



**New Ray Medicine International Holding Limited**

**新銳醫藥國際控股有限公司**

*(Incorporated in Bermuda with limited liability)*

Stock Code: 6108

# Interim Report 2019



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## 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

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*)

Mr. Liu Yang

Ms. Li Sin Ming, Ivy

Mr. Sy Lai Yin, Sunny

#### Nomination Committee

Mr. Leung Chi Kin (*Chairman*)

Mr. Liu Yang

Ms. Li Sin Ming, Ivy

Mr. Sy Lai Yin, Sunny

#### Corporate Governance Committee

Mr. Liu Yang (*Chairman*)

Mr. Huo Zhihong

Ms. Wang Qiuqin

Mr. Sy Lai Yin, Sunny

### COMPANY SECRETARY

Mr. Lai Kwok Wa, *HKICPA*

### AUDITOR

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 54

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 2019:**

- The Group recorded a revenue of approximately HK\$55,511,000 for the six months ended 30 June 2019, which has decreased by approximately 67.3% when compared to that of approximately HK\$169,979,000 for the corresponding period in 2018.
- The Group recorded a change from a profit attributable to owners of the Company of approximately HK\$14,174,000 for the six months ended 30 June 2018 to a loss attributable to owners of the Company of approximately HK\$7,798,000 for the six months ended 30 June 2019.
- The Board does not recommend the payment of any interim dividend for the six months ended 30 June 2019.

### **As at 30 June 2019:**

- The Group had a gearing ratio (defined as total bank and other borrowings divided by total equity) of zero as at 30 June 2019 (31 December 2018: 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 2019 ("Period") together with the comparative unaudited figures for the corresponding period in 2018 as follows:

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

For the six months ended 30 June 2019

	Notes	Six months ended 30 June	
		2019 (Unaudited) HK\$'000	2018 (Unaudited) HK\$'000
Revenue	3	55,511	169,979
Cost of sales		(48,678)	(145,289)
Other income, gains and losses	4	6,833	24,690
Selling and distribution expenses		(5,149)	(8,615)
Administrative expenses		(12,948)	(10,464)
Finance costs		(8)	–
Share of profit of associates	10	3,573	6,734
(Loss) profit before tax		(7,294)	18,501
Income tax expense	5	(504)	(4,327)
(Loss) profit for the period	6	(7,798)	14,174
<b>Other comprehensive expense 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			
– subsidiaries		(1,857)	(3,967)
– associates		(192)	(540)
Fair value loss on equity instruments at fair value through other comprehensive income		(9,607)	(6,975)
Other comprehensive expense for the period		(11,656)	(11,482)
<b>Total comprehensive (expense) income for the period</b>		<b>(19,454)</b>	2,692
(Loss) profit for the period attributable to owners of the Company		(7,798)	14,174
Total comprehensive (expense) income for the period attributable to owners of the Company		(19,454)	2,692
(Loss) earnings per share			
– Basic and diluted (HK cent)	8	(0.47)	0.85

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2019

	Notes	As at 30 June 2019 (Unaudited) HK\$'000	As at 31 December 2018 (Audited) HK\$'000
<b>Non-current assets</b>			
Property, plant and equipment	9	14,533	16,148
Prepaid lease payments		–	18,652
Prepayment for a distribution right		20,008	21,913
Intangible assets		11,065	12,022
Club debenture		568	571
Right-of-use assets		19,336	–
Equity instruments at fair value through other comprehensive income		146,942	156,549
Financial asset at fair value through profit or loss		305	398
Interests in associates	10	149,387	146,397
		<b>362,144</b>	372,650
<b>Current assets</b>			
Inventories	11	78,134	66,471
Trade and other receivables	12	200,329	178,713
Prepayment for a distribution right		3,638	3,652
Prepaid lease payments		–	485
Bank balances and cash		89,081	146,101
		<b>371,182</b>	395,422
<b>Current liabilities</b>			
Trade and other payables	13	17,332	31,759
Tax payable		50	1,291
		<b>17,382</b>	33,050
Net current assets		<b>353,800</b>	362,372
Total assets less current liabilities		<b>715,944</b>	735,022
<b>Non-current liabilities</b>			
Deferred tax liabilities		10,014	9,638
		<b>705,930</b>	725,384
<b>Capital and reserves</b>			
Share capital	14	83,592	83,592
Share premium and reserves		622,338	641,792
Equity attributable to owners of the Company		<b>705,930</b>	725,384

