



**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

**2018**  
**Interim Report**

## CONTENTS

Corporate Information	2
Financial Highlights	3
Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income	4
Condensed Consolidated Statement of Financial Position	5
Condensed Consolidated Statement of Changes in Equity	6
Condensed Consolidated Statement of Cash Flows	7
Notes to the Condensed Consolidated Financial Statements	8
Management Discussion and Analysis	24
Other Information	31

## CORPORATE INFORMATION

### BOARD OF DIRECTORS

#### Executive Directors

Mr. Liu Yang (*Chairman*)

Mr. Huo Zhihong (*Chief Executive Officer*)

Ms. Wang Qiuqin

#### Independent Non-executive Directors

Mr. Leung Chi Kin

Ms. Li Sin Ming, Ivy

### BOARD COMMITTEES

#### Audit Committee

Ms. Li Sin Ming, Ivy (*Chairman*)

Mr. Leung Chi Kin

#### Remuneration Committee

Mr. Leung Chi Kin (*Chairman*)

Mr. Liu Yang

Ms. Li Sin Ming, Ivy

#### Nomination Committee

Mr. Leung Chi Kin (*Chairman*)

Mr. Liu Yang

Ms. Li Sin Ming, Ivy

#### Corporate Governance Committee

Mr. Liu Yang (*Chairman*)

Mr. Huo Zhihong

Ms. Wang Qiuqin

### COMPANY SECRETARY

Mr. Lai Kwok Wa, *HKICPA*

### AUDITORS

Moore Stephens CPA Limited

Certified Public Accountants

### 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

Hangzhou Fu Rong Sub-branch

No. 21 Cai He Road

Jiangan District

Hangzhou City

Zhejiang Province, the PRC

### 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

Level 22

Hopewell Centre

183 Queen's Road East

Hong Kong

### WEBSITE

[www.newraymedicine.com](http://www.newraymedicine.com)

## **FINANCIAL HIGHLIGHTS**

### **For the six months ended 30 June 2018:**

- The Group recorded a revenue of approximately HK\$169,979,000 for the six months ended 30 June 2018 which has increased by approximately 36.2% when compared to that of approximately HK\$124,840,000 for the corresponding period in 2017.
- The Group recorded a change from a loss attributable to owners of the Company of approximately HK\$52,437,000 for the six months ended 30 June 2017 to a profit attributable to owners of the Company of approximately HK\$14,174,000 for the six months ended 30 June 2018.
- The Board does not recommend the payment of any interim dividend for the six months ended 30 June 2018.

### **As at 30 June 2018:**

- The Group had a gearing ratio (defined as total bank and other borrowings divided by total equity) of zero as at 30 June 2018 (31 December 2017: zero).

The board (the “Board”) of directors (the “Directors”) of New Ray Medicine International Holding Limited (the “Company”) is pleased to present the unaudited condensed consolidated results of the Company and its subsidiaries (collectively, the “Group”) for the six months ended 30 June 2018 (“Period”) together with the comparative unaudited figures for the corresponding period in 2017 as follows:

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

For the six months ended 30 June 2018

	Notes	Six months ended 30 June	
		2018 (Unaudited) HK\$'000	2017 (Unaudited) HK\$'000
Revenue	3	<b>169,979</b>	124,840
Cost of sales		<b>(145,289)</b>	(95,194)
Other income, gains and losses	4	<b>24,690</b>	29,646
Selling and distribution expenses		<b>6,156</b>	(62,615)
Administrative expenses		<b>(8,615)</b>	(8,853)
Finance costs		<b>(10,464)</b>	(9,804)
Share of profit of associates	10	<b>–</b>	(159)
		<b>6,734</b>	6,121
Profit (loss) before tax		<b>18,501</b>	(45,664)
Income tax expense	5	<b>(4,327)</b>	(6,773)
Profit (loss) for the period	6	<b>14,174</b>	(52,437)
<b>Other comprehensive (expense) income for the period:</b>			
<i>Items that will not be reclassified to profit or loss:</i>			
Exchange difference arising on translation of functional currency to presentation currency		<b>(3,967)</b>	13,762
Share of exchange differences of associates		<b>(540)</b>	5,812
Fair value loss on financial assets at fair value through other comprehensive income		<b>(6,975)</b>	–
		<b>(11,482)</b>	19,574
Total comprehensive income (expense) for the period		<b>2,692</b>	(32,863)
Profit (loss) for the period attributable to owners of the Company		<b>14,174</b>	(52,437)
Total comprehensive income (expense) attributable to owners of the Company		<b>2,692</b>	(32,863)
Earnings (loss) per share:			
– Basic and diluted (HK cent)	8	<b>0.85</b>	(4.24)

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2018

	Notes	As at 30 June 2018 (Unaudited) HK\$'000	As at 31 December 2017 (Audited) HK\$'000
<b>Non-current assets</b>			
Property, plant and equipment	9	9,785	10,712
Prepaid lease payments	9	19,636	20,059
Prepayment for a distribution right		24,671	26,797
Intangible assets		13,442	14,515
Club debenture		593	598
Available-for-sale investments		–	89,373
Financial assets at fair value through other comprehensive income		83,490	–
Financial asset at fair value through profit or loss		486	3,066
Interests in associates	10	209,207	204,974
Interest in a joint venture	11	–	–
Amount due from a joint venture	11	–	–
		<b>361,310</b>	370,094
<b>Current assets</b>			
Inventories	12	135,125	130,551
Trade and other receivables	13	225,360	235,208
Prepayment for a distribution right		3,796	3,828
Prepaid lease payments	9	504	508
Bank balances and cash		102,635	90,195
		<b>467,420</b>	460,290
<b>Current liabilities</b>			
Trade and other payables	14	86,743	92,709
Tax payable		1,732	1,121
		<b>88,475</b>	93,830
Net current assets		<b>378,945</b>	366,460
Total assets less current liabilities		<b>740,255</b>	736,554
<b>Non-current liabilities</b>			
Deferred tax liabilities		9,646	9,729
		<b>730,609</b>	726,825
<b>Capital and reserves</b>			
Share capital	15	83,592	83,592
Share premium and reserves		647,017	643,233
Equity attributable to owners of the Company		<b>730,609</b>	726,825

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2018

	Attributable to owners of the Company								
	Share capital HK\$'000	Share premium HK\$'000	Contributed surplus HK\$'000	PRC statutory reserve HK\$'000 (Note)	Financial assets at fair value through other comprehensive income reserve HK\$'000	Share option reserve HK\$'000	Translation reserve HK\$'000	(Accumulated losses) Retained profits HK\$'000	Total HK\$'000
At 31 December 2017 (audited)	83,592	607,614	50,167	21,930	-	-	(1,727)	(34,751)	726,825
Adjustment on adoption of HKFRS 9 (Note 2)	-	-	-	-	(141,195)	-	-	142,287	1,092
At 1 January 2018	83,592	607,614	50,167	21,930	(141,195)	-	(1,727)	107,536	727,917
Profit for the Period	-	-	-	-	-	-	-	14,174	14,174
Other comprehensive expense for the Period	-	-	-	-	(6,975)	-	(4,507)	-	(11,482)
Total comprehensive expense for the Period	-	-	-	-	(6,975)	-	(4,507)	14,174	2,692
Transfer	-	-	-	1,205	-	-	-	(1,205)	-
At 30 June 2018 (unaudited)	83,592	607,614	50,167	23,135	(148,170)	-	(6,234)	120,505	730,609
At 1 January 2017 (audited)	20,822	337,571	50,167	19,864	-	1,750	(29,677)	71,190	471,687
Loss for the period	-	-	-	-	-	-	-	(52,437)	(52,437)
Other comprehensive income for the period	-	-	-	-	-	-	19,574	-	19,574
Total comprehensive expense for the period	-	-	-	-	-	-	19,574	(52,437)	(32,863)
Issue of rights shares	62,467	281,103	-	-	-	-	-	-	343,570
Transaction costs attributable to issue of rights shares	-	(13,623)	-	-	-	-	-	-	(13,623)
Transfer	-	-	-	1,756	-	-	-	(1,756)	-
At 30 June 2017 (unaudited)	83,289	605,051	50,167	21,620	-	1,750	(10,103)	16,997	768,771

Note: For the Company's subsidiaries, 杭州新泓生物醫藥科技有限公司 (in English, for identification purpose only, Hangzhou Xin Hong Bio-medical Technology Co. Ltd.) ("Hangzhou Xin Hong"), 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 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 fund 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.

## CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2018

	Six months ended 30 June	
	2018 (Unaudited) HK\$'000	2017 (Unaudited) HK\$'000
Net cash inflow (outflow) from operating activities	4,029	(24,909)
Net cash inflow (outflow) from investing activities	8,943	(237,979)
Net cash inflow from financing activities	–	312,768
Net increase in cash and cash equivalents	12,972	49,880
Cash and cash equivalents at the beginning of the period	90,195	71,599
Effect of foreign exchange rate changes	(532)	1,711
Cash and cash equivalents at the end of the period	102,635	123,190
Analysis of balances of cash and cash equivalents		
Bank balances and cash	102,635	123,190



## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

### 1. GENERAL INFORMATION

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

The shares of the Company were listed on GEM of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") with effect from 25 October 2013. On 16 June 2015, the Company transferred the listing of its shares from GEM to the Main Board of the Stock Exchange. The addresses of the registered office and principal place of business of the Company are disclosed in the corporate information section of this interim report.

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

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

As stated in the announcement of the Company dated 6 October 2017, 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 appeared to the SFC that, inter alia, the Company's announcements in relation to the acquisition of 50% interest in Saike International Medical Group Limited ("Saike International") and the Company's announcements in relation to the acquisition of 15% interest in Eternal Charm International Limited (now known as WinHealth International Company Limited) ("WinHealth International") (collectively, referred to as the "Acquisitions") may have contained materially false, incomplete or misleading information.

On 12 January 2018, the Company further announced that in view of the Suspension, the Board has established an independent board committee ("IBC") comprising two independent non-executive Directors, whose scope of the primary duties includes:

- (i) conduct an independent investigation into the issues relating to the Acquisitions and to obtain external legal or other independent professional advice if required; and
- (ii) deal with the issues and matters in relation to the Suspension.

On 25 May 2018, 4 June 2018 and 1 August 2018, the Company made further announcements to provide update on the progress of the investigation conducted by the IBC and the investigation has not been completed. The IBC's investigation into the issues relating to the Acquisitions, which was on-going, did not result in conclusive finding nor conclusion.

As the investigation into the issues relating to the Acquisitions, which was on-going, did not result in conclusive finding nor conclusion, these condensed consolidated financial statements have been prepared on the basis that the Acquisitions were not related party transactions and that none of the Directors, or the major shareholders of the Company, has any interests in the transactions.

## 2. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs"), Hong Kong Accounting Standards and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and the disclosure requirements under the Rules Governing the Listing of Securities on the Stock Exchange ("Listing Rules").

The condensed consolidated financial statements have been prepared under the historical cost basis, except for certain financial instruments which are measured at fair value. The principal accounting policies used in the preparation of the condensed consolidated financial statements are consistent with those applied in the preparation of audited consolidated financial statements of the Company for the year ended 31 December 2017, except for those mandatory new and amended HKFRSs issued by HKICPA that are effective for the first time during the Period as follows:

HKFRS 9	Financial Instruments
HKFRS 15	Revenue from Contracts with Customers and the related Amendments
HK(IFRIC) – Int 22	Foreign Currency Transactions and Advance Consideration
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions
Amendments to HKFRS 4	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contract
Amendments to HKAS 28	As part of the Annual Improvements to HKFRSs 2014–2016 Cycle
Amendments to HKAS 40	Transfers of Investment Property

The application of those mandatory new and amended HKFRSs in the Period has had no material effect on the amounts reported and/or disclosures set out in the condensed consolidated financial statements, except for the adoption of HKFRS 9.

### HKFRS 9 Financial Instruments

HKFRS 9 introduces new requirements for the classification and measurement of financial assets, financial liabilities, general hedge accounting and impairment requirements for financial assets. Key requirements and impacts of HKFRS 9 which are relevant to the Group are as follows.

Upon the adoption of HKFRS 9, the Group classifies its financial assets into the following measurement categories:

- those to be measured subsequently at fair value through other comprehensive income;
- those to be measured subsequently at fair value through profit or loss; and
- those to be measured at amortised cost.

The classification depends on the Group's business model for managing the financial assets and the contractual terms of the cash flows. The Group may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

The Group elected to classify all equity investments of the Group which were previously classified as available-for-sale investments into financial assets at fair value through other comprehensive income because these investments are held for long-term strategy and not for trading.

## **2. BASIS OF PREPARATION** *(Continued)*

### **HKFRS 9 Financial instruments** *(Continued)*

In accordance with the transitional provisions in HKFRS 9, comparative figures have not been restated. The reclassification is therefore not reflected as of 31 December 2017, but reflected on 1 January 2018 in the condensed consolidated statement of financial position.

The impairment loss on listed equity investments classified as available-for-sale investments at fair value previously recognised in profit or loss of approximately HK\$142,287,000 was reclassified from accumulated losses/retained profits to financial assets at fair value through other comprehensive income reserve on 1 January 2018. The reserve will no longer be reclassified to profit or loss upon impairment or disposal of these equity investments.

On 1 January 2018, unlisted equity investments were reclassified from available-for-sale investments at cost to financial assets at fair value through other comprehensive income. The difference between the previous carrying amount and the fair value of approximately HK\$1,092,000 was adjusted in the opening financial assets at fair value through other comprehensive income reserve.

In relation to the impairment of financial assets, HKFRS 9 requires an expected credit loss model. The Group has revised its impairment methodology under HKFRS 9 for trade and other receivables. The impact of the change in impairment methodology on the Group's accumulated losses/retained profits and equity was immaterial as of 1 January 2018.

The Group has not early adopted any new and revised HKFRSs that have been issued but are not yet effective.

## **3. REVENUE AND SEGMENT INFORMATION**

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

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

- (i) Distribution and trading of pharmaceutical products; and
- (ii) Provision of marketing and promotion services.

In prior period, there were 3 reportable and operating segments, namely injection drugs, capsule and granule drugs and others. During the Period, the CODM reassessed the current business units of the Group.

During the Period, the Group was also engaged in the provision of marketing and promotion services to the drug suppliers. The CODM considered it as a separate reporting and operating segment, taking into account the Group's future business development. Therefore, the provision of marketing and promotion services becomes the new reporting and operating segment.

Comparative figures have been restated to conform with the Period's presentation.

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

### 3. REVENUE AND SEGMENT INFORMATION (Continued)

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

#### Six months ended 30 June 2018 (unaudited)

	Distribution and trading of pharmaceutical products HK\$'000	Provision of marketing and promotion services HK\$'000	Total HK\$'000
<b>REVENUE</b>			
External sales and segment revenue	165,290	4,689	169,979
<b>RESULT</b>			
Segment profit	20,357	4,333	24,690
Other income, gains and losses			6,156
Selling and distribution expenses			(8,615)
Administrative expenses			(10,464)
Share of profit of associates			6,734
Profit before tax			18,501

#### Six months ended 30 June 2017 (unaudited)

	Distribution and trading of pharmaceutical products HK\$'000	Provision of marketing and promotion services HK\$'000	Total HK\$'000
<b>REVENUE</b>			
External sales and segment revenue	124,840	–	124,840
<b>RESULT</b>			
Segment profit	29,646	–	29,646
Other income, gains and losses			(62,615)
Selling and distribution expenses			(8,853)
Administrative expenses			(9,804)
Share of profit of associates			6,121
Finance costs			(159)
Loss before tax			(45,664)

### 3. REVENUE AND SEGMENT INFORMATION *(Continued)*

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

#### Geographical information

The Group's operations are located in the PRC (country of domicile).

