

- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and

- Level 3 inputs are unobservable inputs for the asset or liability.

The principal accounting policies are set out below.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Basis of consolidation

The consolidated financial statements incorporate the financial information of the Company and entities controlled by the Company and its subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Group gains control until the date when the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Goodwill

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business (see the accounting policy above) less accumulated impairment losses, if any.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination, which represent the lowest level at which the goodwill is monitored for internal management purposes and not larger than an operating segment.

A cash-generating unit (or group of cash-generating units) to which goodwill has been allocated is tested for impairment annually or more frequently when there is indication that the unit may be impaired. For goodwill arising on an acquisition in a reporting period, the cash-generating unit (or group of cash-generating units) to which goodwill has been allocated is tested for impairment before the end of that reporting period. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit on a pro-rata basis based on the carrying amount of each asset in the unit (or group of cash-generating units).

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Goodwill *(Continued)*

On disposal of the relevant cash-generating unit or any of the cash-generating unit within the group of cash-generating units, the attributable amount of goodwill is included in the determination of the amount of profit or loss on disposal. When the Group disposes of an operation within the cash-generating unit (or a cash-generating unit within a group of cash-generating units), the amount of goodwill disposed of is measured on the basis of the relative values of the operation (or the cash-generating unit) disposed of and the portion of the cash-generating unit (or the group of cash-generating units) retained.

The Group's policy for goodwill arising on the acquisition of an associate and a joint venture is described below.

Investments in associates

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting. The financial statements of an associate used for equity accounting purposes are prepared using uniform accounting policies as those of the Group for the transactions and events in similar circumstances. Under the equity method, an investment in an associate is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associate. Changes in net assets of the associate other than profit or loss and other comprehensive income are not accounted for unless such changes resulted in changes in ownership interest held by the Group. When the Group's share of losses of an associate exceeds the Group's interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

An investment in an associate is accounted for using the equity method from the date on which the investee becomes an associate. On acquisition of the investment in an associate, any excess of the cost of the investment over the Group's share of the net fair value of the identifiable assets and liabilities of the investee is recognised as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of the investment, after reassessment, is recognised immediately in profit or loss in the period in which the investment is acquired.

The Group assesses whether there is an objective evidence that the interest in an associate may be impaired. When any objective evidence exists, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with HKAS 36 "Impairment of assets" as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs of disposal) with its carrying amount. Any impairment loss recognised is not allocated to any asset, including goodwill, that forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with HKAS 36 to the extent that recoverable amount of the investment subsequently increases.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investments in associates *(Continued)*

When the Group ceases to have significant influence over an associate, it is accounted for as a disposal of the entire interest in the investee with a resulting gain or loss being recognised in profit or loss. When the Group retains an interest in the former associate and the retained interest is a financial asset within the scope of HKFRS 9, the Group measures the retained interest at fair value at that date and the fair value is regarded as its fair value of any retained interest and any proceeds from disposing the relevant interest in the associate is included in the determination of the gain or loss on disposal of the associate. In addition, the Group accounts for all amounts previously recognised in other comprehensive income in relation to that associate on the same basis as would be required if that associate had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income by that associate would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) upon disposal or partial disposal of the relevant associate.

When the Group reduces its ownership interest in an associate but the Group continues to use the equity method, the Group reclassifies to profit or loss the proportion of the gain or loss that had previously been recognised in other comprehensive income relating to that reduction in ownership interest if that gain or loss would be reclassified to profit or loss on the disposal of the related assets or liabilities.

When a group entity transacts with an associate of the Group, profits and losses resulting from the transactions with the associate are recognised in the Group's consolidated financial statements only to the extent of interests in the associate that are not related to the Group.

Revenue from contracts with customers

The Group recognises revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the goods or services underlying the particular performance obligation is transferred to the customer.

A performance obligation represents a good or service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same.

Control is transferred over time and revenue is recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met:

- the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;
- the Group's performance creates and enhances an asset that the customer controls as the Group performs; or
- the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

Otherwise, revenue is recognised at a point in time when the customer obtains control of the distinct good or service.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Revenue from contracts with customers *(Continued)*

A contract liability represents the Group's obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer.

A contract liability relating to the same contract are accounted for and presented on a net basis.

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold in the normal course of business, net of discounts and sales related taxes.

Revenue is recognised when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the Group and when specific criteria have been met for each of the Group's activities, as described below.

Revenue from sales of goods is recognised when goods are received by and title have passed to the customers.

For marketing and promotion services income, the Group promotes customers' medical products and the Group is only entitled to consideration from the customers when the ultimate users make sales order from the Group's customers and the Group does not have inventory risk.

Refund liabilities

The Group recognises a refund liability if the Group expects to refund some or all of the consideration received from customers.

Dividend income from investments is recognised when the shareholders' rights to receive payment have been established.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Leases

Definition of a lease

A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

For contracts entered into or modified on or after the date of initial application or arising from business combinations, the Group assesses whether a contract is or contains a lease based on the definition under HKFRS 16 at inception, modification date or acquisition date, as appropriate. Such contract will not be reassessed unless the terms and conditions of the contract are subsequently changed. As a practical expedient, leases with similar characteristics are accounted on a portfolio basis when the Group reasonably expects that the effects on the consolidated financial statements would not differ materially from individual leases within the portfolio.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Leases *(Continued)*

The Group as a lessee

Non-lease components are separated from lease components and are accounted for by applying other applicable standards.

Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to leases of properties that have a lease term of 12 months or less from the commencement date and do not contain a purchase option. It also applies the recognition exemption for lease of low-value assets.

Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis or another systematic basis over the lease term.

Right-of-use assets

The cost of right-of-use asset includes:

- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date, less any lease incentives received;
- any initial direct costs incurred by the Group; and
- an estimate of costs to be incurred by the Group in dismantling and removing the underlying assets, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease.

Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities.

Right-of-use assets in which the Group is reasonably certain to obtain ownership of the underlying leased assets at the end of the lease term are depreciated from commencement date to the end of the useful life. Otherwise, right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term.

Refundable rental deposits

Refundable rental deposits paid are accounted under HKFRS 9 Financial Instruments ("**HKFRS 9**") and initially measured at fair value. Adjustments to fair value at initial recognition are considered as additional lease payments and included in the cost of right-of-use assets.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Leases *(Continued)*

Lease liabilities

At the commencement date of a lease, the Group recognises and measures the lease liability at the present value of lease payments that are unpaid at that date. In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable.

The lease payments include:

- fixed payments (including in-substance fixed payments) less any lease incentives receivable;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable by the Group under residual value guarantees;
- the exercise price of a purchase option if the Group is reasonably certain to exercise the option; and
- payments of penalties for terminating a lease, if the lease term reflects the Group exercising an option to terminate the lease.

After the commencement date, lease liabilities are adjusted by interest accretion and lease payments.

The Group presents lease liabilities as a separate line item on the consolidated statement of financial position.

Property, plant and equipment

Property, plant and equipment including buildings held for administrative purposes are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

Depreciation is recognised so as to write off the cost of assets less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on disposal or retirement of an item of property, plant and equipment is determined as the difference between the net disposal proceeds and the carrying amount of the asset and is recognised in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Intangible assets

Intangible assets acquired separately

Intangible assets with finite useful lives that are acquired separately are carried at costs less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is recognised on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains and losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in profit or loss when the asset is derecognised.

Impairment on property, plant and equipment, right-of-use assets, intangible asset other than goodwill (see the accounting policy in respect of goodwill above)

At the end of the reporting period, the Group reviews the carrying amounts of its property, plant and equipment, right-of-use assets, intangible asset with finite useful lives to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the relevant asset is estimated in order to determine the extent of the impairment loss (if any). The recoverable amount of the relevant assets is estimated in order to determine the extent of the impairment loss (if any). The recoverable amount of property, plant and equipment, right-of-use assets, and intangible asset are estimated individually. When it is not possible to estimate the recoverable amount of an asset individually, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset (or a cash-generating unit) for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or a cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the entity's functional currency (foreign currencies) are recognised at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's operation are translated into the presentation currency of the Group (i.e. Hong Kong dollars) using exchange rates prevailing at the end of each reporting period. Income and expenses items are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during that period, in which case the exchange rates at the date of transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of translation reserve.

On the disposal of a foreign operation (that is, a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, or a partial disposal of an interest in a joint arrangement or an associate that includes a foreign operation of which the retained interest becomes a financial asset), all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss. For all other partial disposals (i.e. partial disposals of associates or joint arrangements that do not result in the Group losing significant influence or joint control), the proportionate share of the accumulated exchange differences is reclassified to profit or loss.

Goodwill and fair value adjustments on identifiable assets acquired arising on an acquisition of a foreign operation on or after 1 January 2005 are treated as assets and liabilities of that foreign operation and translated at the rate of exchange prevailing at the end of each reporting period. Exchange differences arising are recognised in other comprehensive income.

Borrowing costs

All borrowing costs are recognised in profit or loss in the period in which they are incurred.

Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants related to income that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable. Such grants are presented under "other income".

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Employee benefit

Retirement benefit costs

Payments to defined contribution retirement benefit plans are recognised as an expense when employees have rendered service entitling them to the contributions.

Termination benefits

A liability for a termination benefit is recognised at the earlier of when the group entity can no longer withdraw the offer of the termination benefit and when it recognises any related restructuring costs.

Short-term employee benefits

Short-term employee benefits are recognised at the undiscounted amount of the benefits expected to be paid as and when employees rendered the services. All short-term employee benefits are recognised as an expense unless another HKFRS requires or permits the inclusion of the benefit in the cost of an asset.

A liability is recognised for benefits accruing to employees (such as wages and salaries, annual leave and sick leave) after deducting any amount already paid.

Share-based payment

Equity-settled share-based payment transactions

Share options granted to directors and employees of the Company

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date. Details regarding the determination of the fair value of equity-settled share-based transactions are set out in note 33 to the consolidated financial statements.

The fair value of the equity-settled share-based payments determined at the grant date without taking into consideration all non-market vesting conditions is expensed on a straight-line basis over the vesting period, based on the Group's estimate of equity instruments that will eventually vest, with a corresponding increase in equity (share-based payments reserve). At the end of each reporting period, the Group revises its estimate of the number of equity instruments expected to vest based on assessment of all relevant non-market vesting conditions. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to the share-based payments reserve. For share options that vest immediately at the date of grant, the fair value of the share options granted is expensed immediately to profit or loss.