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2019

	Attributable to owners of the Company							
	Share capital HK\$'000	Share premium HK\$'000	Contributed surplus HK\$'000	PRC statutory reserve HK\$'000 (note)	Fair value through other comprehensive income (non-recycling reserve) HK\$'000	Translation reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000
At 1 January 2019	83,592	607,614	50,167	23,729	(155,587)	(22,329)	138,198	725,384
Loss for the Period	-	-	-	-	-	-	(7,798)	(7,798)
Other comprehensive expense for the Period	-	-	-	-	(9,607)	(2,049)	-	(11,656)
Total comprehensive expense for the Period	-	-	-	-	(9,607)	(2,049)	(7,798)	(19,454)
At 30 June 2019 (unaudited)	83,592	607,614	50,167	23,729	(165,194)	(24,378)	130,400	705,930
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	-	-	-	-	(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 income 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

Note: 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 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 2019

	Six months ended 30 June	
	2019 (Unaudited) HK\$'000	2018 (Unaudited) HK\$'000
Net cash (outflow) inflow from operating activities	<b>(57,737)</b>	4,029
Net cash inflow from investing activities	<b>1,582</b>	8,943
Net cash outflow from financing activities	<b>(614)</b>	–
Net (decrease) increase in cash and cash equivalents	<b>(56,769)</b>	12,972
Cash and cash equivalents at the beginning of the period	<b>146,101</b>	90,195
Effect of foreign exchange rate changes	<b>(251)</b>	(532)
Cash and cash equivalents at the end of the period	<b>89,081</b>	102,635
Analysis of balances of cash and cash equivalents		
Bank balances and cash	<b>89,081</b>	102,635

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2019

## 1. GENERAL INFORMATION

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

The shares of the Company are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The addresses of the registered office and principal place of business in Hong Kong of the Company are 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 consolidated financial statements of the Company for the year ended 31 December 2018, on 6 October 2017, the Securities and Futures Commission ("SFC") 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") (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 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 ("Independent Investigator") was appointed as an independent investigator by the IBC to assist in the investigation. As at the date on which these condensed consolidated financial statements were authorised for issue, the Independent Investigator was in the progress of preparing its independent investigation report and the IBC's investigation into the affairs of the Acquisitions was still under progress.

On 2 May 2019, the Company also announced that PKF Hong Kong Limited ("PKF") was engaged as its internal control adviser to review the effectiveness of the Group's internal control systems in relation to investment procedure (including mergers and acquisitions and new projects). As at the date on which these condensed consolidated financial statements were authorised for issue, PKF was still in the progress of preparing its report on the Group's internal control systems.

Based on the latest available information on the progress of the investigation conducted by the IBC, as at the date on which these condensed consolidated financial statements were authorised for issue, the IBC's investigation into the issues of the Acquisitions, which was still 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 2018, except for those mandatory new and amended HKFRSs issued by HKICPA that are effective for the first time during the Period as follows:

HKFRS 16	Leases
HK(IFRIC)-Int 23	Uncertainty over Income Tax Treatments
Amendments to HKFRS 9	Prepayment Features with Negative Compensation
Amendments to HKAS 19	Plan Amendment, Curtailment or Settlement
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures
Amendments to HKFRSs	Annual Improvements to HKFRSs 2015–2017 Cycle

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 16.

### HKFRS 16 "Leases"

HKFRS 16 superseded HKAS 17 "Leases" and the related interpretations.

HKFRS 16 distinguishes lease and service contracts on the basis of whether an identified asset is controlled by a customer. In addition, HKFRS 16 requires sales and leaseback transactions to be determined based on the requirements of HKFRS 15 as to whether the transfer of the relevant asset should be accounted as a sales. HKFRS 16 also includes requirements relating to subleases and lease modifications.

Distinctions of operating leases and finance leases are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees, except for short-term leases and leases of low value assets.

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. For the classification of cash flows, the Group currently presents upfront prepaid lease payments as investing cash flows in relation to leasehold lands for owned use while other operating lease payments are presented as operating cash flows. Upon application of HKFRS 16, lease payments in relation to lease liability will be allocated into a principal and an interest portion which will be presented as financing cash flows by the Group.

The Group has applied HKFRS 16 at 1 January 2019 in accordance with the modified retrospective transition provisions set out in HKFRS 16. Restating comparative information is not required and therefore certain comparative information may not be comparable.

## 2. BASIS OF PREPARATION (Continued)

### HKFRS 16 "Leases" (Continued)

The following adjustments were made to the amounts recognised in the condensed consolidated statement of financial position at 1 January 2019. Line items that were not affected by the changes have not been included.

	<b>Balance previously reported at 31 December 2018</b>	<b>Reclassification</b>	<b>Remeasurement</b>	<b>Balance under HKFRS 16 at 1 January 2019</b>
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>Non-current assets</b>				
Right-of-use assets	–	19,358	606	19,964
Prepaid lease payments	18,652	(18,652)	–	–
<b>Current assets</b>				
Trade and other receivables				
– other prepayments	221	(221)	–	–
Prepaid lease payments	485	(485)	–	–
<b>Current liabilities</b>				
Lease liabilities	–	–	(606)	(606)

As at 1 January 2019, other prepayments amounting to approximately HK\$221,000 in respect of prepaid rental previously included in trade and other receivables and the carrying amount of prepaid lease payments amounting to approximately HK\$19,137,000 were reclassified to right-of-use assets. Also, right-of-use assets and corresponding lease liabilities amounting to approximately HK\$606,000 in respect of non-cancellable operating lease commitments unless they qualify for low value or short-term leases were recognised.