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

### 4. OTHER INCOME, GAINS AND LOSSES

	Six months ended 30 June	
	2018 (Unaudited) HK\$'000	2017 (Unaudited) HK\$'000
Bank interest income	447	265
Dividend income from available-for-sale investments	–	407
Dividend income from financial assets at fair value through other comprehensive income	174	–
Impairment loss on available-for-sale investments	–	(65,391)
Realised profit on disposal of available-for-sale investments	–	2,104
Net exchange gain	316	–
Fair value loss on financial asset at fair value through profit or loss	(2,565)	–
Net gain on deemed disposal of interest in an associate	7,754	–
Others	30	–
	<b>6,156</b>	(62,615)

### 5. INCOME TAX EXPENSE

	Six months ended 30 June	
	2018 (Unaudited) HK\$'000	2017 (Unaudited) HK\$'000
<b>Current Tax:</b>		
PRC Enterprise Income Tax ("EIT")	<b>4,327</b>	6,773

Under the Law of the PRC on Enterprise Income Tax (the "EIT Law") and Implementation Regulations of the EIT Law, the tax rate of the PRC subsidiaries of the Company is 25%. No provision for Hong Kong Profits Tax has been made as the Group's taxable profit has been fully absorbed by the tax losses brought forward from the prior years.

## 6. PROFIT (LOSS) FOR THE PERIOD

	Six months ended 30 June	
	2018 (Unaudited) HK\$'000	2017 (Unaudited) HK\$'000
Profit (loss) for the period has been arrived at after charging:		
Depreciation of property, plant and equipment	917	1,349
Amortisation of prepaid lease payments	253	241
Amortisation of intangible assets	953	908
Amortisation of prepayment for a distribution right	1,906	1,815
Minimum lease payments under operating leases in respect of rented premises	424	301
Cost of inventories recognised as an expense	142,074	92,471

## 7. DIVIDENDS

The Board does not recommend the payment of any interim dividend for the Period (six months ended 30 June 2017: Nil).

## 8. EARNINGS (LOSS) PER SHARE

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

	Six months ended 30 June	
	2018 (Unaudited) HK\$'000	2017 (Unaudited) HK\$'000
<b>Profit (loss)</b>		
Profit (loss) for the purpose of basic and diluted earnings (loss) per share	14,174	(52,437)
<b>Number of shares</b>		
Weighted average number of ordinary shares for the purpose of basic earnings (loss) per share	1,671,846,657	1,235,763,067
Basic earnings (loss) per share (HK cent) (Note)	0.85	(4.24)

Note: The basic and diluted earnings per share for the Period are the same as there were no potential dilutive shares.

The computation of diluted loss per share for the six months ended 30 June 2017 did not assume the conversion of the Company's outstanding share options as at 30 June 2017 since their assumed exercise would result in a decrease in loss per share.

## 9. PREPAID LEASE PAYMENTS AND PROPERTY, PLANT AND EQUIPMENT

	Prepaid lease payments	Property, plant and equipment
	HK\$'000	HK\$'000
<b>Net book amount as at 1 January 2018</b>	<b>20,567</b>	<b>10,712</b>
Additions	–	<b>169</b>
Disposals	–	<b>(94)</b>
Exchange realignment	<b>(174)</b>	<b>(85)</b>
Depreciation and amortisation (Note 6)	<b>(253)</b>	<b>(917)</b>
<b>Net book amount as at 30 June 2018 (unaudited)</b>	<b>20,140</b>	<b>9,785</b>
Net book amount as at 1 January 2017	19,695	11,860
Additions	–	55
Exchange realignment	586	355
Depreciation and amortisation (Note 6)	(241)	(1,349)
Net book amount as at 30 June 2017 (unaudited)	20,040	10,921

## 10. INTERESTS IN ASSOCIATES

	As at 30 June 2018 (Unaudited) HK\$'000	As at 31 December 2017 (Audited) HK\$'000
Cost of unlisted investments in associates	<b>166,868</b>	166,868
Share of post-acquisition gains, profit and other comprehensive income and exchange difference arising on translation	<b>42,339</b>	38,106
	<b>209,207</b>	204,974

The interests in associates represent 20.0% equity interest in Sea Star International Limited ("Sea Star"), a company incorporated in the British Virgin Islands ("BVI") in March 2015, 50.0% equity interest in Saike International, a company incorporated in the BVI in July 2014, and 13.5% equity interest in WinHealth International, a company incorporated in the BVI in March 2015. The Group is able to exercise significant influence over Sea Star, Saike International and WinHealth International as the Group has the power to participate in the financial and operating policy decisions of the investee companies but does not have control or joint control over those policies. Accordingly, Sea Star, Saike International and WinHealth International are regarded as associates of the Group.

## 10. INTERESTS IN ASSOCIATES (Continued)

Details of the Group's associates as at 31 December 2017 and 30 June 2018 are as follows:

Name	Place of incorporation	Proportion of ownership held by the Group		Principal activities
		As at 30 June 2018	As at 31 December 2017	
Sea Star (Note a)	BVI	20.0%	20.0%	Inactive
Saike International (Note b)	BVI	50.0%	50.0%	Trading of medical devices and equipment in the PRC
WinHealth International (Note c)	BVI	13.5%	15.0%	Distribution of pharmaceutical products in the PRC

Notes:

- (a) On 11 December 2014, Brilliant Dream Holding Limited ("Brilliant Dream"), an indirect wholly-owned subsidiary of the Company and Sharp Shine International Limited ("Sharp Shine"), an indirect wholly-owned subsidiary of Town Health International Medical Group Limited ("Town Health"), whose issued shares are listed on the Main Board of the Stock Exchange (Stock Code: 3886), entered into an agreement to incorporate a company, Sea Star, in the BVI with limited liability which was held by Sharp Shine and Brilliant Dream as to 80.0% and 20.0% respectively. Sea Star was intended to be engaged in the medical and healthcare related business in the PRC. Sharp Shine and Brilliant Dream will provide interest-free initial shareholders' loan in an aggregate sum of up to HK\$300,000,000 to Sea Star in the proportion of 80.0% and 20.0% with a view to financing the proposed business. As at 31 December 2017 and 30 June 2018, there was no shareholders' loan made to Sea Star.

Details of the formation of Sea Star are set out in the Company's announcements dated 11 December 2014 and 13 February 2015 and the Company's circular dated 27 January 2015.

- (b) On 20 March 2015, Major Bright Holdings Limited ("Major Bright"), a wholly-owned subsidiary of the Company and Ms. Zhao Lei entered into a sale and purchase agreement ("S&P Agreement") in respect of the acquisition of 50.0% equity interest in Saike International at an aggregate consideration of RMB95,000,000 (equivalent to approximately HK\$118,631,000) ("Saike Acquisition"). Saike International and its subsidiaries (collectively, the "Saike Group") are principally engaged in the trading of medical devices and equipment in the PRC.

Although the Group holds 50% of the equity interest of Saike International and has the power to appoint one out of two directors to the board of directors of Saike International as at 30 June 2018, the director who is appointed by the other shareholder of Saike International 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, the Group has significant influence over Saike International.