When share options are exercised, the amount previously recognised in share-based payments reserve will be transferred to share premium. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share options reserve will be transferred to retained profits.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit/(loss) before taxation because of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary difference to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit. In addition, deferred tax liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and interests in associates and a joint venture, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year in which the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

For the purposes of measuring deferred tax for leasing transactions in which the Group recognises the right-of-use assets and the related lease liabilities, the Group first determines whether the tax deductions are attributable to the right-of-use assets or the lease liabilities.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Taxation *(Continued)*

For leasing transactions in which the tax deductions are attributable to the lease liabilities, the Group applies HKAS 12 Income Taxes requirements to right-of-use assets and lease liabilities separately. Temporary differences relating to right-of-use assets and lease liabilities are not recognised at initial recognition and over the lease terms due to application of the initial recognition exemption.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied to the same taxable entity by the same taxation authority.

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

In assessing any uncertainty over income tax treatments, the Group considers whether it is probable that the relevant tax authority will accept the uncertain tax treatment used, or proposed to be use by individual group entities in their income tax filings. If it is probable, the current and deferred taxes are determined consistently with the tax treatment in the income tax filings. If it is not probable that the relevant taxation authority will accept an uncertain tax treatment, the effect of each uncertainty is reflected by using either the most likely amount or the expected value.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average method. Net realisable value represents the estimated selling price for inventories less costs necessary to make the sale.

Club debenture

Club debenture is classified as a financial asset at financial asset at fair value through profit or loss ("**FVTPL**").

Financial instruments

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instrument. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis.

Financial assets and financial liabilities are initially measured at fair value except for trade receivables arising from contracts with customers which are initially measured in accordance with HKFRS 15. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognised immediately in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating interest income and interest expenses over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts and payments (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset or financial liability, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Financial assets

Classification and subsequent measurement of financial assets

Financial assets that meet the following conditions are subsequently measured at amortised cost:

- the financial asset is held within a business model whose objective is to collect contractual cash flows; and

- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets that meet the following conditions are subsequently measured at equity instrument at fair value through other comprehensive income ("**FVTOCI**"):

- the financial asset is held within a business model whose objective is achieved by both selling and collecting contractual cash flows and selling; and

- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All other financial assets are subsequently measured at FVTPL, except that at initial recognition of a financial asset the Group may irrevocably elect to present subsequent changes in fair value of an equity investment in other comprehensive income if that equity investment is neither held for trading nor contingent consideration recognised by an acquirer in a business combination to which HKFRS 3 "Business Combinations" applies.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Classification and subsequent measurement of financial assets (Continued)

In addition, the Group may irrevocably designate a financial asset that are required to be measured at the amortised cost or FVTOCI as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch.

(i) Amortised cost and interest income

Interest income is recognised using the effective interest method for financial assets measured subsequently at amortised cost. Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired. For financial assets that have subsequently become credit-impaired, interest income is recognised by applying the effective interest rate to the amortised cost of the financial assets from the next reporting period. If the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial asset from the beginning of the reporting period following the determination that the asset is no longer credit impaired.

(ii) Equity instruments designated as at FVTOCI

Investments in equity instruments at FVTOCI are subsequently measured at fair value with gains and losses arising from changes in fair value recognised in other comprehensive income and accumulated in the FVTOCI (non-recycling reserve); and are not subject to impairment assessment. The cumulative gain or loss will not be reclassified to profit or loss on disposal of the equity investments, and will continue to be held in the FVTOCI (non-recycling reserve).

Dividends from these investments in equity instruments are recognised in profit or loss when the Group's right to receive the dividends is established, unless the dividends clearly represent a recovery of part of the cost of the investment. Dividends are included in the "other income, gains and losses" in profit or loss.

(iii) Financial assets at FVTPL

Financial assets that do not meet the criteria for being measured at amortised cost or FVTOCI or designated as FVTOCI are measured at FVTPL.

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognised in profit or loss. The net gain or loss recognised in profit or loss excludes any dividend or interest earned on the financial asset and is included in the "other income, gains and losses" line item.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Impairment of financial assets and other items subject to impairment assessment under HKFRS 9

The Group recognises a loss allowance for expected credit loss ("**ECL**") on financial assets which are subject to impairment assessment under HKFRS 9 (including trade and other receivables and bank balances). The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12-month ECL ("**12m ECL**") represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date. Assessment are done based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions.

The Group always recognises lifetime ECL for trade receivables. The ECL on these assets are assessed individually for debtors with significant balances and/or collectively using a provision matrix with appropriate groupings.

For all other instruments, the Group measures the loss allowance equal to 12m ECL, unless there has been a significant increase in credit risk since initial recognition, in which case the Group recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition.

(i) Significant increase in credit risk

In assessing whether the credit risk has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly:

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;

- significant deterioration in external market indicators of credit risk, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor;

- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;

- an actual or expected significant deterioration in the operating results of the debtor; and

- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Impairment of financial assets and other items subject to impairment assessment under HKFRS 9 (Continued)

(i) Significant increase in credit risk *(Continued)*

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

The Group regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

(ii) Definition of default

For internal credit risk management, the Group considers an event of default occurs when information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full (without taking into account any collaterals held by the Group).

Irrespective of the above, the Group considers that default has occurred when a financial asset is more than 365 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

(iii) Credit-impaired financial assets

A financial asset is credit-impaired when one or more events of default that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

(a) significant financial difficulty of the issuer or the borrower;

(b) a breach of contract, such as a default or past due event;

(c) the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;

(d) it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or

(e) the disappearance of an active market for that financial asset because of financial difficulties.

(iv) Write-off policy

The Group writes off a financial asset when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery, for example, when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings, or in the case of trade receivables, when the amounts are over two years past due, whichever occurs sooner. Financial assets written off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice where appropriate. A write-off constitutes a derecognition event. Any subsequent recoveries are recognised in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Impairment of financial assets and other items subject to impairment assessment under HKFRS 9 (Continued)

(v) Measurement and recognition of ECL

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data and forward-looking information. Estimation of ECL reflects an unbiased and probability-weighted amount that is determined with the respective risks of default occurring as the weights. The Group uses a practical expedient in estimating ECL on trade receivables using a provision matrix taking into consideration historical credit loss experience, adjusted for forward looking information that is available without undue cost or effort.

Generally, the ECL is the difference between all contractual cash flows that are due to the Group in accordance with the contract and the cash flows that the Group expects to receive, discounted at the effective interest rate determined at initial recognition. For a lease receivable, the cash flows used for determining the ECL is consistent with the cash flows used in measuring the lease receivable in accordance with HKFRS 16.

Where ECL is measured on a collective basis or cater for cases where evidence at the individual instrument level may not yet be available, the financial instruments are grouped on the following basis:

- Nature of financial instruments;
- Past-due status;
- Nature, size and industry of debtors; and
- External credit ratings where available.

The grouping is regularly reviewed by management to ensure the constituents of each Group continue to share similar credit risk characteristics.

Interest income is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit impaired, in which case interest income is calculated based on amortised cost of the financial asset.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

On derecognition of an investment in a debt instrument classified as at FVTOCI, the cumulative gain or loss previously accumulated in the FVTOCI reserve is reclassified to profit or loss.

On derecognition of an investment in equity instrument which the Group has elected on initial recognition to measure at FVTOCI, the cumulative gain or loss previously accumulated in the investments revaluation reserve is not reclassified to profit or loss, but is transferred to retained profits.

Financial liabilities and equity instruments

Classification as debt or equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. Equity instruments issued by the Group are recognised at the proceeds received, net of direct issue costs.

Financial liabilities

All financial liabilities are subsequently measured at amortised cost using the effective interest method or at FVTPL.

Financial liabilities at amortised cost

Financial liabilities (including trade and other payables and lease liabilities) are subsequently measured at amortised cost, using the effective interest method.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition. Interest expense is recognised on an effective interest basis.

Derecognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 3 to the consolidated financial statements, the directors of the Company are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and underlying assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Valuation of unlisted equity instrument at FVTOCI

In determining the fair value of the Group's investment in equity interest in HCMPS Healthcare Holdings Limited ("**HCMPS**") (formerly known as C&C International Healthcare Group Limited), unlisted entities of which is included in note 19 to the consolidated financial statements, management's estimates are based on the Group's share of the present value of the estimated future cash flows expected to be generated by HCMPS. Significant assumptions of HCMPS include budgeted sales, gross margin, other related expenses, discount rate and terminal growth rate are required to be made in applying the valuation. Whilst the Group considers the valuation is the best estimates, the ongoing Covid-19 pandemic has resulted in greater market volatility and may cause further disruptions to the investees'/issuer' businesses, which have led to higher degree of uncertainties in respect of the valuations in the current year. Changes in assumptions relating to these factors could affect the reported fair values of these securities. As at 31 December 2022, the fair value of unlisted equity instrument at FVTOCI is approximately HK$15,540,000 (2021: approximately HK$73,556,000).

Impairment loss on trade receivables

The policy for allowance for doubtful debts of the Group is based on the evaluation of collectability of amounts based on management's estimate. In determining whether impairment is required, the Group takes into consideration the likelihood of collection of debts on an individual basis as well as on a collective basis, including the Group's past experience of collecting payments. Specific allowance is only made for receivables that are unlikely to be collected and is recognised on the difference between the estimated future cash flow expected to receive discounted using the original interest rate and the carrying value. As at 31 December 2022, the carrying amount of trade receivables is approximately HK$33,999,000 (2021: approximately HK$55,730,000), net of impairment loss allowance of approximately HK$36,689,000 (2021: approximately HK$32,814,000). The provision of ECL is sensitive to changes in estimates. The information about the ECL and the Group's trade receivables are disclosed in note 32(b).

4. KEY SOURCES OF ESTIMATION UNCERTAINTY *(Continued)*

Estimated allowances on deposits paid to suppliers

Management regularly assess the loss allowances for ECL on deposits paid to suppliers. Allowances for these deposits are made based on evaluation of ECL for deposits paid to suppliers and involve exercise of management's judgements. A considerable amount of judgement is required in assessing the ultimate realisation of these deposits paid to suppliers, including their current creditworthiness and the risk of default. The assessment on the probability of default and loss given default is based on credit rating adjusted by future economy. As at 31 December 2022, the carrying amount of deposits paid to suppliers is approximately HK$114,686,000 (2021: approximately HK$126,280,000), net of impairment loss allowance of approximately HK$8,078,000 (2021: approximately HK$11,258,000) as disclosed in notes 22 and 23 to the consolidated financial statements. The information about the ECL and the Group's deposits paid to suppliers are disclosed in note 32(b).