At the date of initial application, right-of-use assets at the amounts equal to the lease liabilities. Accordingly, no cumulative effect of initially applying HKFRS 16 as an adjustment to the opening balance of retained profits was recognised.

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 – distribution and trading of injection drugs, capsule and granule drugs and tablet drugs.
- (ii) provision of marketing and promotion services – provision of marketing and promotion services of drugs.

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

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

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

#### Six months ended 30 June 2019 (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	53,692	1,819	55,511
<b>RESULT</b>			
Segment profit	5,152	1,681	6,833
Other income, gains and losses			405
Selling and distribution expenses			(5,149)
Administrative expenses			(12,948)
Finance costs			(8)
Share of profit of associates			3,573
Loss before tax			(7,294)

#### 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

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.

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

#### Geographical information

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

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

### 4. OTHER INCOME, GAINS AND LOSSES

	Six months ended 30 June	
	2019 (Unaudited) HK\$'000	2018 (Unaudited) HK\$'000
Bank interest income	1,595	447
Dividend income from equity instruments at fair value through other comprehensive income ("FVTOCI")	174	174
Net exchange (loss) gain	(1,271)	316
Fair value loss on financial asset at fair value through profit or loss ("FVTPL")	(93)	(2,565)
Net gain on deemed disposal of interest in an associate	-	7,754
Others	-	30
	405	6,156

### 5. INCOME TAX EXPENSE

	Six months ended 30 June	
	2019 (Unaudited) HK\$'000	2018 (Unaudited) HK\$'000
<b>Current tax:</b>		
PRC Enterprise Income Tax ("EIT")	504	4,327

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

## 6. (LOSS) PROFIT FOR THE PERIOD

	Six months ended 30 June	
	2019 (Unaudited) HK\$'000	2018 (Unaudited) HK\$'000
(Loss) profit for the period has been arrived at after charging:		
Depreciation of property, plant and equipment	1,568	917
Amortisation of prepaid lease payments	–	253
Amortisation of intangible assets (included in cost of sales)	911	953
Amortisation of prepayment for a distribution right (included in cost of sales)	1,822	1,906
Depreciation of right-of-use assets	553	–
Operating lease expenses in respect of short term leases	238	–
Minimum lease payment under operating leases in respect of rented premises	–	424
Cost of inventories recognised as an expense	44,321	142,074

## 7. DIVIDENDS

The Board does not recommend the payment of any interim dividend for the Period (six months ended 30 June 2018: Nil).

## 8. (LOSS) EARNINGS PER SHARE

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

	Six months ended 30 June	
	2019 (Unaudited) HK\$'000	2018 (Unaudited) HK\$'000
<b>(Loss) profit</b>		
(Loss) profit for the period attributable to owners of the Company for the purpose of basic and diluted (loss) earnings per share	(7,798)	14,174
<b>Number of shares</b>		
Weighted average number of ordinary shares for the purpose of basic and diluted (loss) earnings per share	1,671,846,657	1,671,846,657
Basic and diluted (loss) earnings per share (HK cent) (note)	(0.47)	0.85

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

## 9. PROPERTY, PLANT AND EQUIPMENT

	HK\$'000
<b>Net book amount as at 1 January 2019</b>	<b>16,148</b>
Additions	<b>13</b>
Exchange realignment	<b>(60)</b>
Depreciation (note 6)	<b>(1,568)</b>
<b>Net book amount as at 30 June 2019 (unaudited)</b>	<b>14,533</b>
Net book amount as at 1 January 2018	10,712
Additions	169
Disposals	(94)
Exchange realignment	(85)
Depreciation (note 6)	(917)
Net book amount as at 30 June 2018 (unaudited)	9,785

## 10. INTERESTS IN ASSOCIATES

	<b>As at 30 June 2019 (Unaudited) HK\$'000</b>	As at 31 December 2018 (Audited) HK\$'000
Cost of unlisted investments in associates	<b>118,631</b>	118,631
Share of post-acquisition profit and other comprehensive income	<b>40,925</b>	37,544
Exchange difference arising on translation	<b>(10,169)</b>	(9,778)
	<b>149,387</b>	146,397

As at 30 June 2019, the interests in associates represented 20.0% equity interest in Sea Star International Limited ("Sea Star"), a company incorporated in the British Virgin Islands ("BVI") in March 2015 and 50.0% equity interest in Saike International, a company incorporated in the BVI in July 2014. The Group was able to exercise significant influence over Sea Star and Saike International 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 and Saike International were regarded as associates of the Group as at 30 June 2019.