Details of the Saike Acquisition are set out in the Company's announcements dated 14 February 2015, 20 March 2015, 26 June 2015 and 16 July 2015.



## 10. INTERESTS IN ASSOCIATES (Continued)

Notes: (Continued)

- (c) On 5 December 2016 and 14 March 2017, the Group entered into a sale and purchase agreement and a supplemental agreement with Mr. Wang Wei ("Mr. Wang") for the acquisition of 15.0% of the then issued share capital of WinHealth International at a consideration of RMB47.25 million (equivalent to approximately HK\$53.4 million) in cash (subject to downward adjustments after completion). WinHealth International and its subsidiaries are principally engaged in the distribution of pharmaceutical products in the PRC and have exclusive distribution rights of certain imported prescription drugs in the PRC.

Completion of the acquisition of 15.0% of the then issued share capital of WinHealth International took place on 17 March 2017 and such investment in WinHealth International is accounted for as an associate of the Group in its financial statements.

For further details, please refer to the announcements of the Company dated 5 December 2016 and 14 March 2017.

During the Period, allotment of shares of WinHealth International took place. Equity interest of WinHealth International held by the Group was diluted from 15.0% to 13.5%. The gain arising from the differences in share of net assets after the dilution of approximately HK\$7,754,000 have been recognised in profit or loss for the Period.

The Group is entitled to appoint one out of three directors to the board of directors of WinHealth International as at 30 June 2018. Therefore, in the opinion of the Directors, the Group has significant influence over WinHealth International.

The associates are accounted for using equity method in these condensed consolidated financial statements.

## 11. INTEREST IN A JOINT VENTURE/AMOUNT DUE FROM A JOINT VENTURE

	<b>As at 30 June 2018 (Unaudited) HK\$'000</b>	As at 31 December 2017 (Audited) HK\$'000
Cost of unlisted investment in a joint venture	<b>604</b>	604
Share of post-acquisition loss	<b>(604)</b>	(604)
	-	-
Amount due from a joint venture (Note)	<b>616</b>	616
Less: Impairment	<b>(600)</b>	(600)
Less: Share of post-acquisition loss that is in excess of the cost of the investment	<b>(16)</b>	(16)
	-	-

## 11. INTEREST IN A JOINT VENTURE/AMOUNT DUE FROM A JOINT VENTURE (Continued)

The interest in a joint venture represents 50.1% equity interest in 海口新朗醫藥科技有限公司 (in English, for identification purpose only, Haikou Xin Lang Pharmaceutical Technology Co. Ltd.) ("Haikou Xin Lang"), an equity joint venture established in the PRC in March 2011. The Group is able to exercise joint control over Haikou Xin Lang as all decisions about the relevant activities require unanimous consent of the Group and the other joint venture partner. The Group also has rights to the net assets of Haikou Xin Lang. Accordingly, Haikou Xin Lang is regarded as a joint venture of the Group.

Details of the Group's joint venture as at 30 June 2018 and 31 December 2017 are as follows:

Name	Place of incorporation	Proportion of ownership held by the Group		Principal activity
		As at 30 June 2018	As at 31 December 2017	
Haikou Xin Lang	PRC	50.1%	50.1%	Inactive

Note: The amount due from the joint venture to the Group is unsecured, non-interest bearing and repayable on demand. In the opinion of the Directors, settlement is neither planned nor likely to occur in the foreseeable future. The Directors considered that the amount formed part of the net investment in the joint venture. Accordingly, the amount was classified as non-current.

## 12. INVENTORIES

	As at 30 June 2018 (Unaudited) HK\$'000	As at 31 December 2017 (Audited) HK\$'000
Finished goods	135,125	130,551

### 13. TRADE AND OTHER RECEIVABLES

	<b>As at 30 June 2018 (Unaudited) HK\$'000</b>	As at 31 December 2017 (Audited) HK\$'000
Trade receivables	<b>70,024</b>	49,280
Services income receivable from an associate	<b>1,033</b>	1,787
Other prepayments	<b>3,333</b>	1,434
Other deposits	<b>1,585</b>	1,196
Prepayments to suppliers	<b>305</b>	359
Deposits paid to an associate	<b>66,000</b>	79,302
Deposits paid to suppliers	<b>65,235</b>	83,741
Value-added tax recoverable	<b>17,088</b>	17,790
Others	<b>757</b>	319
	<b>225,360</b>	235,208

Services income receivable from an associate of approximately HK\$1,033,000 as at 30 June 2018 represented the services income receivable due from 浙江醫學科技開發有限公司 ("Zhejiang Medical"), an indirect wholly-owned subsidiary of WinHealth International. The amount is unsecured, interest-free and has a credit period of 90 days.

Deposits paid to an associate as at 30 June 2018 was in relation to a guarantee deposit of approximately HK\$66,000,000 paid by the Group to Zhejiang Medical which holds the exclusive distribution rights for the distribution of certain pharmaceutical products in the PRC. Zhejiang Medical shall continue to carry out the distribution of certain pharmaceutical products supplied by a drug supplier in the PRC. Pursuant to a distribution agreement entered into between Zhejiang Xin Rui, a subsidiary of the Company, and Zhejiang Medical, Zhejiang Xin Rui shall charge Zhejiang Medical on each product sold based on pre-determined service fee for the provision of marketing and promotion services of drugs. The guarantee deposit is secured by a guarantee provided by Mr. Wang and repayable upon the completion of contract period in the third quarter of 2018, subject to extension or renewal of the agreement, if applicable.

### 13. TRADE AND OTHER RECEIVABLES (Continued)

The Group allows an average credit period ranging from 30 to 180 days to its trade customers. The following is an aged analysis of trade receivables presented based on the dates of goods delivery notes, which approximated the respective revenue recognition dates, at the end of the reporting periods:

	<b>As at 30 June 2018 (Unaudited) HK\$'000</b>	As at 31 December 2017 (Audited) HK\$'000
0 – 30 days	<b>31,646</b>	28,007
31 – 60 days	<b>4,451</b>	7,726
61 – 90 days	<b>2,886</b>	550
91 – 180 days	<b>20,832</b>	4,170
181 – 365 days	<b>5,414</b>	8,439
Over 365 days	<b>4,795</b>	388
	<b>70,024</b>	49,280

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

### 14. TRADE AND OTHER PAYABLES

	<b>As at 30 June 2018 (Unaudited) HK\$'000</b>	As at 31 December 2017 (Audited) HK\$'000
Trade payables	<b>76,472</b>	82,054
Deposits received	<b>3,701</b>	3,813
Receipts in advance	<b>1,905</b>	3,231
Other tax payables	<b>85</b>	285
Accruals	<b>4,580</b>	3,326
	<b>86,743</b>	92,709

#### 14. TRADE AND OTHER PAYABLES (Continued)

The following is an aged analysis of trade payables presented based on the invoice dates at the end of the reporting periods:

	<b>As at 30 June 2018 (Unaudited) HK\$'000</b>	As at 31 December 2017 (Audited) HK\$'000
0 – 30 days	<b>35,285</b>	–
31 – 60 days	<b>20,002</b>	19,588
61 – 90 days	<b>–</b>	33,428
Over 90 days	<b>21,185</b>	29,038
	<b>76,472</b>	82,054

The credit period on purchase of goods ranges from 30 to 60 days. For certain suppliers, the Group is required to make prepayments and/or pay deposits to the suppliers based on the supplier agreements for purchase of goods.