Allowance for inventories

The management of the Group reviews the ageing of the inventories at the end of the reporting period, and makes allowance for obsolete and slow-moving inventory items identified that are no longer saleable in the market. The identification of obsolete inventories requires the use of estimation of the net realisable value of items of inventory and estimates on the conditions and usefulness of items of inventories. Where the expectation on the net realisable value is lower than the cost for certain items, a write-down of inventories may arise. As at 31 December 2022, the carrying amount of inventories is approximately HK$35,230,000 (2021: approximately HK$125,307,000).

5. 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 **HK$'000**	2021 HK$'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.

6. 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)**

6. SEGMENT INFORMATION *(Continued)*

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).

6. SEGMENT INFORMATION *(Continued)*

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.

7. OTHER INCOME, GAINS AND LOSSES, NET

	2022 HK$'000	2021 HK$'000
Incentives received from government grants (note)	123	30
Bank interest income	2,655	1,211
Interest income from promissory note (note 22)	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.

8. FINANCE COSTS

	2022 HK$'000	2021 HK$'000
Interest expense on bank borrowing	113	191
Interest expense on lease liabilities	64	89
	177	280

9. INCOME TAX CREDIT

	2022 HK$'000	2021 HK$'000
Current tax:		
PRC Enterprise Income Tax ("**EIT**")	–	–
Under-provision in prior year:		
Hong Kong profits tax	–	(147)
	–	(147)
Deferred tax (note 28)	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.

9. INCOME TAX CREDIT *(Continued)*

The tax credit for the year can be reconciled to the loss before taxation per the consolidated statement of profit or loss and other comprehensive income as follows:

	2022 HK$'000	2021 HK$'000
Loss before taxation	**(80,286)**	(3,608)
Tax at the domestic income tax rate of 25% (2021: 25%) (note (i))	**(20,072)**	(902)
Tax effect of share of profit of associates	**–**	(277)
Tax effect of income not taxable for tax purpose	**(80)**	(542)
Tax effect of expenses and losses not deductible for tax purposes	**4,775**	3,757
Under provision in prior year	**–**	147
Tax effect of tax losses not recognised	**–**	437
Tax effect of utilisation of tax losses not recognised	**1,759**	(4,262)
Tax effect of deductible temporary differences not recognised	**11,764**	1,163
Effect of different tax rate of subsidiaries operating in other jurisdictions	**1,863**	637
Deferred tax on undistributed earnings of PRC subsidiaries and associates	**(2,339)**	(931)
Others	**(9)**	(11)
Income tax credit for the year	**(2,339)**	(784)

Note:

(i) The domestic tax rate (which is PRC EIT rate) in the jurisdiction where the operation of the Group is substantially based is used.

10. 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 (note 11(a))	**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

11. DIRECTORS', CHIEF EXECUTIVE'S EMOLUMENTS AND FIVE HIGHEST PAID EMPLOYEES

(a) Directors' and chief executive's emoluments

The emoluments paid or payable to each of the Directors and the Chief Executive Officer, disclosed pursuant to the applicable Listing Rules and Hong Kong Companies Ordinance, were as follows:

	Year ended 31 December 2022						
	Executive directors			Independent non-executive directors			
	Wang Qiuqin ("Ms. Wang") HK$'000	Huo Zhihong ("Mr. Huo") HK$'000	Chu Xueping ("Mr. Chu") HK$'000	Leung Chi Kin HK$'000	Li Sin Ming, Ivy HK$'000	Sy Lai Yin, Sunny HK$'000	Total HK$'000
Fees	960	360	360	240	240	240	2,400
Salaries and other benefits	222	–	–	–	–	–	222
Contributions to retirement benefits scheme	21	–	–	–	–	–	21
Equity-settled share-based payment expenses	1,205	–	1,205	–	–	–	2,410
Total emoluments	2,408	360	1,565	240	240	240	5,053

	Year ended 31 December 2021							
	Executive directors				Independent non-executive directors			
	Wang Qiuqin ("Ms. Wang") HK$'000	Liu Yang ("Mr. Liu") HK$'000	Huo Zhihong ("Mr. Huo") HK$'000	Chu Xueping ("Mr. Chu") HK$'000	Leung Chi Kin HK$'000	Li Sin Ming, Ivy HK$'000	Sy Lai Yin, Sunny HK$'000	Total HK$'000
Fees	960	450	360	193	240	240	240	2,683
Salaries and other benefits	220	–	–	–	–	–	–	220
Contributions to retirement benefits scheme	20	–	–	–	–	–	–	20
Total emoluments	1,200	450	360	193	240	240	240	2,923

11. DIRECTORS', CHIEF EXECUTIVE'S EMOLUMENTS AND FIVE HIGHEST PAID EMPLOYEES *(Continued)*

(a) Directors' and chief executive's emoluments *(Continued)*

The executive directors' emoluments shown above were for their services in connection with the management of the affairs of the Company and the Group.

The independent non-executive directors' emoluments shown above were for their services as directors of the Company.

All of their emoluments disclosed above include those for services rendered by them in such roles.

For both 2022 and 2021, no emoluments were paid by the Group to any of the directors as an inducement to join or upon joining the Group or as compensation for loss of office. No directors waived any emoluments for both 2022 and 2021.

(b) Five highest paid employees

Of the five individuals with the highest emoluments in the Group, two (2021: one) are executive directors of the Company and the emoluments of the remaining three individuals (2021: four individuals including one former director of the Company) were as follows:

	2022 HK$'000	2021 HK$'000
Salaries and other allowances	**1,594**	2,416
Contributions to retirement benefits scheme	**59**	82
Equity-settled share-based payment expenses	**3,266**	–
	4,919	2,498

Their emoluments were within the following bands:

	Number of employees	
	2022	2021
Nil to HK$1,000,000	**–**	4
HK$1,000,001 to HK$1,500,000	**1**	–
HK$1,500,001 to HK$2,000,000	**1**	–
HK$2,000,001 to HK$2,500,000	**1**	–
	3	4

12. 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.

13. 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	2021
	HK$'000	HK$'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	2021
	'000	'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.

14. PROPERTY, PLANT AND EQUIPMENT

	Buildings HK$'000	Furniture, fixtures and equipment HK$'000	Motor vehicles HK$'000	Total HK$'000
COST				
At 1 January 2021	8,351	8,114	8,685	25,150
Additions	–	59	–	59
Disposals	–	(112)	–	(112)
Exchange realignment	246	234	256	736
At 31 December 2021	8,597	8,295	8,941	25,833
Additions	**3,144**	**39**	**5,514**	**8,697**
Disposals	**–**	**(27)**	**(1,118)**	**(1,145)**
Exchange realignment	**(861)**	**(688)**	**(942)**	**(2,491)**
At 31 December 2022	**10,880**	**7,619**	**12,395**	**30,894**
ACCUMULATED DEPRECIATION				
At 1 January 2021	1,584	3,909	6,831	12,324
Provided for the year	230	1,477	585	2,292
Disposals	–	(107)	–	(107)
Exchange realignment	50	131	210	391
At 31 December 2021	1,864	5,410	7,626	14,900
Provided for the year	**335**	**1,340**	**1,406**	**3,081**
Disposals	**–**	**(25)**	**(1,029)**	**(1,054)**
Exchange realignment	**(172)**	**(499)**	**(662)**	**(1,333)**
At 31 December 2022	**2,027**	**6,226**	**7,341**	**15,594**
CARRYING VALUES				
At 31 December 2022	**8,853**	**1,393**	**5,054**	**15,300**
At 31 December 2021	6,733	2,885	1,315	10,933

The above items of property, plant and equipment are depreciated on a straight-line basis at the following rates per annum:

Buildings	Over the shorter of term of land lease or 5%
Furniture, fixtures and equipment	20% to 33%
Plant and machinery	10% to 33%
Motor vehicles	25%

The Group pledged buildings with aggregate carrying amounts of approximately HK$2,295,000 as at 31 December 2022 to secure general banking facilities granted to the Group (2021: HK$5,211,000 to secure the Group's bank borrowing set out in note 27 and general banking facilities granted to the Group).

15. RIGHT-OF-USE ASSETS

	Prepaid lease payments HK$000	Leased properties HK$000	Total HK$000
Carrying amount			
As at 1 January 2021	18,912	2,439	21,351
Addition	–	–	–
Depreciation charged to profit or loss during the year	(512)	(1,013)	(1,525)
Exchange realignment	549	45	594
At 31 December 2021	18,949	1,471	20,420
Addition	**986**	**865**	**1,851**
Depreciation charged to profit or loss during the year	**(528)**	**(953)**	**(1,481)**
Exchange realignment	**(1,626)**	**(89)**	**(1,715)**
At 31 December 2022	**17,781**	**1,294**	**19,075**

For both years, the Group holds land use rights on land and leases offices and warehouses for its operations. Lease contracts are entered into for fixed term of 12 months to 5 years, but may have extension and termination options as described below. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. In determining the lease term and assessing the length of the non-cancellable period, the Group applies the definition of a contract and determines the period for which the contract is enforceable.

The Group pledged land use rights classified as prepaid lease payments in rights-of-use assets with aggregate carrying amounts of approximately HK$10,741,000 as at 31 December 2022 to secure the general banking facilities granted to the Group (2021: HK$18,949,000 to secure the Group's bank borrowing as set out in note 27 and general banking facilities granted to the Group). The land use right relates to land in the PRC, with lease term ends in 2056.

16. PREPAYMENT FOR A DISTRIBUTION RIGHT

The Group entered into an agreement with a third party, whereby the third party would facilitate and secure the Group to obtain an exclusive distribution right in the PRC for an injection drug for a period of 10 years starting from 1 January 2016 from the drug manufacturer, which is based in Taiwan. The third party was previously the holder of the exclusive distribution drug in the PRC for the injection drug. The Group had made a prepayment of RMB32,000,000 (equivalent to HK$38,209,000) to the third party during the year ended 31 December 2015. The prepayment is refundable if the exclusive distribution right cannot be obtained by the Group and the amount to be refunded is in proportion to the period or periods which the Group cannot obtain such right over 10 years. The prepayment is being amortised as an expense in profit or loss over a period of 10 years and the prepayment for such right for the next financial year is classified as a current asset.