## 10. INTERESTS IN ASSOCIATES (Continued)

Details of the Group's associates as at 31 December 2018 and 30 June 2019 are as follows:

Name	Place of incorporation	Proportion of ownership held by the Group		Principal activities
		As at 30 June 2019	As at 31 December 2018	
Sea Star (note a)	the BVI	20.0%	20.0%	Inactive
Saike International (note b)	the BVI	50.0%	50.0%	Trading of medical devices and equipment 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 would 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 2018 and 30 June 2019, 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 as vendor 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. Completion of the Saike Acquisition took place on 16 July 2015.

As at 30 June 2019, although the Group held 50.0% equity interest of Saike International and had the power to appoint one out of two directors to the board of directors of Saike International, the director who was 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.

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

## 11. INVENTORIES

	<b>As at 30 June 2019 (Unaudited) HK\$'000</b>	As at 31 December 2018 (Audited) HK\$'000
Finished goods	<b>78,134</b>	66,471

## 12. TRADE AND OTHER RECEIVABLES

	<b>As at 30 June 2019 (Unaudited) HK\$'000</b>	As at 31 December 2018 (Audited) HK\$'000
Trade receivables	<b>52,114</b>	82,241
Other prepayments	<b>253</b>	1,055
Other deposits	<b>1,649</b>	1,654
Prepayments to suppliers	<b>–</b>	294
Deposits paid to suppliers	<b>140,964</b>	91,303
Value-added tax recoverable	<b>5,097</b>	1,997
Others	<b>252</b>	169
	<b>200,329</b>	178,713

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

	<b>As at 30 June 2019 (Unaudited) HK\$'000</b>	As at 31 December 2018 (Audited) HK\$'000
Trade receivables:		
0 – 30 days	<b>3,065</b>	26,934
31 – 60 days	<b>7,361</b>	7,772
61 – 90 days	<b>2</b>	8,431
91 – 180 days	<b>17,140</b>	16,582
181 – 365 days	<b>18,025</b>	18,544
Over 365 days	<b>6,521</b>	3,978
	<b>52,114</b>	82,241

## 12. TRADE AND OTHER RECEIVABLES (Continued)

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

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

## 13. TRADE AND OTHER PAYABLES

	<b>As at 30 June 2019 (Unaudited) HK\$'000</b>	As at 31 December 2018 (Audited) HK\$'000
Trade payables	–	21,239
Deposits received	<b>1,501</b>	3,561
Contract liabilities	<b>12,147</b>	2,353
Other tax payables	<b>31</b>	46
Accruals	<b>3,653</b>	4,560
	<b>17,332</b>	31,759

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 2019 (Unaudited) HK\$'000</b>	As at 31 December 2018 (Audited) HK\$'000
0 – 30 days	–	21,239

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. Details of the amounts of prepayments to suppliers and deposits paid to suppliers are set out in note 12 to the condensed consolidated financial statements.

#### 14. SHARE CAPITAL

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

##### Ordinary shares

	Number of shares	Amount
	'000	HK\$'000
<b>Authorised:</b>		
<b>At 1 January 2018, 30 June 2018, 31 December 2018 and 30 June 2019</b>	<b>3,000,000</b>	<b>150,000</b>
<b>Issued and fully paid:</b>		
<b>At 1 January 2018, 30 June 2018, 31 December 2018 and 30 June 2019</b>	<b>1,671,847</b>	<b>83,592</b>

All ordinary shares issued as at 30 June 2019 ranked *pari passu* with each other in all respects.

#### 15. PLEDGE OF ASSETS

As at 30 June 2019, the Group had pledged the buildings and right-of-use assets with an aggregate carrying amount of approximately HK\$9,431,000 (31 December 2018: approximately HK\$9,588,000 comprising the buildings and prepaid lease payments) to secure general banking facilities granted to the Group.

#### 16. 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).

## 16. 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 asset	Fair value as at		Fair value hierarchy	Valuation technique(s)	Significant unobservable input(s)	Range (weighted average)
	30 June 2019 (Unaudited) HK\$'000	31 December 2018 (Audited) HK\$'000				
Equity instruments at FVTOCI listed in Hong Kong	2,883	2,015	Level 1	Quoted bid prices in an active market	N/A	N/A
Equity instruments at FVTOCI listed in Hong Kong under suspension	13,560	14,040	Level 3	Market approach	EV/EBITDA multiple P/S multiple Discount for lack of marketability	4.92–17.21 (12.01) 0.43–1.40 (0.95) 48.00%
Equity instruments at FVTOCI for unlisted investments	130,499	140,494	Level 3	Discounted cash flow	Discount rate Terminal growth rate	13.95%–16.07% (15.01%) 2.90%–3.00% (2.95%)
Financial asset at FVTPL	305	398	Level 3	Monte-Carlo simulation analysis	Net operating profit Volatility	RMB42,350,000 24.79%–44.62% (34.79%)
Club debenture	568	571	Level 2	Quoted bid prices in secondary market for identical asset	N/A	N/A

The fair value of investments in suspended listed equity securities which have not resumed trading 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 independent valuer by using the market comparison 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 was no transfer between level 1 and level 3 fair value measurement.