#### 15. SHARE CAPITAL

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

##### Ordinary shares

	<b>Number of shares '000</b>	<b>Amount HK\$'000</b>
<b>Authorised:</b>		
At 1 January 2017	800,000	40,000
Increased on 26 January 2017 (Note a)	2,200,000	110,000
<b>At 30 June 2017, 31 December 2017 and 30 June 2018</b>	<b>3,000,000</b>	<b>150,000</b>
<b>Issued and fully paid:</b>		
At 1 January 2017	416,448	20,822
Issue of rights shares (Note b)	1,249,344	62,467
At 30 June 2017	1,665,792	83,289
Issue of shares upon exercise of share options (Note c)	6,055	303
<b>At 31 December 2017 and 30 June 2018</b>	<b>1,671,847</b>	<b>83,592</b>

## 15. SHARE CAPITAL (Continued)

Notes:

- (a) As disclosed in the Company's circular dated 10 January 2017, the Board proposed to increase the authorised share capital of the Company from HK\$40,000,000 to HK\$150,000,000 divided into 3,000,000,000 shares by the creation of an additional 2,200,000,000 new ordinary shares of HK\$0.05 each ("2017 Increase in Authorised Share Capital") which was conditional upon the passing of an ordinary resolution at a special general meeting of the Company. On 26 January 2017, the ordinary resolution to approve the 2017 Increase in Authorised Share Capital was duly passed by the shareholders of the Company by way of poll at the special general meeting of the Company.
- (b) 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 ordinary share in issue held on the record date at the subscription price of HK\$0.275 per Rights Share by way of rights issue of 1,249,344,000 new ordinary shares of par value of HK\$0.05 each ("Rights Issue"). The completion of the Rights Issue took place on 6 March 2017. 1,249,344,000 Rights Shares 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.

As at the date of this interim report, (i) approximately HK\$25.5 million has been utilised for the acquisition of 5% of the issued share capital of HCMPHS Healthcare Holdings Limited ("HCMPHS") (formerly known as C&C International Healthcare Group Limited) at a consideration of HK\$25.5 million in cash; (ii) approximately HK\$28.8 million has been utilised for the acquisition of approximately 11% of the issued share capital of China Biotech Services Holdings Limited ("China Biotech") (formerly known as Rui Kang Pharmaceutical Group Investments Limited), the issued shares of which are listed on GEM (Stock Code: 8037) at a consideration of approximately HK\$33.4 million in cash; (iii) approximately HK\$53.4 million has been utilised for the acquisition of 15.0% of the then issued share capital of WinHealth International at a consideration of RMB47.25 million (equivalent to approximately HK\$53.4 million) in cash; (iv) approximately HK\$117.7 million has been utilised for the partial settlement of the consideration for the acquisition of approximately 1.55% of the 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 consideration of HK\$144.0 million (excluding stamp duty and related expenses) in open market; (v) approximately HK\$17.0 million has been utilised for the repayment of the bank borrowing of a subsidiary of the Company in the PRC; (vi) approximately HK\$40.0 million has been utilised for the payment of the distribution right of an imported prescription tablet drug in the PRC; and (vii) approximately HK\$8.0 million has been utilised for the improving marketing, sales and promotional capabilities. The unutilised net proceeds of approximately HK\$39.6 million remained deposited in the bank accounts of the Group.

Details of the Rights Issue are disclosed in the announcements of the Company 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.

- (c) During the year ended 31 December 2017, a former director and an employee of the Company exercised share options which entitled them to subscribe for an aggregate of 6,054,657 ordinary shares of HK\$0.05 each, at an exercise price of HK\$0.372 per share (after adjustment for the Rights Issue). The net proceeds from the exercise of share options were approximately HK\$2,252,000, and on this basis, the net issue price of each share was approximately HK\$0.372. The net proceeds from the exercise of the share options were intended to be used as general working capital of the Group. The weighted average closing price of the Company's shares immediately before the dates on which the options were exercised was HK\$0.55.

All ordinary shares issued during the year ended 31 December 2017 and up to 30 June 2018 rank *pari passu* with the then existing ordinary shares in all respects.

## 16. PLEDGE OF ASSETS

As at 30 June 2018, the Group had pledged the buildings and prepaid lease payments with an aggregate carrying amount of approximately HK\$26,724,000 (31 December 2017: approximately HK\$26,829,000) to secure general banking facilities granted to the Group.

## 17. CAPITAL COMMITMENTS

The Group's share of the capital commitments of its joint venture is as follows:

	<b>As at 30 June 2018 (Unaudited) HK\$'000</b>	As at 31 December 2017 (Audited) HK\$'000
Capital expenditure in respect of the acquisition of research data and patent of a new pharmaceutical product contracted for but not provided in the condensed consolidated financial statements	<b>1,583</b>	1,558

## 18. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS

### (i) Financial assets that are measured at fair value

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).

## 18. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS (Continued)

### (i) Financial assets that are measured at fair value (Continued)

Financial asset	Fair value as at		Fair value hierarchy	Valuation technique(s)	Significant unobservable input(s)	Range
	30 June 2018 (Unaudited) HK\$'000	31 December 2017 (Audited) HK\$'000				
Financial assets at fair value through other comprehensive income – equity securities listed in Hong Kong	2,540	3,253	Level 1	Quoted bid prices in an active market	N/A	N/A
Financial assets at fair value through other comprehensive income – equity securities listed in Hong Kong	15,150	16,932	Level 3	Market approach	EV/EBITDA multiple P/S multiple Discount for lack of marketability	9.10–12.79 0.58–2.47 48.00%–58.00%
Financial assets at fair value through other comprehensive income – unlisted equity securities	65,800	N/A	Level 3	Income approach	Discount rate Terminal growth rate Growth rate of revenue	14.86% 3.08% 7.00%–13.30%
Financial asset at fair value through profit or loss	486	3,066	Level 3	Monte-Carlo simulation	Net operating profit Volatility	RMB38,500,000 (equivalent to HK\$45,861,000) 21.95%–41.43%

The fair value of investment in Town Health, suspended trading listed equity securities, which have not resumed trading in a short period of time subsequent to the end of the Period, for which there is an absence of quoted prices, were estimated as at the end of the Period by the Group by using the market approach.

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

During the Period, there were no transfer between level 1 and level 2 and no transfer into or out of level 3 fair value measurement.

There were no changes in valuation techniques used during the Period.

### (ii) Financial assets and financial liabilities that are not measured at fair value

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



## MANAGEMENT DISCUSSION AND ANALYSIS

The Group is an established pharmaceutical distributor originated from Zhejiang province and headquartered in Hangzhou, Zhejiang province. The Group is principally engaged in the distribution and trading of pharmaceutical products and the provision of marketing and promotion services in the PRC, with a focus in Zhejiang province. The Group procures pharmaceutical products throughout the PRC and the Group sells pharmaceutical products through a network of 103 distributor customers covering Zhejiang province and 9 regions in the PRC, including Shanghai, Anhui province, Sichuan province, Hebei province and Guangdong province.

### Overview

For the Period, the total revenue of the Group was approximately HK\$169,979,000, representing an increase of approximately 36.2% as compared to that for the corresponding period in 2017. The increase in revenue was mainly attributable to the increased average selling prices of the Group's products as the Group has adjusted its distributing channels due to the "Two-Invoice" System (兩票制) implemented in most of the provinces in the PRC and the increase in the revenue from the provision of marketing and promotion services. The profit for the Period was approximately HK\$14,174,000, while the loss attributable to owners of the Company was approximately HK\$52,437,000 for the six months ended 30 June 2017. The improvement of the financial performance of the Group was primarily due to (i) the absence of impairment loss on the Group's available-for-sale investments (currently reclassified as financial assets at fair value through other comprehensive income) for the Period (six months ended 30 June 2017: impairment loss on the Group's available-for-sale investments of approximately HK\$65,391,000); and (ii) a net gain on deemed disposal of interest in WinHealth International of approximately HK\$7,754,000 for the Period while no such gain was recognised for the corresponding period in 2017, despite that the improvement was partially offset by the decrease in the gross profit of the Group during the Period.