17. INTANGIBLE ASSET

	HK$'000
COST	
At 1 January 2021	19,011
Exchange realignment	559
At 31 December 2021	19,570
Exchange realignment	**(1,658)**
At 31 December 2022	**17,912**
ACCUMULATED AMORTISATION	
At 1 January 2021	10,298
Provided for the year	1,929
Exchange realignment	331
At 31 December 2021	12,558
Provided for the year	**1,870**
Exchange realignment	**(1,143)**
At 31 December 2022	**13,285**
CARRYING VALUE	
At 31 December 2022	**4,627**
At 31 December 2021	7,012

The cost of the intangible asset represents the cost of acquisition of the trademark of the injection drug in the PRC which was paid to the drug manufacturer based in Taiwan, who had granted to the Group the exclusive distribution right in the PRC for the injection drug.

The trademark has finite useful lives and is amortised on a straight-line basis over 10 years.

18. CLUB DEBENTURE

The club debenture represents entrance fee paid to a golf club. As at 31 December 2022, the directors of the Company considered the value of club debenture were identified with reference to market price of the club debenture.

19. EQUITY INSTRUMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME/FINANCIAL ASSET AT FAIR VALUE THROUGH PROFIT OR LOSS

Equity instruments at FVTOCI comprise:

	2022 HK$'000	2021 HK$'000
Listed investments:		
– Equity securities listed in Hong Kong (note i)	**48,575**	54,098
Unlisted investments:		
– Equity securities (notes ii)	**15,540**	73,556
Total	**64,115**	127,654
Analysed for reporting purposes as:		
Non-current assets	**64,115**	127,654

Financial asset at FVTPL comprises:

	2022 HK$'000	2021 HK$'000
Unlisted investment (note iii)	**25,470**	–
Total	**25,470**	–
Analysed for the reporting purpose as:		
Non-current assets	**25,470**	–

Notes:

(i) Balance is mainly comprised of the Group's investment in the equity securities listed on the Stock Exchange. The directors of the Company have elected to designate these investments in equity instruments at FVTOCI as they believe that this investment is held for long-term purpose and realising the performance potential in the long-run.

During the year ended 31 December 2021, fair value gain of HK$16,852,000 has been recognised in other comprehensive income, and 2,398,000 shares of Town Health amounting to HK$1,455,000 were disposed of as the directors of the Company considered that all the shares of Town Health have been held for over 5 years and decided to realise certain of the shares.

19. EQUITY INSTRUMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME/FINANCIAL ASSET AT FAIR VALUE THROUGH PROFIT OR LOSS *(Continued)*

Notes: *(Continued)*

(ii) The above unlisted equity investment includes investment in unlisted equity securities issued by HCMPS, a private entity incorporated in the Cayman Islands with limited liability. The Group holds 14% (2021: 14%) of the issued share capital of HCMPS as at 31 December 2022. HCMPS and its subsidiaries are principally engaged in the provision of contracted medical schemes for integrated medical and healthcare check-up services in Hong Kong. The directors of the Company have elected to designate this investment in equity instrument at FVTOCI as they believe that this investment is held for long-term purpose and realising the performance potential in the long-run. The directors adopted the discounted cash flows in arriving at the fair value. Significant assumptions used in the valuation such as budgeted sales, gross margin, other related expenses, discount rate and terminal growth rate. Details are disclosed in note 32(c)(i) to the consolidated financial statements.

As at 31 December 2022, the fair value of the Group's investment in HCMPS amounted to HK$15,540,000 (2021: HK$19,740,000). The fair value loss of HK$4,200,000 (2021: HK$6,860,000) has been recognised in other comprehensive income for the year ended 31 December 2022.

As at 31 December 2021, the unlisted equity investment included investment in unlisted equity securities issued by Saike International, a private entity incorporated in the BVI with limited liability in July 2014. As disclosed in note 20(a) to the consolidated financial statements, the Group lost significant influence over Saike International on 1 March 2021. The Group held 25% of the issued share capital of Saike International as at 31 December 2021. The directors of the Company have elected to designate this investment in equity instrument at FVTOCI as they believe that this investment is held for long-term purpose and realising the performance potential in the long-run. The directors assessed the fair value of the unlisted equity as at 31 December 2021 to be HK$53,816,000 and have adopted the market approach with reference to recent transactions.

On 29 March 2022, the Group entered into a sale and purchase agreement with an independent third party to sell the remaining 25% equity shares of Saike International, at consideration of RMB44,000,000 (equivalent to HK$53,816,000). The disposal was completed on 15 August 2022. The Group does not hold any equity share of Saike International as at 31 December 2022.

During the year ended 31 December 2021, the Group had disposed of all shares of WinHealth International at a cash consideration of RMB 68,000,000. WinHealth International, a private entity incorporated in the BVI with limited liability in March 2015. On 5 December 2016 and 14 March 2017, the Group entered into a sale and purchase agreement and a supplemental agreement (collectively, the "**WinHealth S&P Agreement**") with Mr. Wang Wei ("**Mr. Wang**") for the acquisition of 15% of the issued share capital of WinHealth International at a consideration of RMB47,250,000 (equivalent to HK$53,336,000) in cash. WinHealth International and its subsidiaries (the "**WinHealth Group**") are principally engaged in the distribution of pharmaceutical products in the PRC and it has exclusive distribution rights of certain imported prescription drugs in the PRC.

(iii) The above unlisted investment represents investment in unlisted shares issued by Shengzhou Xinrui Wanma Industrial Co., Ltd ("**Shengzhou Xinrui**"), a private entity incorporated in Mainland China with limited liabilities in July 2022. On 11 July 2022, the Group and two partners, independent third parties, entered into a cooperation agreement. Pursuant to the cooperation agreement, the initial registered capital of Shengzhou Xinrui is RMB50 million (equivalent to approximately HK$58.8 million) and 39% of the initial capital contribution shall be made by the Group. The amount of initial capital contribution of the Group is RMB19.5 million (equivalent to approximately HK$22.9 million). Further capital contribution of RMB2.5 million (equivalent to approximately HK$2.6 million) paid by the Group in December 2022. Shengzhou Xinrui is to engage in the project which involves the investment and construction of a healthcare industrial park in Shengzhou, Zhejiang Province, the PRC, and the project includes the acquisition of the land use right of the project land which is a parcel of land with site area of approximately 100,000 sq.m. by public tender and the construction, development and operation of the related facilities and buildings thereon. On 22 December 2022, the Shengzhou Xinrui successfully acquired land use right of the project land located in Shengzhou, Zhejiang Province by public tender.

The directors of the Company are of the opinion that the Group does not have significant influence over the Shengzhou Xinrui and recognised the investment as financial asset at fair value through profit or loss, and the aforesaid investment is classified as non-current asset as the management expects to realise this financial asset after twelve months after the reporting period.

Subsequent to the end of the reporting period, on 16 January 2023, a supplemental agreement to the cooperation agreement was entered among the shareholders, revised aggregate shareholders' loan of RMB23.7 million will be made by the shareholders to Shengzhou Xinrui, and of which RMB9.2 million will be made by the Group, as set out in the Company's announcement dated 16 January 2023.

20. INTEREST IN ASSOCIATE

	2022 HK$'000	2021 HK$'000
Cost of unlisted investments in associate	**–**	–
Share of post-acquisition profit and other comprehensive income	**–**	–
Exchange difference arising on translation	**–**	–
	–	–
Impairment loss	**–**	–
	–	–

On March 2021, the Group lost significant influence over Saike International. Details can be referred to note 19(ii) to the consolidated financial statements.

As at 31 December 2022, the interest in associate represent a 20.0% equity interest in Sea Star International Limited ("**Sea Star**"), a company incorporated in the BVI in 2015. The Group was able to exercise significant influence over Sea Star as the Group had the power to participate in the financial and operating policy decisions of the investees but did not have control or joint control over those policies. Accordingly, Sea Star were regarded as associate of the Group as at 31 December 2022.

Details of the Group's associate at 31 December 2022 and 2021 are as follows:

Name	**Place of incorporation**	**Proportion of Ownership held by the Group**		**Principal activities**
		2022	2021	
Sea Star	the BVI	**20.0%**	20.0%	Inactive

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

On 16 July 2015, all the conditions precedent to the S&P Agreement had been fulfilled and the completion of Saike Acquisition (the "**Completion**") took place on the same day.

20. INTEREST IN ASSOCIATE *(Continued)*

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

On 30 November 2020, Major Bright entered into the Disposal Agreement with an independent third party, Wing Yin Holdings Limited ("**Wing Yin**") and its guarantor, for the disposal of 25% equity interest in Saike International ("**Disposal**") at a maximum consideration of RMB44,000,000 (equivalent to approximately HK$51.8 million).

On 10 February 2021, all the conditions precedent set out in the Disposal Agreement have been fulfilled and completion of the disposal took place on the same day. A loss of HK$1,420,000 on such partial disposal of interest in Saike International (note 7 to the consolidated financial statements) was recognised in the consolidated profit or loss during the year ended 31 December 2021. Immediately after completion of the Disposal, the Group held 25% equity interest in 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 of the Company are of the opinion 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 and has no power to participate in the financial and operating policy decision 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 (note 19 to the consolidated financial statements) with fair value loss of HK$1,566,000 (note 7 to the consolidated financial statements) recognised in the consolidated profit or loss during the year ended 31 December 2021.

The summarised financial information below represents amounts shown in the then associate's financial statements prepared in accordance with HKFRSs. The then associates were accounted for using equity method in these consolidated financial statements.

20. INTEREST IN ASSOCIATE *(Continued)*

Saike International

	2021 HK$'000
Current assets	N/A
Non-current assets	N/A
Current liabilities	N/A
Net assets attributable to owners of Saike International	N/A

	For the period from 1 January 2021 to 28 February 2021 HK$'000
Revenue for the year/period	2,585
Profit for the year/period	2,363
Other comprehensive income for the year/period	566
Total comprehensive income for the year/period	2,292
Group's share of profit of Saike International	1,110
Dividends declared from Saike International during the year/period	–

21. INVENTORIES

	2022 HK$'000	2021 HK$'000
Finished goods	**35,230**	125,307

During the year, an impairment loss of HK$42,432,000 (2021: nil) on inventories was recognised due to slow-moving inventories.