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

### (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 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 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 and provides marketing and promotion services through a network of 109 customers spreading over 12 regions in the PRC, including Zhejiang province, Shanxi province, Hubei province, Hebei province and Guangdong province.

### Overview

For the Period, the total revenue of the Group was approximately HK\$55,511,000, representing a decrease of approximately 67.3% as compared to that for the corresponding period in 2018. The decrease in revenue was mainly attributable to the temporary sales suspension and the temporary suspension of the production of the Group's major product under the second generation of Cephalosporins (二代頭孢產品) during the Period. On 28 February 2019, the Group received a letter from 杭州市市場監督管理局 (Hangzhou Municipal Administration for Market Regulation) (the English name is for identification purposes only) ("Hangzhou Market Administration") requesting the Group to stop selling its major product under the second generation of Cephalosporins (二代頭孢產品) ("Product") and to recall all batches of the Product on the market pursuant to the instruction of 浙江省藥品監督管理局 (Zhejiang Food and Drug Administration) ("ZFDA") after the identification of defective batches of the Product during the course of an unannounced inspection. The Group had stopped selling the Product and had recalled all batches of the Product from customers accordingly. The Product distributed by the Group contains two packings i.e. 0.5g and 1.0g of a sealed glass container. In April 2019, the Group had applied to Hangzhou Market Administration and ZFDA for the resumption of trading of the Product in the PRC.

On 6 May 2019, Hangzhou Market Administration issued a notice to the Group ("Notice") which specified that the Group had been discharged of the administrative measures for the suspension of the trading of the Product (1.0g) from the date of the Notice pursuant to the notice of ZFDA. Accordingly, the Group could start selling the Product (1.0g) again on the market. In June 2019, the manufacturer of the Product notified the Group that a throughout examination and review of the manufacturing process of the Product ("Improvement Project") is currently being conducted in order to improve the Product's quality and to avoid any similar incident of defective production of the Product in the future. During the course of the Improvement Project, production of the Product is suspended. It is expected that the Improvement Project will be completed in the third quarter of 2019. As the national exclusive distributor of the Product, the Group attached great importance to this incident. After the incident, the Group has maintained close communication with the manufacturer of the Product from time to time and will continue to liaise with the manufacturer on the outcome of the Improvement Project to ensure product quality. For further details in relation to the incident, please refer to the announcements of the Company dated 2 May 2019, 7 May 2019 and 27 June 2019. The temporary sales suspension and the temporary suspension of the production of the Product caused a negative impact on the Group's sales. The loss for the Period was approximately HK\$7,798,000, while the profit attributable to owners of the Company was approximately HK\$14,174,000 for the six months ended 30 June 2018. The turnaround of the Group's financial performance from a profit to a loss was primarily due to (i) the significant decrease in revenue and gross profit of the Group mainly due to the sales decline of the Group's major product (i.e. the Product) as a result of the temporary sales suspension and the temporary suspension of production of the Product during the Period; (ii) the absence of a net gain on deemed disposal of interest in WinHealth International for the Period (six months ended 30 June 2018: approximately HK\$7,754,000); and (iii) the decrease in share of profit of associates for the Period as the Group's interest in WinHealth International had no longer been classified as interest in associate since 11 October 2018.

## Business review

During the Period, the revenue of the Group was mainly 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.

## Revenue and segment information

The table below sets out the revenue of the Group (by business segment) for the six months ended 30 June 2019 and 2018 respectively.

		Revenue contributed by each business segment for the six months ended 30 June			
		2019 (Unaudited)		2018 (Unaudited)	
		HK\$'000	%	HK\$'000	%
(1)	Distribution and trading of pharmaceutical products	53,692	96.7	165,290	97.2
(2)	Provision of marketing and promotion services	1,819	3.3	4,689	2.8
Total		55,511	100.0	169,979	100.0

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

This segment generated a revenue of approximately HK\$53,692,000 for the Period (six months ended 30 June 2018: approximately HK\$165,290,000), representing a decrease of approximately 67.5% as compared to that for the corresponding period in 2018. The decrease in revenue was primarily attributable to the sales decline of the Group's major product under the second generation of Cephalosporins (二代頭孢產品) (i.e. the Product) as a result of the temporary sales suspension and the temporary suspension of the production of the Product during the Period.