### Business review

During the Period, the revenue of the Group was mainly contributed by the revenue of (i) the distribution and trading of pharmaceutical products; and (ii) the provision of marketing and promotion services, in the PRC. The pharmaceutical products distributed by the Group are primarily classified as (i) injection drugs; and (ii) other drugs. The Group's injection drugs have generated a predominant portion of revenue. Other drugs of the Group mainly include capsule, granule and tablet drugs. Those drugs can be applied to various diseases or illness such as cardiovascular diseases, cerebrovascular diseases, digestive system illness, rheumatism, urinary system illness, essential hypertension or used as health supplements.

## Revenue and Segment Information

The table below sets out the revenue of the Group (by form of products and services) for the six months ended 30 June 2018 and 2017 respectively.

	Revenue attributable to each segment for the six months ended 30 June			
	2018 (Unaudited)		2017 (Unaudited)	
	HK\$'000	%	HK\$'000	%
(1) Distribution and trading of pharmaceutical products:				
Injection drugs	164,929	97.0	123,823	99.2
Other drugs	361	0.2	1,017	0.8
	165,290	97.2	124,840	100.0
(2) Provision of marketing and promotion services	4,689	2.8	–	–
Total	169,979	100.0	124,840	100.0

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

#### (i) Injection drugs

The injection drugs segment generated a revenue of approximately HK\$164,929,000 for the Period (six months ended 30 June 2017: approximately HK\$123,823,000), representing an increase of approximately 33.2% as compared to that for the corresponding period in 2017. The increase in revenue was primarily attributable to the increased average selling prices of the Group's injection products as the Group adjusted its distribution channels due to the "Two-Invoice" System (兩票制) implemented in most of the provinces in the PRC. However, the increase in revenue was partly offset by the decrease in revenue from the decline in sales volume of the Group's major products Cefamandole Nafate for Injection (注射用頭孢孟多酯鈉) as a result of the reduction of the inventory level of customers under the implementation of the "Two-Invoice" System (兩票制) in most of the provinces in the PRC during the Period.

#### (ii) Other drugs

The other drugs segment generated a revenue of approximately HK\$361,000 for the Period (six months ended 30 June 2017: approximately HK\$1,017,000). The decrease was primarily due to the decrease in sales of several capsule, granule and tablet drugs during the Period.

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

The Group generated a revenue of approximately HK\$4,689,000 from the provision of marketing and promotion services for the Period (six months ended 30 June 2017: Nil). The Group has been transforming its business model from the distribution agent model to the marketing and promotion model on certain products of the Group, e.g. Levocarnitine Injection (左卡尼汀注射液), under the implementation of the “Two-Invoice” System (兩票制). 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.

## **Outlook**

The pharmaceutical distributors in the PRC are facing the headwind amid the healthcare industry reform. The “Two-Invoice” System (兩票制), which only allows a single layer of distributors between the sale of drugs from the manufacturers to the end customers (e.g. hospitals) for the purpose of reducing the drug circulation chain and layers between drug manufacturers and end user medical institutions, has been implemented in most of the provinces in the PRC since 2017. It substantially increases industry concentration, and as a result, the Group is in the unfavoured situation to compete with the national leading pharmaceutical distribution companies. In addition, in view of the existing pressures from medical insurance cost controls, and the results of the provincial tendering in the PRC during the Period, the Group expects the drug pricing pressures and reimbursement control measures on medical insurance will continue, which may result in loss of sales and drop in the average profit margin of the Group’s products.

Although more stringent regulations may create short-term operating pressures, the Chinese government continues to commit resources to and invest in the healthcare sector as part of its long-term healthcare reform plan in the long run. Moreover, the aging population, urbanisation, increase in chronic diseases and household income and the 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.

## **Continue to diversify the existing product portfolio**

The Group will seek to acquire distribution rights of new products to enhance its product portfolio. The Group has been actively tightening the cooperation with other pharmaceutical distribution companies to acquire new distribution rights and endeavouring to improve its sales and marketing capabilities and make effort to expand its distribution network in order to minimise the impact of unfavourable external factors on the Group and achieve sustainable long term development of the Group.

## **Continue to enhance and expand the sales and marketing capabilities**

In order to strengthen the competitive advantages over the Group’s competitors in Zhejiang province, the Group will continue to enhance its local distribution network and sales and marketing capabilities in the future. In addition, the Group has been exploring different opportunities to enhance its distribution capabilities, continue to strengthen the sales teams, attend more frequent academic promotion activities to achieve pleasing results on Group’s major products in future.

Besides, the Group will continue to seek potential merger and acquisition opportunities in medical related industries to diversify its business and create synergy for its future development.

## FINANCIAL REVIEW

### Revenue

The total revenue for the Period was approximately HK\$169,979,000, representing an increase of approximately 36.2% from approximately HK\$124,840,000 for the six months ended 30 June 2017. The increase was mainly attributable to the increased average selling prices of the Group's injection products as the Group adjusted its distribution channels due to the "Two-Invoice" System (兩票制) implemented in most of the provinces in the PRC and the increase in the revenue from the provision of marketing and promotion services. However, the increase in revenue was partly offset by the decrease in revenue from the decline in sales volume of the Group's major product Cefamandole Nafate for Injection (注射用頭孢孟多酯鈉) as a result of the reduction of the inventory level of customers under the implementation of the "Two-Invoice" System (兩票制) in most of the provinces in the PRC during the Period.

### Cost of sales

The cost of sales for the Period was approximately HK\$145,289,000, representing an increase of approximately 52.6% from approximately HK\$95,194,000 for the six months ended 30 June 2017. The percentage of the increase in cost of sales was higher than that for the increase in revenue for the Period mainly due to the decrease in gross profit margin of the Group's major product Cefamandole Nafate for Injection (注射用頭孢孟多酯鈉) during the Period.

### Gross profit and gross profit margin

Gross profit decreased by approximately HK\$4,956,000, or approximately 16.7%, from approximately HK\$29,646,000 for the six months ended 30 June 2017 to approximately HK\$24,690,000 for the Period mainly due to the decrease in gross profit margin of the Group's major product Cefamandole Nafate for Injection (注射用頭孢孟多酯鈉) during the Period.

### Other income, gains and losses

The net other gains for the Period were approximately HK\$6,156,000 (six months ended 30 June 2017: net other losses of approximately HK\$62,615,000). Such change was primarily attributable to (i) a net gain on deemed disposal of interest in WinHealth International, an associate of the Group, of approximately HK\$7,754,000 (six months ended 30 June 2017: Nil); and (ii) the absence of impairment loss on the Group's available-for-sale investments (currently reclassified as financial assets at fair value through other comprehensive income) (six months ended 30 June 2017: impairment loss on the Group's available-for-sale investments of approximately HK\$65,391,000) recognised during the Period.

### Selling and distribution expenses

Selling and distribution expenses for the Period were approximately HK\$8,615,000, representing a decrease of approximately 2.7% from approximately HK\$8,853,000 for the six months ended 30 June 2017. In order to enhance the market recognition of the Group's products, the Group participated in various marketing activities more frequently, especially those for promotion of the Group's major product Cefamandole Nafate for Injection (注射用頭孢孟多酯鈉).

### **Administrative expenses**

Administrative expenses for the Period were approximately HK\$10,464,000, representing an increase of approximately 6.7% from approximately HK\$9,804,000 for the six months ended 30 June 2017. Such increase was primarily due to the increase in salaries of the back office staff and the increase in rent and management fees for the Period.