22. TRADE AND OTHER RECEIVABLES

	2022 HK$'000	2021 HK$'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) (note 23)	**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:

As disclosed in note 19, 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.

22. TRADE AND OTHER RECEIVABLES *(Continued)*

	2022 HK$'000	2021 HK$'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

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

Included in the Group's trade receivable balance are receivables due from trade debtors with aggregate carrying amount of approximately HK$22,510,000 (2021: approximately HK$3,359,000) which are past due but not impaired as at 31 December 2022. The Group has provided for impairment loss of approximately HK$6,949,000 (2021: impairment loss of HK$1,974,000) during the year ended 31 December 2022 based on the provision matrix. The Group does not hold any collateral over these balances.

The Group has provided for impairment loss on all receivables over 365 days past due based on the dates of goods delivery notes because in the opinion of the directors of the Company, the receivables that are past due beyond 365 days are generally not recoverable. Receivables past due over 365 days amounted to approximately HK$21,592,000 (2021: approximately HK$26,648,000) as at 31 December 2022. The Group's exposure to credit risk and ECL for trade receivables is stated in note 32(b).

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

The Group has provided for reversal of impairment loss of approximately HK$2,325,000 (2021: impairment loss of approximately HK$2,679,000) on deposits paid to suppliers during the year ended 31 December 2022.

23. DEPOSITS PAID TO SUPPLIERS

From time to time, the Group is required to make deposit payments to its suppliers as a condition of acquiring the distribution rights of specific products and as security for purchase of products. The deposits will be collected back from suppliers at the end of the distribution agreements.

23. DEPOSITS PAID TO SUPPLIERS *(Continued)*

During the year ended 31 December 2022 and 2021, the Group has agreed with the suppliers that, even if the minimum purchase requirement is not met, the deposit will still be refunded to the Group (i.e. no forfeiture).

As at 31 December 2022 and 2021, all deposits were classified as current assets because the amount is expected to be refunded in 2023 and 2022 respectively.

The movements of the deposits paid to suppliers are as follows:

	2022 **HK$'000**	2021 HK$'000
At 1 January	**126,280**	162,762
Deposits paid	**–**	24,462
Deposits refunded	**(3,123)**	(63,010)
Reversal of (allowance for) credit loss	**2,325**	(2,679)
Exchange realignment	**(10,796)**	4,745
At 31 December	**114,686**	126,280
Classified as:		
Current assets (included in trade and other receivables)	**114,686**	126,280

The Group's exposure to credit risk and expected credit loss for deposits paid to suppliers is stated in note 32(b) to the consolidated financial statements.

24. BANK BALANCES AND CASH

Bank balances and cash comprise cash held by the Group and short-term bank deposits with an original maturity of three months or less. The deposits carry interest at market rates which range from 0.001% to 2% (2021: 0.001% to 0.3%) per annum, for the year ended 31 December 2022.

As at 31 December 2022, deposits of HK$389,000 (2021: HK$1,441,000) were placed with the securities brokers for trading securities in Hong Kong. The amounts were unrestricted and withdrawable on demand.

The Group's bank balances and cash that are denominated in currencies other than the functional currencies of the relevant group entities are set out below:

	2022 **HK$'000**	2021 HK$'000
HK$	**50,511**	25,214
USD	**–**	38,925

25. OTHER PAYABLES

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

All contract liabilities, that are expected to be settled within the Group's normal operating cycle which is within 12 months after the end of the reporting period, are classified as current liabilities based on the Group's earliest obligation to transfer goods or services to the customers. The receipts in advance from customers for the years ended 31 December 2022 and 31 December 2021 were classified to contract liabilities.

Notes:

(i) Movement of contract liabilities during the years ended 31 December 2022 and 31 December 2021 are as follows:

	2022 HK$'000	2021 HK$'000
At 1 January	**421**	21,002
Increase in contract liabilities as a result of receipts in advance from customers	**872**	283
Decrease in contract liabilities as a result of recognition of revenue during the year that was included in the contract liabilities at the beginning of the year	**(283)**	(20,868)
Exchange realignment	**(11)**	4
At 31 December	**999**	421

26. LEASE LIABILITIES

	2022 HK$'000	2021 HK$'000
As at 1 January	**1,464**	2,398
Addition	**1,851**	–
Payments	**(2,000)**	(1,071)
Interest expense on lease liabilities	**64**	89
Exchange realignment	**(101)**	48
At 31 December	**1,278**	1,464
Lease liabilities payable		
Within 1 year	**985**	543
After 1 year but within 5 years	**293**	921
	1,278	1,464

No lease obligations that are denominated in currencies other than the functional currencies of the relevant group entities as at 31 December 2022 and 31 December 2021.

27. BANK BORROWING

	2022 HK$'000	2021 HK$'000
Bank loan	**–**	11,375
Due for payment:		
Within 1 year	**–**	11,375

The bank borrowing bears interest at floating interest rate of 1-year Loan Prime Rate ("**LPR**") per annum.

At 31 December 2021, the Group's bank borrowing of HK$11,375,000 was secured by rights-of-use assets in relation to land use right amounting to HK$12,067,000 and an office building amounting to HK$2,594,000.

28. DEFERRED TAX LIABILITIES

The deferred tax liabilities recognised by the Group and movements thereon during the reporting periods are as follows:

	Withholding tax on undistributed earnings of the PRC subsidiaries and associates HK$'000
At 1 January 2021	9,719
Credit to profit or loss	(931)
Exchange realignment	272
At 31 December 2021	9,060
Credit to profit or loss	**(2,339)**
Exchange realignment	**(669)**
At 31 December 2022	**6,052**

Under the EIT Law of the PRC, a 10% withholding tax is imposed on dividends declared to foreign investors in respect of profits earned by PRC subsidiaries from 1 January 2008 onwards.

Pursuant to an approval from the relevant PRC government obtained by the Group in December 2012, the Group is entitled to a withholding tax at the rate of 5% for dividend payments from the Group's PRC subsidiaries.

The Group has unused tax losses of approximately HK$14,052,000 (2021: HK$16,799,000) as at 31 December 2022, available for offset against future profits. No deferred tax asset has been recognised in respect of the unutilised tax losses due to the unpredictability of future profits stream. Included in unrecognised tax losses as at 31 December 2022 are losses of HK$260,000, HK$10,281,000, HK$920,000, HK$259,000 and HK$83,000 that will expire in 2023, 2024, 2025, 2026 and 2027, respectively.

At the end of the reporting period, the Group has deductible temporary difference of HK$11,764,000 (2021: HK$1,163,000). No deferred tax asset has been recognised in relation to such deductible difference as it is not probable that taxable profit will be available against which the deductible temporary difference can be utilised.

29. SHARE CAPITAL OF THE COMPANY

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

	Number of shares '000	Amount 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.

30. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY

Information about the statement of financial position of the Company at the end of the reporting periods are as follows:

	Notes	2022 HK$'000	2021 HK$'000
Non-current assets			
Investments in subsidiaries		**96,801**	96,880
Amounts due from subsidiaries		**406,007**	411,013
		502,808	507,893
Current assets			
Other receivables		**308**	238
Bank balances and cash		**1,393**	2,721
		1,701	2,959
Current liabilities			
Other payables		**1,983**	1,075
Net current (liabilities) assets		**(282)**	1,884
Total assets less current liabilities		**502,526**	509,777
Capital and reserves			
Share capital	29	**83,592**	83,592
Reserves	30(a)	**418,934**	426,185
Equity attributable to owners of the Company		**502,526**	509,777

The financial statements were approved and authorised for issue by the Board of Directors on 29 March 2023 and are signed on its behalf by:

WANG QIUQIN
DIRECTOR

CHU XUEPING
DIRECTOR

30. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY

(Continued)

Note:

(a) Movement in the Company's reserves

	Share premium HK$'000	Contributed surplus HK$'000	Translation reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1 January 2021	607,614	50,167	(2,574)	(223,988)	431,219
Total comprehensive income (expense) for the year	–	–	303	(5,337)	(5,034)
At 31 December 2021	607,614	50,167	(2,271)	(229,325)	426,185
Total comprehensive income (expense) for the year	**–**	**–**	**1,344**	**(8,595)**	**(7,251)**
At 31 December 2022	**607,614**	**50,167**	**(927)**	**(237,920)**	**418,934**

31. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in 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's overall strategy remained unchanged from prior year.

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.

The directors of the Company review the capital structure periodically. As part of this review, the directors consider the cost of capital and the risks associated with each class of capital. Based on the recommendations of the directors, the Group will balance its overall capital structure through the new share issues as well as the issue of new debt or the redemption of existing debt.

32. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

	2022 HK$'000	2021 HK$'000
Financial assets		
Equity instruments at FVTOCI	**64,115**	127,654
Financial assets at FVTPL	**26,030**	612
Financial assets at amortised cost (including cash and cash equivalents)	**319,048**	332,163
	409,193	460,429
Financial liabilities		
Amortised cost	**6,257**	18,581

(b) Financial risk management objectives and policies

The management of the Group monitors and manages the financial risks relating to the operations of the Group through internal risk reports which analyse exposures by degree and magnitude of risks. These risks include market risk (including foreign currency risk, interest rate risk and other price risks), credit risk and liquidity risk.

There has been no change to the types of the Group's exposure in respect of financial instruments or the manner in which it manages and measures the risks.

Market risk

(i) Foreign currency risk management

The Group has foreign currency bank balances which expose the Group to foreign currency risk. The carrying amount of the Group's foreign currency denominated monetary assets at the end of reporting period are as follows:

	Assets	
	2022 HK$'000	2021 HK$'000
HK$	**2,926**	25,214
USD	**–**	38,925

32. FINANCIAL INSTRUMENTS *(Continued)*

(b) Financial risk management objectives and policies *(Continued)*

Market risk *(Continued)*

(i) Foreign currency risk management (Continued)

The Group is mainly exposed to HK$. The following table details the Group's sensitivity to a 3% (2021: 3%) increase and decrease in the functional currency of each group entity against the above foreign currency. 3% (2021: 3%) is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rate. A positive number below indicates a decrease in loss after tax where the above foreign currency strengthens by 3% (2021: 3%) against the functional currency of the respective group entity (i.e. RMB). For a 3% (2021: 3%) weakening of the above foreign currency against the functional currency of the respective group entity, there would be an equal and opposite impact on the loss after tax and the balances below would be negative.