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

This segment generated a revenue of approximately HK\$1,819,000 for the Period (six months ended 30 June 2018: approximately HK\$4,689,000). Under the implementation of the "Two-Invoice" System (兩票制) in the PRC since 2017, the Group started to develop its business of the provision of marketing and promotion services in respect of pharmaceutical products in the PRC. The Group's marketing and promotion model involves formulating marketing and promotion strategies and conducting academic promotion programs of the Group's products in return for service income from the suppliers. The decrease in revenue from this segment was primarily because the market was highly competitive and the marketing and promotion services contract entered into between WinHealth International's subsidiary and the Group for the provision of marketing and promotion services of certain pharmaceutical products expired in late 2018.

## **Outlook**

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 announcement of the “4+7 centralised purchase policy” (4+7城市藥品集中採購文件) in the PRC in 2018, 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.

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***

During the Period, the Group acquired exclusive national distribution rights of five prescription capsule and granule drugs in the PRC. The manufacturers of these capsule and granule drugs are currently applying for approval to manufacture these capsule and granule drugs in the PRC. The Group will seek to acquire distribution rights of new products to enhance its product portfolio. Looking ahead to the second half of 2019, the Group will continue to enhance its product portfolio, distribution channels and marketing and promotion strategy in order to achieve a better and sustainable long-term development of the Group.

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

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

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\$55,511,000, representing a decrease of approximately 67.3% from approximately HK\$169,979,000 for the six months ended 30 June 2018. The decrease in revenue from the distribution and trading of pharmaceutical products was primarily attributable to the temporary sales suspension and the temporary suspension of the production of Group's major product under the second generation of Cephalosporins (二代頭孢產品) during the Period. The decrease in revenue from the provision of marketing and promotion services was primarily because the market was highly competitive and the marketing and promotion services contract entered into between WinHealth International's subsidiary and the Group for the provision of marketing and promotion services of certain pharmaceutical products expired in late 2018.

### **Cost of sales**

The cost of sales for the Period was approximately HK\$48,678,000, representing a decrease of approximately 66.5% from approximately HK\$145,289,000 for the six months ended 30 June 2018. The decrease in cost of sales was mainly due to the decrease in sales volume of the Group's major product under the second generation of Cephalosporins (二代頭孢產品) during the Period.

### **Gross profit and gross profit margin**

Gross profit decreased by approximately HK\$17,857,000, or approximately 72.3%, from approximately HK\$24,690,000 for the six months ended 30 June 2018 to approximately HK\$6,833,000 for the Period mainly due to the temporary sales suspension and the temporary suspension of the production of Group's major product under the second generation of Cephalosporins (二代頭孢產品). The Group's gross profit margin for the Period was approximately 12.3%, which has decreased by 2.2 percentage points when compared to corresponding period in 2018. The decrease in gross profit margin was primarily attributable to the decrease in sales volume of the Group's products while the amortisation costs classified as cost of sales are fixed.

### **Other income, gains and losses**

The net other gains for the Period were approximately HK\$405,000 (six months ended 30 June 2018: approximately HK\$6,156,000). Such decrease was primarily attributable to (i) the absence of a net gain on deemed disposal of interest in WinHealth International for the Period (six months ended 30 June 2018: approximately HK\$7,754,000); and (ii) the net exchange loss of approximately HK\$1.3 million recorded for the Period, while net exchange gain of approximately HK\$0.3 million was recorded for corresponding period in 2018.

### **Selling and distribution expenses**

Selling and distribution expenses for the Period were approximately HK\$5,149,000, representing a decrease of approximately 40.2% from approximately HK\$8,615,000 for the six months ended 30 June 2018. The decrease in selling and distribution expenses was primarily attributable to the temporary sales suspension and the temporary suspension of the production of Group's major product under the second generation of Cephalosporins (二代頭孢產品) during the Period.

### **Administrative expenses**

Administrative expenses for the Period were approximately HK\$12,948,000, representing an increase of approximately 23.7% from approximately HK\$10,464,000 for the six months ended 30 June 2018. Such increase was mainly due to the increase in legal and professional fees incurred for conducting an independent investigation into the issues relating to the Acquisitions during the Period.

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

Share of profit of associates was approximately HK\$3,573,000 for the Period which was mainly contributed by Saike International, representing a decrease of approximately 46.9% from approximately HK\$6,734,000 for the six months ended 30 June 2018 which was mainly contributed by Saike International and WinHealth International. The Group ceased to recognise its interest in WinHealth International as interest in associate since 11 October 2018 upon the deemed disposals of WinHealth International through its allotment and issue of new shares to other parties in April 2018 and subsequently in October 2018.

### **Income tax expense**

Income tax expense for the Period was approximately HK\$504,000, representing a decrease of approximately 88.4% from approximately HK\$4,327,000 for the six months ended 30 June 2018. The decrease was primarily due to the decrease in taxable income for tax purposes.

### **Loss for the Period**

The Group recorded a change from a profit attributable to owners of the Company of approximately HK\$14,174,000 for the six months ended 30 June 2018 to a loss attributable to owners of the Company of approximately HK\$7,798,000 for the Period.