### **Share of profit of associates**

Share of profit of associates was approximately HK\$6,734,000 for the Period, which was mainly contributed by Saike International and WinHealth International, the associate companies owned as to 50.0% and 13.5% by the Group, respectively.

### **Income tax expense**

Income tax expense for the Period were approximately HK\$4,327,000, representing a decrease of approximately 36.1% from approximately HK\$6,773,000 for the six months ended 30 June 2017. The decrease was primarily due to the decrease in taxable income for tax purposes.

### **Profit for the Period**

The Group recorded a change from a loss attributable to owners of the Company of approximately HK\$52,437,000 for the six months ended 30 June 2017 to a profit attributable to owners of the Company of approximately HK\$14,174,000 for the Period.

The improvement of the financial performance of the Group was primarily due to (i) the absence of impairment loss on the Group's available-for-sale investments (currently reclassified as financial assets at fair value through other comprehensive income) for the Period (six months ended 30 June 2017: impairment loss on the Group's available-for-sale investments of approximately HK\$65,391,000); and (ii) a net gain on deemed disposal of interest in WinHealth International of approximately HK\$7,754,000 for the Period while no such gain was recognised for the corresponding period in 2017, despite that the improvement was partially offset by the decrease in the gross profit of the Group during the Period.

### **Liquidity and financial resources**

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

The Group maintained a healthy liquidity position during the Period. During the Period, the operations of the Group was principally financed by internal resources and net proceeds from the Rights Issue completed in March 2017. As at 30 June 2018, the Group had net cash and cash equivalents amounting to approximately HK\$102,635,000 (31 December 2017: approximately HK\$90,195,000), among which approximately 53% (31 December 2017: 15%) were denominated in Hong Kong dollars and 47% (31 December 2017: 85%) were denominated in Renminbi ("RMB"). The Group did not have any bank loan as at 30 June 2018 and as at 31 December 2017. The Group had a gearing ratio (defined as total bank and other borrowings divided by total equity) of zero as at 30 June 2018 and as at 31 December 2017.

### **Material investments, acquisitions and disposals**

The Group did not make any material investments, acquisitions or disposals during the Period.

## **Contingent liabilities**

As at 30 June 2018, the Group had no material contingent liabilities.

## **Capital structure**

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

## **Pledge of assets**

As at 30 June 2018, the Group had pledged the buildings and prepaid lease payments with an aggregate carrying amount of approximately HK\$26,724,000 (31 December 2017: approximately HK\$26,829,000) to secure general banking facilities granted to the Group.

## **Financial assets at fair value through other comprehensive income (formerly classified as available-for-sale investments)**

The Group's financial assets at fair value through other comprehensive income include (i) equity securities listed in Hong Kong as stated at fair value which have been determined based on the quoted market prices available on the Stock Exchange, except for the Group's securities investment in Town Health, and (ii) investments in unlisted equity securities issued by private entities incorporated in the Cayman Islands with limited liability. Investments in unlisted equity securities are stated as fair value which was prepared by an independent valuer.

### **(i) Equity securities listed in Hong Kong**

As at 30 June 2018, the Group's securities investment in Town Health (a company whose shares are listed on the Main Board of the Stock Exchange with stock code: 3886) with a total carrying amount of approximately HK\$15.2 million, accounted for approximately 85.6% of the total carrying amount of the Group's listed financial assets at fair value through other comprehensive income. On 27 November 2017, the Securities and Futures Commission ("SFC") has, pursuant to Section 8(1) of the Securities and Futures (Stock Market Listing) Rules (Chapter 571V, the Laws of Hong Kong), directed the Stock Exchange to suspend trading in the shares of Town Health ("TH Shares") with effect from 9:00 a.m. on 27 November 2017 as it appeared to the SFC that, among other things, Town Health's interim report for the six months ended 30 June 2016 published on 7 September 2016 and Town Health's annual report for the year ended 31 December 2016 published on 27 April 2017 included materially false, incomplete or misleading information. As at the date of this interim report, the trading of TH Shares remained suspended. The Group recognised a fair value loss on its investment in Town Health of approximately HK\$1.8 million for the Period based on the valuation on the fair value of the Group's investment in Town Health as at 30 June 2018 prepared by an independent valuer, in which the fair value of the Group's investment in Town Health as at 30 June 2018 was estimated under the market approach method by reference to Price/Sales multiple and Enterprise value/EBITDA multiple of companies in similar industry. As at 30 June 2018 and the date of this interim report, the Group held 120,000,000 TH Shares, representing approximately 1.59% of the total issued share capital of Town Health. Based on the 2017 annual report of Town Health, Town Health will continue to focus on the healthcare and healthcare-related business investments, while continue to consolidate its leading position in Hong Kong's healthcare industry. In the meantime, Town Health will also proactively expand its healthcare business in the Mainland China.

During the Period, the Group did not dispose of any equity securities listed in Hong Kong.

Besides, due to a decline in the fair value of certain listed investments, the amount of approximately HK\$2.5 million (inclusive of the fair value loss on the Group's investment in Town Health of approximately HK\$1.8 million) have been recognised during the Period under the financial assets at fair value through other comprehensive income reserve. The Group will continue to monitor its investments cautiously in view of recent uncertain market conditions.

**(ii) Investments in unlisted equity securities**

As at 30 June 2018, the Group held approximately 14% of HCMPS with a carrying amount of approximately HK\$65.8 million. HCMPS and its subsidiaries are principally engaged in the provision of contracted medical schemes and medical services. Based on the unaudited consolidated financial statements of HCMPS for the Period, it recorded an unaudited consolidated net profit of approximately HK\$16.0 million. The Group is optimistic about the prospects of HCMPS because the Group believes that 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.

**Future plans for material investments**

Save as disclosed in this interim report, the Group currently does not have other future plan for material investments.

**Employee information**

As at 30 June 2018, the Group had 51 employees (31 December 2017: 50). Staff costs, including Directors' emolument for the Period, amounted to approximately HK\$10,812,000 (six months ended 30 June 2017: approximately HK\$9,666,000). The Group's remuneration policy is based on positions, duties and performance of the employees. The employees' remuneration varies according to their positions, which may include salary, overtime allowance, bonus and various subsidies. The Group offers comprehensive and competitive remuneration and benefits packages to all its employees. In addition, the Group has adopted a share option scheme for the purpose of providing incentives and rewards to eligible persons who contribute to the success of the Group's operations.

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

**Exchange risk**

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

## **Suspension of trading in shares**

Trading in the Company's shares has been suspended with effect from 9:00 a.m. on 6 October 2017. The Company received a letter from the SFC dated 6 October 2017 in relation to a direction under Section 8(1) of the Securities and Futures (Stock Market Listing) Rules (Chapter 571V, the laws of Hong Kong), pursuant to which the SFC directed the Stock Exchange to suspend trading in the securities of the Company as it appeared to the SFC that the Company's announcements dated 14 February 2015, 20 March 2015, 26 June 2015 and 16 July 2015 in relation to the acquisition of 50% interest in Saike International and the Company's announcements dated 5 December 2016 and 14 March 2017 in relation to the acquisition of the then 15% interest in WinHealth International may have contained materially false, incomplete or misleading information. In view of the suspension, on 12 January 2018, the Board has established an independent board committee ("IBC") comprising two independent non-executive Directors, namely Ms. Li Sin Ming, Ivy and Mr. Leung Chi Kin with Ms. Li Sin Ming, Ivy being appointed as the chairman of the IBC. The principal duties of the IBC include (i) to conduct an independent investigation into the issues relating to the above acquisitions and to obtain external legal or other independent professional advice, if required; and (ii) deal with the issues and matters in relation to the suspension.