	2022 HK$'000	2021 HK$'000
Loss after tax	**66**	1,443

(ii) Interest rate risk management

The Group is exposed to cash flow interest rate risk in relation to bank deposits and bank borrowing at floating interest rates. The Group cash flow interest rate risk is mainly concentrated on the fluctuation of interest rates on bank balances and Loan Prime Rate arising from the Group's RMB denominated borrowing. The Group aims at keeping borrowing at variable rates.

The Group manages its interest rate exposures by assessing the potential impact arising from any interest rate movements based on interest rate level and outlook. The management will review the proportion of borrowing in floating rates and ensure they are within reasonable range.

The directors consider the Group's exposure of the bank balances to cash flow interest rate risk is insignificant as interest bearing bank balances are within short maturity period. Besides, as the fluctuation of market interest rate on bank balances are not expected to be significant, no sensitivity analysis for bank balances is prepared.

Interest rate sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to interest rates at the end of the reporting period. The analysis is prepared assuming the financial instruments outstanding at the end of the reporting period were outstanding for the whole year. A 100 basis point (2021: 100 basis point) increase or decrease in variable-rate bank borrowing is used and represents management's assessment of the reasonably possible change in interest rates. Bank balances are excluded from sensitivity analysis as explained in above.

If interest rates had been 100 basis points (2021: 100 basis points) higher/lower and all other variables were held constant, the Group's loss after tax for the year ended 31 December 2022 would increase/decrease by nil (2021: HK$85,000). This is mainly attributable to the Group's exposure to interest rates on its variable-rate bank borrowing.

32. FINANCIAL INSTRUMENTS *(Continued)*

(b) Financial risk management objectives and policies *(Continued)*

Market risk *(Continued)*

(ii) Interest rate risk management (Continued)

The Group currently does not have any interest rate hedging policy in relation to cash flow interest rate risks. The directors monitor the Group's exposure on an ongoing basis and will consider hedging the interest rate should the need arise.

(iii) Other price risks

The Group is exposed to equity price risk through its investments in listed equity securities. The management manages this exposure by maintaining a portfolio of investments with different risks. The Group's equity price risk is concentrated on equity securities quoted in the Stock Exchange.

The Group has concentration of equity price risk on its equity instruments at FVTOCI listed in Hong Kong as 100% (2021: 100%) of its equity interests held by the Group are issued by five (2021: four) issuers. The management of the Group considers that the equity price risk on the equity instruments at FVTOCI in the equity interests held is limited as they were issued by five (2021: four) companies whose shares are listed on the Stock Exchange.

The Group has concentration of equity price risk on its unlisted equity instruments at FVTOCI as 100% (2021: 100%) of its equity interests held by the Group are issued by one (2021: two) issuers. The management of the Group considers that the equity price risk of the unlisted equity instruments at FVTOCI in equity interests held is limited as the directors of the Company took into consideration of the discounted cash flow method and option-pricing method of the investments and considered that they could recover fully the carrying value of the investments.

Equity price sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to equity price risk, excluding the listed securities under suspension and unlisted investments, at the end of the reporting period. Sensitivity analysis for unquoted equity securities with fair value measurement categorized within level 3 were disclosed in Note 32 (c).

If the prices of the respective equity instruments at FVTOCI had been 10% (2021: 10%) lower/higher:

- Loss after tax for the year ended 31 December 2022 and 2021 would have no impact as a result of the changes in fair value; and

- FVTOCI (non-recycling reserve) would increase/decrease by HK$4,857,000 (2021: HK$5,410,000) for the Group as a result of the changes in fair value of equity instruments at FVTOCI.

The Group's sensitivity to equity instruments at FVTOCI has not changed significantly from the prior year.

32. FINANCIAL INSTRUMENTS *(Continued)*

(b) Financial risk management objectives and policies *(Continued)*

Credit risk and impairment assessment

As at 31 December 2022 and 2021, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position.

The Group's credit risk arising from its financial assets is primarily attributable to its trade receivables and deposits paid to suppliers. In order to minimise the credit risk arising from its trade receivables and deposits paid to suppliers, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt and each deposit paid to supplier at the end of the reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The Group has concentration of credit risk on bank balances as 87% (2021: 86%) of balances are placed with four (2021: four) banks of which three (2021: three) are located in the PRC and one (2021: one) is located in Hong Kong as at 31 December 2022.

The credit risk on liquid funds is limited because the counterparties are banks with good reputation.

The Group has concentration of credit risks on its outstanding trade receivables as 71% (2021: 70%) of its trade receivables were due from four (2021: three) customers as at 31 December 2022. These four (2021: three) customers are distributors which are private enterprises engaged in trading and wholesaling of drugs in Shaanxi, Hunan and Hubei in the PRC as at 31 December 2022 (2021: Hunan and Hubei in the PRC). In addition, the Group also has concentration of credit risks on its deposits paid to suppliers as 99% (2021: 97%) of its deposits paid to suppliers were paid to three (2021: three) suppliers in aggregate as at 31 December 2022. Such suppliers are also private enterprises principally engaged in pharmaceutical trading and distribution in the PRC. In the opinion of the directors of the Company, indicators that there is no reasonable expectation of recovery include the failure of debtors to make ongoing settlement with the Group and the failure of debtors to make contractual payments on certain debts that are more than 365 days past due. The management of the Group has delegated a team responsible for determination of credit limits and monitoring procedures to ensure that follow-up action to recover overdue debts and to monitor credit risk on customers and suppliers.

32. FINANCIAL INSTRUMENTS *(Continued)*

(b) Financial risk management objectives and policies *(Continued)*

Credit risk and impairment assessment *(Continued)*

The Group's internal credit risk grading assessment comprises the following categories:

Internal credit rating	Description	Trade receivables/ deposits paid to suppliers	Other financial assets/other items
Low risk	The counterparty has a low risk of default and does not have any past-due amounts	Lifetime ECL – not credit-impaired	12m ECL
Watch list	Debtor frequently repays after due dates in full	Lifetime ECL – not credit-impaired	12m ECL
Doubtful	There have been significant increases in credit risk since initial recognition through information developed internally or external resources	Lifetime ECL – not credit-impaired	Lifetime ECL – not credit-impaired
Loss	There is evidence indicating the asset is credit-impaired	Lifetime ECL – credit-impaired	Lifetime ECL – credit-impaired
Write-off	There is evidence indicating that the debtor is in severe financial difficulty and the Group has no realistic prospect of recovery	Amount is written off	Amount is written off

The tables below detail the credit risk exposures of the Group's financial assets, which are subject to ECL assessment:

	Notes	External credit rating	Internal credit rating	Gross carrying amount 2022 HK$'000	Gross carrying amount 2021 HK$'000
Bank balances and cash	24	AA+	N/A	**154,413**	150,153
Trade receivables	22	N/A	Low risk (note ii)	**27,454**	61,896
Trade receivables	22	N/A	Doubtful risk (note ii)	**21,642**	–
Trade receivables	22	N/A	Loss (note ii)	**21,592**	26,648
Promissory note from disposal of equity instrument at FVTOCI	22	N/A	Watch list (note iii)	**15,948**	–
Deposits paid to suppliers	23	N/A	Low risk (note iv)	**122,764**	137,538
				363,813	376,235

32. FINANCIAL INSTRUMENTS *(Continued)*

(b) Financial risk management objectives and policies *(Continued)*

Credit risk and impairment assessment *(Continued)*

Notes:

i. For the purposes of internal credit risk management, the Group uses past due information to assess whether credit risk has increased significantly since initial recognition.

ii. For trade receivables, the Group has applied the simplified approach in HKFRS 9 to measure the loss allowance at lifetime ECL. Except for debtors with significant outstanding balances or credit-impaired, the Group determines the ECLs on these items by past due status.

In addition, the Group performs impairment assessment under ECL model on trade receivables with significant balances and credit-impaired individually and/or collectively. Except for trade receivable from those customers whose internal crediting are classified as credit-impaired, which are assessed for impairment individually, the Group measures loss allowances for remaining trade receivables at an amount equal to lifetime ECLs, which is calculated using a provision matrix. As the Group's historical credit loss experience indicates significantly different loss patterns for different customer segments, the loss allowance based on past due status is further distinguished between the Group's different customer bases. The Group has performed historical analysis and identified the key economic variables impacting credit risk and expected credit loss. It considers variable reasonable and supportive forwarding-looking information. The grouping is regularly reviewed by the management to ensure relevant information about specific debtors is updated.

The following table provides information about the exposure to credit risk for trade receivables which are assessed on a collective basis by using provision matrix within lifetime ECL (not credit-impaired). Debtors with doubtful risk and credit-impaired with gross carrying amounts of HK$21,642,000 and HK$21,592,000 as at 31 December 2022 (2021: Nil and HK$26,648,000) were assessed individually.

For the year ended 31 December 2022	Expected loss rate %	Gross carrying amount HK$'000	Loss allowance HK$'000	Net carrying amount HK$'000
Types of customers				
Low risk customers				
Current (not past due)	1%	11,616	127	11,489
1–365 days past due	26%	15,838	4,126	11,712
Over 365 days past due	–	–	–	–
		27,454	4,253	23,201
Doubtful risk customers	50%	21,642	10,844	10,798
Credit-impaired customers	100%	21,592	21,592	–
		70,688	36,689	33,999

32. FINANCIAL INSTRUMENTS *(Continued)*

(b) Financial risk management objectives and policies *(Continued)*

Credit risk and impairment assessment *(Continued)*

Notes: *(Continued)*

ii. *(Continued)*

For the year ended 31 December 2021	Expected loss rate %	Gross carrying amount HK$'000	Loss allowance HK$'000	Net carrying amount HK$'000
Types of customers				
Low risk customers				
Current (not past due)	10.0%	58,166	5,795	52,371
1–365 days past due	10.0%	3,730	371	3,359
Over 365 days past due	–	–	–	–
		61,896	6,166	55,730
Credit-impaired customers	100.0%	26,648	26,648	–
		88,544	32,814	55,730

ECL rates are based on actual loss experience over the past 12 months. These rates are adjusted to reflect differences between economic conditions during the period over which the historic data has been collected, current conditions and the Group's view of economic conditions over the expected lives of the receivables.