The turnaround of the Group's financial performance from a profit to a loss was primarily due to (i) the significant decrease in revenue and gross profit of the Group mainly due to the sales decline of the Group's major product (i.e. the Product) as a result of the temporary sales suspension and the temporary suspension of production of the Product during the Period; (ii) the absence of a net gain on deemed disposal of interest in WinHealth International for the Period (six months ended 30 June 2018: approximately HK\$7,754,000); and (iii) the decrease in share of profit of associates for the Period as the Group's interest in WinHealth International had no longer been classified as interest in associate since 11 October 2018; despite that the change was partially offset by the decrease in the selling and distribution expenses 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 were principally financed by internal resources and net proceeds from the Rights Issue completed in March 2017.

As at 30 June 2019, the Group had net cash and cash equivalents amounting to approximately HK\$89,081,000 (31 December 2018: approximately HK\$146,101,000), among which approximately 43% (31 December 2018: approximately 49%) were denominated in HK\$ and approximately 57% (31 December 2018: approximately 51%) were denominated in RMB. The Group did not have any bank loan as at 30 June 2019 and 31 December 2018. The Group had a gearing ratio (defined as total bank and other borrowings divided by total equity) of zero as at 30 June 2019 (31 December 2018: zero).

## **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 2019, 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 2019, the Group had pledged the buildings and right-of-use assets with an aggregate carrying amount of approximately HK\$9,431,000 (31 December 2018: approximately HK\$9,588,000 comprising the buildings and prepaid lease payments) to secure general banking facilities granted to the Group.

## **Equity instruments at FVTOCI**

The Group's equity instruments at FVTOCI include (i) equity instruments at FVTOCI listed in Hong Kong under suspension; (ii) equity instruments at FVTOCI listed in Hong Kong which have been determined based on the quoted market prices available on the Stock Exchange, except the Group's listed securities investment in Town Health; and (iii) equity instruments at FVTOCI for unlisted investments which are incorporated in the Cayman Islands and the British Virgin Islands with limited liability and stated at fair value based on valuations prepared by independent valuers.

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

As at 30 June 2019, the Group's securities investment in the shares of Town Health ("TH Shares") (a company whose shares are listed on the Main Board of the Stock Exchange with stock code: 3886) with a fair value amounted to approximately HK\$13.6 million. On 27 November 2017, the SFC had, pursuant to Section 8(1) of the Securities and Futures (Stock Market Listing) Rules (Cap. 571V, the Laws of Hong Kong), directed the Stock Exchange to suspend trading in the TH Shares with effect from 9:00 a.m. on 27 November 2017 as it appeared to the SFC that, among other things, Town Health's interim report for the six months ended 30 June 2016 published on 7 September 2016 and Town Health's annual report for the year ended 31 December 2016 published on 27 April 2017 included materially false, incomplete or misleading information. As at the date of this interim report, the trading of the TH Shares remained suspended. The Group engaged an independent valuer to conduct a valuation on the fair value of the Group's investment in the TH Shares as at 30 June 2019. The valuation was conducted based on market approach method by reference to P/S multiple, EV/EBITDA multiple of companies in similar industry and discount of lack of marketability. As at 30 June 2019 and the date of this interim report, the Group held 120,000,000 TH Shares, representing approximately 1.59% of the then total issued share capital of Town Health. The Group recognised a fair value loss on its investment in the TH Shares of approximately HK\$0.5 million for the Period. Based on the 2018 annual report of Town Health, Town Health will work out its best and focus on developing the Mainland healthcare business, with an aim to expanding its market share and creating substantial returns for its shareholders.

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

As at 30 June 2019, the Group's securities investment listed in Hong Kong (other than TH Shares) with a fair value amounted to approximately HK\$2.9 million.

During the Period, the Group did not dispose of any equity securities listed in Hong Kong. Besides, due to an increase in the fair value of certain listed securities investments, a fair value gain of approximately HK\$0.9 million were recognised under the FVTOCI (non-recycling reserve) during the Period. The Group will continue to monitor its investments cautiously in view of recent uncertain market conditions.

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

***HCMPs Healthcare Holdings Limited ("HCMPs")***

As at 30 June 2019, the Group held approximately 14.0% of HCMPs (formerly known as C&C International Healthcare Group Limited) with an investment amount of approximately HK\$69.2 million and a fair value of approximately HK\$52.2 million.

HCMPs and its subsidiaries are principally engaged in the provision of contracted medical schemes and medical services. Based on the latest unaudited consolidated financial statements of HCMPs for the four months ended 30 April 2019, it recorded an unaudited consolidated profit of approximately HK\$7.7 million. The Group is optimistic about the prospects of HCMPs because the Group believes that the ageing 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.