As at the date of this interim report, the trading of shares of the Company continues to be suspended and will remain suspended until further notice. Pursuant to the delisting framework under the Listing Rules which has come into effect on 1 August 2018 ("Effective Date"), as the shares of the Company have been suspended from trading on the Stock Exchange for less than 12 months as at the Effective Date, under Rule 6.01A(2)(b)(i) of the Listing Rules, the Stock Exchange may cancel the Company's listing if trading in the shares of the Company has remained suspended for 18 continuous months from the Effective Date. The 18-month period expires on 31 January 2020. If the Company fails to resume trading in its shares by 31 January 2020, the Listing Department of the Stock Exchange will recommend the Listing Committee of the Stock Exchange to proceed with the cancellation of the Company's listing. This is subject to the Stock Exchange's right to impose a shorter specific remedial period under Rule 6.10 of the Listing Rules if appropriate. The Company is seeking and will continue to seek legal advice with a view to resuming trading of its shares as soon as practicable. 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 and 1 August 2018. The Company will keep the shareholders of the Company and potential investors informed of any material developments by way of further announcement(s) as and when appropriate.

## **OTHER INFORMATION**

### **DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES**

As at 30 June 2018, none of the Directors and chief executive of the Company had any interests or short positions in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO") (Chapter 571, the Laws of Hong Kong) as recorded in the register required to be kept by the Company 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 Listed Issuers ("Model Code").



## SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 30 June 2018, the following persons (other than the Directors and chief executive of the Company) had an interest or a short position 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.

Name	Capacity	Number of ordinary shares	Position	Approximate percentage of the total issued shares (Note 1)
U Man long	Beneficial owner	268,696,000	Long	16.07%
Qian Shenglei	Beneficial owner	193,704,000	Long	11.59%
China Wah Yan Healthcare Limited ("China Wah Yan") (Note 2)	Beneficial owner and interest of a controlled corporation	137,427,840	Long	8.22%
Yang Fang (Note 3)	Beneficial owner and interest of spouse	112,728,000	Long	6.74%
Zhou Ling (Note 3)	Beneficial owner and interest of spouse	112,728,000	Long	6.74%

Note 1: The total number of 1,671,846,657 shares in issue as at 30 June 2018 has been used for the calculation of the approximate percentage.

Note 2: Based on the corporate substantial shareholder notice dated 19 April 2018 filed by China Wah Yan, a company whose shares are listed on the Main Board of the Stock Exchange (Stock Code: 648), 34,356,960 shares were held by China Wah Yan and 103,070,880 shares were held by Classic Estate Investments Limited, which was wholly owned by China Wah Yan. Accordingly, China Wah Yan was deemed to be interested in all the 103,070,880 shares held by Classic Estate Investments Limited by virtue of the SFO.

Note 3: Mr. Zhou Ling beneficially owns 83,516,952 shares. Ms. Yang Fang beneficially owns 29,211,048 shares. 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 held by Ms. Yang Fang by virtue of the SFO and Ms. Yang Fang was deemed to be interested in all the 83,516,952 shares held by Mr. Zhou Ling by virtue of the SFO.

Save as disclosed above, as at 30 June 2018, no person (other than the Directors and chief executive of the Company) had any 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 under section 336 of the SFO.

## SHARE OPTION SCHEME

The Company adopted a share option scheme ("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 eligible persons and for such other purposes as the Board may approve from time to time. The Scheme is implemented in compliance with the requirements of Chapter 17 of the Listing Rules. No share option was granted, exercised or cancelled by the Company under the Scheme during the Period. There was no outstanding share option under the Scheme as at 30 June 2018.

## DIRECTORS' RIGHTS TO ACQUIRE COMPANY'S SHARES OR DEBENTURES

At no time during the Period was the Company or any of its subsidiaries a party to any arrangement to enable the Directors or chief executive of the Company or their spouse or children under 18 years of age to acquire benefits by means of acquisition of shares in, or debentures of, the Company or any other body corporate.

## CHANGE OF DIRECTORS

Each of Mr. Zhou Ling and Ms. Yang Fang retired as executive Directors and Mr. Ho Hau Cheung, *SBS, MH*, retired as an independent non-executive Director by rotation and each of them did not offer himself/herself for re-election at the annual general meeting of the Company on 27 June 2018. Following the retirement of Mr. Zhou Ling as an executive Director and with effect from 27 June 2018, he ceased to be the chairman of the Board, the chairman of the corporate governance committee of the Board ("Corporate Governance Committee") and an authorised representative of the Company for the purpose of the Listing Rules. Following the retirement of Ms. Yang Fang as an executive Director and with effect from 27 June 2018, she ceased to be a member of Corporate Governance Committee. Ms. Yang Fang also resigned as the chief executive officer of the Company on the same day. Following the retirement of Mr. Ho Hau Cheung, *SBS, MH*, as an independent non-executive Director and with effect from 27 June 2018, he ceased to be the chairman of the remuneration committee of the Board ("Remuneration Committee") and a member of the audit committee of the Board ("Audit Committee") and the nomination committee of the Board ("Nomination Committee").

Mr. Liu Yang has been appointed as an executive Director, the chairman of the Board and the chairman of the Corporate Governance Committee, and a member of the Remuneration Committee and the Nomination Committee and an authorised representative of the Company for the purpose of the Listing Rules with effect from 27 June 2018. Mr. Huo Zhihong has been appointed as an executive Director, the chief executive officer of the Company and a member of the Corporate Governance Committee with effect from 27 June 2018. Ms. Wang Qiuqin has been appointed as an executive Director and a member of the Corporate Governance Committee with effect from 27 June 2018.

After the conclusion of the AGM and as at the date of this interim report, the Board comprises three executive Directors (namely, Mr. Liu Yang, Mr. Huo Zhihong and Ms. Wang Qiuqin) and two independent non-executive Directors (namely, Mr. Leung Chi Kin and Ms. Li Sin Ming, *Ivy*). Since the Company has only two independent non-executive Directors and the Audit Committee has only two members, the Company is not in compliance with the requirements under Rules 3.10(1) and 3.21 of the Listing Rules. The Company will use its best endeavours to identify a suitable candidate to fill the vacancy for the independent non-executive Director and member of the Audit Committee as required under the Listing Rules as soon as practicable within three months after 27 June 2018.

For further details, please refer to the announcement of the Company dated 27 June 2018.

## **COMPLIANCE WITH CORPORATE GOVERNANCE CODE**

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

Code provision A.2.7 of the CG Code requires the chairman of the Board to hold meetings at least annually with the non-executive Directors (including independent non-executive Directors) without the executive Directors being present. The former chairman of the Board during the period from 1 January 2018 to 27 June 2018, Mr. Zhou Ling, and the chairman of the Board during the period from 27 June 2018 to 30 June 2018, Mr. Liu Yang, were themselves executive Directors and as such compliance with these code provisions was infeasible.

Save as disclosed above and the non-compliance of the Listing Rules as disclosed under the sub-section headed "CHANGE OF DIRECTORS" in this interim report, the Company had complied with the CG Code to the extent applicable and permissible to the Company during the Period.

## **MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS**

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

## **PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES**

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

## **AUDIT COMMITTEE**

The primary duties of the Audit Committee are to review and supervise the Group's financial reporting and internal control procedures, nominate and monitor external auditors and provide advice and comments to the Directors.

The Audit Committee comprises two independent non-executive Directors, namely, Ms. Li Sin Ming, Ivy and Mr. Leung Chi Kin. Ms. Li Sin Ming, Ivy is the chairman of the Audit Committee.

The Audit Committee has reviewed the unaudited condensed consolidated financial statements of the Group for the Period and this interim report.

On behalf of the Board

**New Ray Medicine International Holding Limited**

**Liu Yang**

*Chairman & Executive Director*

Hong Kong, 31 August 2018