The following table shows the movement in lifetime ECL that has been recognised for trade receivables under the simplified approach:

	Lifetime ECL (not credit-impaired) HK$'000	**Lifetime ECL (credit-impaired)** HK$'000	**Total** HK$'000
As at 1 January 2021	139	29,792	29,931
Impairment loss (reversal of impairment loss) recognised	5,936	(3,962)	1,974
Exchange realignment	91	818	909
As at 1 January 2022	**6,166**	**26,648**	**32,814**
Impairment loss (reversal of impairment loss) recognised	**9,871**	**(2,922)**	**6,949**
Exchange realignment	**(940)**	**(2,134)**	**(3,074)**
As at 31 December 2022	**15,097**	**21,592**	**36,689**

32. FINANCIAL INSTRUMENTS *(Continued)*

(b) Financial risk management objectives and policies *(Continued)*

Credit risk and impairment assessment *(Continued)*

Notes: *(Continued)*

ii. *(Continued)*

The directors of the Company are of the opinion that certain customers who did not share the same credit risk characteristics were in delinquency of payments and their respective trade receivable balances amounting to approximately HK$21,592,000 (2021: HK$26,648,000) were fully impaired. ECL are also estimated by grouping the remaining trade receivables balances based on shared credit risk characteristics and collectively assessed for likelihood of recovery, taking into account its ageing category and applying the expected credit loss rates to the respective gross carrying amounts of these trade receivables and forecast of future economic conditions. Therefore, the ECL of the trade receivables recognised for the year ended 31 December 2022 was approximately HK$6,949,000 (2021: recognised HK$1,974,000).

iii. 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 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 promissory note of RMB14,000,000 was fully settled on 28 February 2023.

iv.

	Gross carrying amount	**Loss allowance**	**Net carrying amount**
	HK$'000	HK$'000	HK$'000
Deposits paid to suppliers			
At 31 December 2022	**122,764**	**8,078**	**114,686**
At 31 December 2021	137,538	11,258	126,280

The following table shows the movement in lifetime expected credit loss that has been recognised for deposits paid for suppliers under the simplified approach:

	Lifetime ECL (not credit-impaired)
	HK$'000
As at 1 January 2021	8,295
Impairment loss recognised	2,679
Exchange realignment	284
As at 1 January 2022	**11,258**
Reversal of impairment loss recognised	**(2,325)**
Exchange realignment	**(855)**
As at 31 December 2022	**8,078**

The directors of the Company are of the opinion that the deposit paid to suppliers assessed as low risk because these deposits paid has yet been past due. The calculation of ECL based on the probability weighted outcome, time value of money, reasonable and supportable information that is available at the reporting date about current conditions and forecast of future economic conditions. The Group has concluded that reversal of impairment loss on deposits paid to suppliers recognised for the year ended 31 December 2022 was HK$2,325,000 (2021: impairment loss HK$2,679,000).

Other than the above, the Group does not have other significant concentration of credit risk.

32. FINANCIAL INSTRUMENTS *(Continued)*

(b) Financial risk management objectives and policies *(Continued)*

Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the Board of Directors, which has built an appropriate liquidity risk management framework to meet the Group's short, medium and long-term funding and liquidity management requirements. The Group manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities, by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

Liquidity tables

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The maturity dates for other non-derivative financial liabilities are based on the agreed repayment dates.

The table includes both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate curve at the end of the reporting period.

	Weighted average interest rate	On demand or less than 1 year	Between 1 year and 5 years	Total undiscounted cash flows	Carrying amount
	%	HK$'000	HK$'000	HK$'000	HK$'000
At 31 December 2022					
Non-derivative financial liabilities					
Other payables	**–**	**4,979**	**–**	**4,979**	**4,979**
Lease liabilities	**4.9%**	**1,017**	**294**	**1,311**	**1,278**
		5,996	**294**	**6,290**	**6,257**
At 31 December 2021					
Non-derivative financial liabilities					
Other payables	–	5,679	–	5,679	5,679
Bank borrowing	4.4%	11,618	–	11,618	11,375
Lease liabilities	4.9%	597	948	1,545	1,464
		17,894	948	18,842	18,518

32. FINANCIAL INSTRUMENTS *(Continued)*

(c) Fair value measurements of financial instruments

(i) Fair value of financial assets that are measured at fair value on a recurring basis

Some of the Group's financial assets are measured at fair value at the end of each reporting period. The following table gives information about how the fair values of these financial assets are determined (in particular, the valuation technique(s) and inputs used), as well as the level of the fair value hierarchy into which the fair value measurements are categorised (levels 1 to 3) based on the degree to which the inputs to the fair value measurements are observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active market for identical assets or liabilities;

- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

32. FINANCIAL INSTRUMENTS *(Continued)*

(c) Fair value measurements of financial instruments *(Continued)*

(i) Fair value of financial assets that are measured at fair value on a recurring basis (Continued)

Financial assets	Fair value as at		Fair value hierarchy	Valuation technique(s)	Significant unobservable input(s)	Range (weighted average)	Relationship of unobservable inputs for fair value
	31 December 2022 HK$'000	31 December 2021 HK$'000					
Equity instruments at FVTOCI listed in Hong Kong	**48,575**	54,098	Level 1	Quoted bid prices in an active market	N/A	N/A	N/A
Club debenture	**560**	612	Level 2	Quoted bid prices in secondary market for identical asset	N/A	N/A	N/A
Equity instrument at FVTOCI for unlisted investment	**15,540**	19,740	Level 3	Discounted cash flow method	Discount rate	13.79% (2021: 13.43%)	note (i)(a)
					Terminal growth Rate	2.46% (2021: 2.71%)	note (i)(a)
Equity instrument at FVTOCI for unlisted investment	**–**	53,816	Level 3	Recent transaction	Recent transaction prices	HK$2,153,000 per share	note (i)(b)
Financial asset at fair value through profit or loss for unlisted investment	**25,470**	–	Level 3	Net asset value	The fair value of net assets of the investee	HK$653,000 per share	N/A

Notes:

a. An increase in the discount rate used in isolation would result in a decrease in the fair value measurement of the equity instruments at FVTOCI for unlisted investment and vice versa. A 10% increase/decrease in the discount rate holding all other variables constant would decrease/increase the carrying amount of the equity instrument at FVTOCI for unlisted investment by HK$1,570,000/HK$2,003,000 (2021: HK$1,846,000/HK$2,373,000).

A decrease in the terminal growth rate used in isolation would result in a decrease in the fair value measurement of the equity instruments at FVTOCI for unlisted investment and vice versa. A 10% increase/decrease in the terminal growth rate holding all other variables constant would increase/decrease the carrying amount of the equity instrument at FVTOCI for unlisted investment by HK$199,000/HK$191,000 (2021: HK$275,000/HK$261,000).

b. An increase in the recent transaction price used would result in an increase in the fair value measurement of the unlisted equity security, and vice versa.

The quantitative information of significant unobservable inputs used in arriving at the level 3 fair value measurement are set out above.

32. FINANCIAL INSTRUMENTS *(Continued)*

(c) Fair value measurements of financial instruments *(Continued)*

(i) Fair value of financial assets that are measured at fair value on a recurring basis (Continued)

During the years ended 31 December 2022, there were no (2021: no) transfer between level 1 and level 2. There is no transfer into or out of Level 3 (2021: one transfer into and one transfer out) fair value measurements.

Reconciliation of fair value measurements categorised within Level 3 of the fair value hierarchy

	Equity instrument at FVTOCI listed in Hong Kong under suspension HK$'000	Equity instrument at FVTOCI for unlisted investment HK$'000
Carrying amount as at 1 January 2021	36,348	101,068
Transfer out of level 3 upon resumption of trading in the shares of the investee (note 19(i))	(36,348)	–
Transfer from investment ceased to be an associate (note 20)	–	51,952
Fair value change recognised in other comprehensive income	–	2,695
Disposals	–	(82,159)
Carrying amount as at 31 December 2021	–	73,556
Fair value change recognised in other comprehensive income	–	(6,075)
Disposals	–	(50,121)
Carrying amount as at 31 December 2022	–	17,360

(ii) Fair value of financial assets and financial liabilities that are not measured at fair value on a recurring basis

The fair value of other financial assets and financial liabilities is determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

The directors of the Company consider that the carrying amounts of financial assets and liabilities recorded at amortised cost in the consolidated financial statements approximate their fair values.

33. SHARE OPTION SCHEME

Pursuant to the resolution passed at the special general meeting held on 26 September 2013, the Company adopted a share option scheme (the "**Scheme**"). The Company operates the Scheme for the purpose of providing the Company with a flexible means of giving incentive to, rewarding, remunerating, compensating and/or providing benefits to the eligible participants and for such other purposes as the board of directors may approve from time to time. The eligible participants of the Scheme include any director or employee of the Company or its subsidiaries (together the "**Group**" and an entity of which any member of the Group holds any equity interest ("**Invested Entity**")), and any consultants, professional and other advisers, any suppliers, customers, service providers, business or joint venture partners, contractors of the Group or any Invested Entity, any chief executives of substantial shareholders of the Company, and any other persons whom the board of directors considers, at its absolute discretion, will contribute or have contributed to the Group.

The grant of share options should be accepted within the period from the date on which an offer of the grant of an option is made to a participant to such date as the board of directors may determine, at a consideration of HK$1, being payable by the grantee upon the acceptance of grant. The options may be exercised at any time within the period commencing from the date of grant of the options and expiring on the date determined by the directors, but in any event such exercise period shall not exceed a period of ten years commencing on the date the relevant option is deemed to be granted.

The exercise price of the share options was determinable by the directors, but was not able to be less than the higher of (i) the closing price of the shares as stated in the Stock Exchange's daily quotations sheet on the date of grant, which must be a business day; (ii) the average closing price of the shares as stated in the Stock Exchange's daily quotation sheet for the five business days immediately preceding the date of grant; and(iii) the nominal value of the Company's share.