### ***WinHealth International***

As at 30 June 2019, the Group held approximately 9.63% of WinHealth International with an investment amount of approximately RMB47.25 million (equivalent to approximately HK\$53.4 million) and a fair value of approximately RMB68.9 million (equivalent to approximately HK\$78.3 million).

WinHealth International and its subsidiaries are principally engaged in the distribution of pharmaceutical products in the PRC and have an extensive distribution network through possessing distribution rights of various imported prescription drugs in the PRC. Based on the latest unaudited consolidated financial statements of WinHealth International for the five months ended 31 May 2019, it recorded an unaudited consolidated profit of approximately RMB22.3 million. In view of the promising financial performance of WinHealth International, the Group is optimistic about the prospects of WinHealth International.

### **Future plans for material investments**

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

### **Employee information**

As at 30 June 2019, the Group had 45 employees (31 December 2018: 48). Staff costs, including Directors' emolument for the Period, amounted to approximately HK\$6,525,000 (six months ended 30 June 2018: approximately HK\$10,812,000). The Group's remuneration policy is based on positions, duties and performance of the employees. The employees' remuneration varies according to their positions, which include salaries, overtime allowances, bonuses and/or various subsidies. The Group offers comprehensive and competitive remuneration and benefits packages to all its employees. In addition, the Group has adopted a share option scheme for the purpose of providing incentives and rewards to eligible persons who contribute to the success of the Group's operations.

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

### **Foreign currency risk**

The Group carries out its business in the PRC and most of the transactions are denominated in 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 the IBC comprising two independent non-executive Directors, namely Ms. Li Sin Ming, Ivy and Mr. Leung Chi Kin with Ms. Li Sin Ming, Ivy being appointed as the chairman of the IBC. The principal duties of the IBC include (i) to conduct an independent investigation into the issues relating to the above acquisitions and to obtain external legal or other independent professional advice, if required; and (ii) to deal with the issues and matters in relation to the suspension. Mr. Sy Lai Yin, Sunny, an independent non-executive Director appointed on 24 September 2018, was also appointed as a member of the IBC on the same day. As at the date of this interim report, the IBC's investigation into the affairs of the two acquisitions was still under progress. Grant Thornton Advisory Services Limited (i.e. the 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 has also engaged PKF as its internal control adviser to review the effectiveness of the Group's internal control systems in relation to investment procedure (including mergers and acquisitions and new projects). PKF was in the progress of preparing its report on the Group's internal control systems.

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, 1 August 2018, 1 November 2018, 1 February 2019, 2 May 2019 and 2 August 2019. 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.

### **Net proceeds from 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 completion of the Rights Issue took place on 6 March 2017 and the net proceeds after deduction of expenses from the Rights Issue were approximately HK\$330.0 million. As at 31 December 2018 and 30 June 2019, the total unutilised net proceeds were approximately HK\$39.6 million. As at the date of this interim report, the Company has not identified suitable business or investment opportunities. The Company will continue to use its best endeavours to identify appropriate business opportunities for investment. 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 in a licensed bank in Hong Kong. Details of the Rights Issue, the intended use of proceeds as well as the actual use of proceeds up to 31 December 2018 are disclosed in the sub-section headed "Rights Issue" under the section headed "Management Discussion and Analysis" of the 2018 annual report of the Company.

### **OTHER INFORMATION**

#### **Directors' and chief executive's interests and short positions in shares, underlying shares and debentures**

As at 30 June 2019, 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 or any of 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 2019, the following persons (other than the Directors and 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.

## 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)
U Man long	Person having a security interest in shares	426,672,000	Long	25.52%
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%
Qian Shenglei	Beneficial owner	193,704,000	Long	11.59%
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%
China Wah Yan Healthcare Limited ("China Wah Yan") (Note 4)	Beneficial owner and interest of controlled corporations	137,427,840	Long	8.22%

Note 1: The total number of 1,671,846,657 shares of the Company in issue as at 30 June 2019 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.

Note 4: Based on the corporate substantial shareholder notice dated 20 June 2019 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 of the Company were held by China Wah Yan, 21,070,880 shares of the Company were held by Classic Estate Investments Limited, which was wholly owned by China Wah Yan, and 82,000,000 shares of the Company was held by Ultimate Paramount International Limited, which was 50% owned by Classic Estate Investments Limited. Accordingly, China Wah Yan was deemed to be interested in all the 103,070,880 shares of the Company held by Classic Estate Investments Limited and Ultimate Paramount International Limited under Part XV of the SFO.

Save as disclosed above, as at 30 June 2019, 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, lapsed or cancelled under the Scheme during the Period. There was no outstanding share option under the Scheme as at 30 June 2019.

### **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.

### **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").

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 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.

The Audit Committee comprises three independent non-executive Directors, namely, Ms. Li Sin Ming, Ivy, Mr. Leung Chi Kin and Mr. Sy Lai Yin, Sunny. 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, 27 August 2019