Pursuant to the Scheme, the maximum number of shares in the Company in respect of which options may be granted when aggregated with any other share option scheme of the Company is not permitted to exceed 10% of the total number of shares in issue as at the date of adoption of the Scheme. Subject to the issue of a circular and the approval of the shareholders of the Company in a general meeting and/or such other requirements prescribed under the Listing Rules from time to time, the board may refresh the limit at any time to 10% of the total number of shares in issue as at the date of approval by the shareholders of the Company in a general meeting. As at 31 December 2022 and the date of this report, the maximum number of ordinary shares of the Company which could be issued upon exercise of all options that may be granted under the existing Scheme limit is 166,579,200 ordinary shares of HK$0.05 each, representing approximately 9.96% of the issued share capital of the Company. Notwithstanding the foregoing, the shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Scheme and any other share option schemes of the Company at any time shall not exceed 30% of the shares in issue from time to time.

No option may be granted to any person if the total number of shares of the Company already issued and issuable to him under all the options granted to him in any 12-month period up to and including the date of grant exceeding 1% of total number of shares in issue as at the date of grant. Any further grant of options in excess of this 1% limit shall be subject to the issue of a circular by the Company and the approval of the shareholders in a general meeting. Such participant and his associates (as defined in the Listing Rules) abstaining from voting and/or other requirements prescribed under the Listing Rules from time to time. Options granted to substantial shareholders or independent non-executive directors in excess of 0.1% of the Company's share capital or with a value in excess of HK$5,000,000 must be approved in advance by the Company's shareholders in a general meeting.

33. SHARE OPTION SCHEME *(Continued)*

The Scheme shall be valid and effective for a period of 10 years commencing on its adoption date.

During the year ended 31 December 2022, share options of 143,200,000 were granted to directors and employees by the Company under the Scheme on 14 June 2022 and all the share options were vested on the same day. The exercisable period is from 14 June 2022 to 13 June 2027. The estimated fair values of the options granted on that date is HK$10,393,000.

These fair values were calculated using the Binomial model. The inputs into the model were as follows:

	2022
Weighted average share price	HK$0.287
Exercise price	HK$0.287
Expected volatility	38.795%
Expected life	5 years
Risk-free rate	2.987%
Expected dividend yield	0%

The number and weighted average exercise prices of share options scheme for the year are as follows:

Type of grantee	Date of grant	Exercisable period	Exercise price HKD	Outstanding number of options Balance at 1 January 2022 '000	Granted during the year '000	Balance at 31 December 2022 '000
Key Management						
Mr. Chu Xueping	14 June 2022	14 June 2022 to 13 June 2027	0.287	–	16,600	16,600
Ms. Wang Qiuqin	14 June 2022	14 June 2022 to 13 June 2027	0.287	–	16,600	16,600
				–	33,200	33,200
Employees						
In aggregate	14 June 2022	14 June 2022 to 13 June 2027	0.287	–	110,000	110,000
				–	110,000	110,000
				–	143,200	143,200

Expected volatility was determined by using the historical volatility of the comparable companies' share prices over the previous five years since trading in shares of the Company was suspended in previous years. The expected life used in the model has been adjusted, based on the management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.

The Group recognised the total expense of HK$10,393,000 for the year ended 31 December 2022 in relation to share options granted by the Company.

There were no share options outstanding under the Scheme as at 31 December 2021 and no share options were granted by the Company under the Scheme during the year ended 31 December 2021.

34. RETIREMENT BENEFIT PLANS

The employees employed in the PRC are members of the state-managed retirement benefit schemes operated by the PRC government. The PRC subsidiaries are required to contribute a certain percentage of their payroll to the retirement benefit schemes to fund the benefits. The only obligation of the Group with respect to the retirement benefit schemes is to make the required contributions under the schemes.

The Group also operates a Mandatory Provident Fund Scheme for all its qualifying employees in Hong Kong. The assets of the schemes are held separately from those of the Group, in funds under the control of trustees. The Group contributes 5% or HK$1,500 per month in maximum of relevant payroll costs to the scheme, which contribution is matched by employees.

At 31 December 2022 and 2021, there were no significant forfeited contributions which arose upon employees leaving the schemes before they are fully vested in the contributions and which are available to reduce the contributions payable by the Group in the future.

The total cost of HK$404,000 (2021: HK$433,000) for the year ended 31 December 2022 charged to the consolidated statement of profit or loss and other comprehensive income represents contribution paid or payable to the above retirement benefit plans by the Group.

At the end of the reporting periods, the Group had no significant obligation apart from the contribution as stated above.

35. PLEDGE OF ASSETS

As at 31 December 2022, the Group pledged the buildings and right-of-use assets with aggregate carrying values of approximately HK$13,036,000 (2021: approximately HK24,160,000 to secure the Group's bank borrowing and the general banking facilities granted to the Group) to secure the general banking facilities granted to the Group.

36. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

The table below details changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Group's consolidated statement of cash flows as cash flows from financing activities.

	Lease liabilities HK$'000	**Bank borrowing** HK$'000	**Total** HK$'000
At 1 January 2021	2,398	–	2,398
Changes from financing cash flows:			
Payment for principal portion of lease liabilities	(982)	–	(982)
Payment for interest expenses	(89)	(191)	(280)
New borrowing raised	–	11,375	11,375
Total changes from financing cash flows	(1,071)	11,184	10,113
Exchange adjustments	48	–	48
Other changes:			
Interest expenses	89	191	280
Total other changes	89	191	280
At 31 December 2021	**1,464**	**11,375**	**12,839**
Changes from financing cash flows:			
Payment for principal portion of lease liabilities	**(1,936)**	**–**	**(1,936)**
Payment for interest expenses	**(64)**	**(113)**	**(177)**
Repayment for loan	**–**	**(10,411)**	**(10,411)**
Total changes from financing cash flows	**(2,000)**	**(10,524)**	**(12,524)**
Exchange adjustments	**(101)**	**(964)**	**(1,065)**
Other changes:			
Addition to lease liabilities	**1,851**	**–**	**1,851**
Interest expenses	**64**	**113**	**177**
Total other changes	**1,915**	**113**	**2,028**
At 31 December 2022	**1,278**	**–**	**1,278**

37. RELATED PARTY DISCLOSURES

(i) Related party transactions

During the year, except as disclosed elsewhere in the consolidated financial statements, the Group entered into the following transactions with related parties:

Name of related parties	Relationship	Nature of transactions	2022 HK$'000	2021 HK$'000
Mr. Liu Yang (Note i)	Former director	Salaries	–	450

Note:

(i) Mr. Liu Yang resigned as executive director of the Company with effect from 15 May 2021.

Notwithstanding the above, the Acquisitions are not described in the consolidated financial statements, or in previously issued consolidated financial statements of the Group as related party transactions on the bases of the information as contained in the Company's announcements referred to above. These consolidated financial statements have been prepared on the basis that the Acquisitions were not related party transactions and that none of the directors of the Company, or the major shareholders of the Company, has any interests in the transactions.

Further, in the opinion of the directors of the Company, based on the information and explanations received by them and the best efforts and endeavours done by them to-date, there were no transactions or balances with related parties of the Group other than those disclosed in this note or elsewhere in the consolidated financial statements.

(ii) Compensation of key management personnel

	2022 HK$'000	2021 HK$'000
Short term benefits	2,622	2,903
Share-based payment	2,410	–
Post employment benefits	21	20
	5,053	2,923

The remuneration of directors and key executives is determined having regard to the position, duties and performance of the individuals.

38. PARTICULARS OF THE SUBSIDIARIES

Particulars of the subsidiaries directly and indirectly held by the Company at the end of each reporting period.

Name of subsidiaries	Place and date of incorporation/ establishment/ operation	Equity interest attributable to the Group 2022	Equity interest attributable to the Group 2021	Issued and fully paid share capital/ registered capital	Principal activities
Direct					
Max Goodrich International Limited (note (i))	the BVI 21 September 2007	**100%**	100%	HK$163,800	Investment holding
Indirect					
China New Rich Medicine Holding Company Limited (note (i))	Hong Kong 7 February 2005	**100%**	100%	HK$1	Trading of pharmaceutical products and investment holding
Major Bright Holdings Limited (note (i))	the BVI 9 May 2014	**100%**	100%	HK$1	Investment holding
Brilliant Dream Holding Limited (note (i))	the BVI 7 July 2014	**100%**	100%	HK$1	Inactive
Hong Rui Bio-medical 泓銳(杭州)生物醫藥科技有限公司(note (ii))	the PRC 8 July 2008	**100%**	100%	HK$75,000,000	Investment holding
Zhejiang Xin Rui 浙江新銳醫藥有限公司 (note (ii))	the PRC 26 April 2006	**100%**	100%	RMB65,000,000	Distribution and trading of pharmaceutical products and provision of marketing and promotion services
Hong Rui Trading 浙江泓銳貿易有限公司 (note (ii))	the PRC 6 September 2005	**100%**	100%	RMB5,000,000	Inactive
Shengzhou Ruishan Medicine Technology Company Limited 嵊州市銳善醫藥科技有限公司 (note (iii))	the PRC 7 December 2021	**–**	100%	US$5,000,000	Inactive

Notes:

(i) A company incorporated with limited liability.

(ii) A domestic company established in the PRC with limited liability.

(iii) The company was deregistered during the year.

All of the above subsidiaries adopt 31 December as the financial year end date. None of the subsidiaries had issued any debt securities at the end of the reporting period.

39. AFTER REPORTING PERIOD EVENTS

Receipt on amount due under promissory note from disposal of Saike International

In respect of the consideration for disposal of remaining 25% equity shares of Saike International, the remaining amount of RMB14,000,000 (equivalent of HK$15,948,000) was subsequently settled on 28 February 2023.

Increase in shareholder's loan of FVTPL

As set out in the announcement of the Company dated 16 January 2023, the Group has agreed to amend certain terms of the cooperation agreement relating to the increase in registered capital of Shengzhou Xinrui from RMB50 million (equivalent to approximately HK$58.8 million) to RMB56 million (equivalent to approximately HK$65.6 million). The capital contribution to the initial register capital of the Shengzhou Xinrui by each of the shareholders has been adjusted accordingly. Further capital contribution of RMB2.5 million (equivalent to approximately HK$2.6 million) of the Group was already paid in December 2022. Besides that, the amendment has revised the aggregate shareholders' loan of RMB23.7 million which will be made by the shareholders to Shengzhou Xinrui, and of which RMB9.2 million (equivalent to approximately HK$10.8 million) will be made by the Group.