New Ray Medicine International Holding Limited

新銳醫藥國際控股有限公司

*(Incorporated in Bermuda with limited liability)*

Stock Code: 6108

# Annual Report 2016

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# CORPORATE INFORMATION

## Board of Directors

**Executive Directors**

Mr. Zhou Ling *(Chairman)*
Ms. Yang Fang *(Chief Executive Officer)*
Mr. Lee Chik Yuet

**Independent Non-executive Directors**

Mr. Ho Hau Cheung, *BBS, MH*
Mr. Sung Hak Keung Andy
Mr. Leung Chi Kin

## Board Committees

**Audit Committee**

Mr. Sung Hak Keung Andy *(Chairman)*
Mr. Ho Hau Cheung, *BBS, MH*
Mr. Leung Chi Kin

**Remuneration Committee**

Mr. Ho Hau Cheung, *BBS, MH (Chairman)*
Mr. Sung Hak Keung Andy
Mr. Leung Chi Kin

**Nomination Committee**

Mr. Leung Chi Kin *(Chairman)*
Mr. Ho Hau Cheung, *BBS, MH*
Mr. Sung Hak Keung Andy

**Corporate Governance Committee**

Mr. Lee Chik Yuet *(Chairman)*
Mr. Zhou Ling
Ms. Yang Fang

## Company Secretary

Mr. Lai Kwok Wa, *HKICPA*

## Auditors

Deloitte Touche Tohmatsu
*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 517, 5th Floor
Town Health Technology Centre
10-12 Yuen Shun Circuit, Siu Lek Yuen
Shatin, New Territories, Hong Kong

## Principal Banker

Agricultural Bank of China
Hangzhou Fu Rong Sub-branch
No. 21 Cai He Road
Jianggan District
Hangzhou City
Zhejiang Province
PRC

## Principal Share Registrar and Transfer Office

Codan Services 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

# FINANCIAL SUMMARY

## 2016 Financial Highlights

- The Group recorded a revenue of approximately HK$225.4 million for the year ended 31 December 2016 (2015: approximately HK$253.0 million), representing a decrease of approximately 10.9% as compared to 2015.

- Net loss attributable to owners of the Company for the year ended 31 December 2016 was approximately HK$20.5 million, while the net profit attributable to owners of the Company was approximately HK$14.8 million for the year ended 31 December 2015.

- The Board does not recommend the payment of dividend for the year ended 31 December 2016.

- The Group had a gearing ratio (defined as total bank and other borrowings divided by total equity) of 3.5% as at 31 December 2016 (2015: zero).

# FINANCIAL SUMMARY

| | 2012<br>HK$'000 | 2013<br>HK$'000 | 2014<br>HK$'000 | 2015<br>HK$'000 | **2016**<br>**HK$'000** |
|---|---|---|---|---|---|
| **Operating results** | | | | | |
| Revenue | 175,042 | 192,854 | 206,928 | 252,985 | **225,388** |
| Gross profit | 38,993 | 50,635 | 61,177 | 65,626 | **34,401** |
| Profit/(loss) before tax | 22,185 | 28,724 | 43,858 | 30,063 | **(13,708)** |
| Profit/(loss) for the year | 15,327 | 17,403 | 29,681 | 14,804 | **(20,458)** |
| **Profitability** | | | | | |
| Gross profit margin | 22.3% | 26.3% | 29.6% | 25.9% | **15.3%** |
| Net profit margin | 8.8% | 9.0% | 14.3% | 5.9% | **(9.1%)** |
| **Asset status** | | | | | |
| Total assets | 166,275 | 233,887 | 329,734 | 516,572 | **534,736** |
| Equity attributable to owners of the Company | 134,393 | 213,198 | 303,191 | 477,663 | **471,687** |
| Total liabilities | 31,882 | 20,689 | 26,543 | 38,909 | **63,049** |
| Bank balances and cash | 26,289 | 93,409 | 150,942 | 56,795 | **71,599** |
| Quick ratio (times) | 4.6 | 12.0 | 13.0 | 7.4 | **4.5** |
| Current ratio (times) | 5.2 | 12.5 | 13.7 | 7.6 | **4.8** |

# CHAIRMAN'S STATEMENT

On behalf of the board (the "Board") of directors (the "Directors") of New Ray Medicine International Holding Limited (the "Company", together with its subsidiaries, the "Group"), I am pleased to present the audited annual results of the Group for the year ended 31 December 2016 (the "Year"). Year 2016 was full of challenges. The macro-economy of the PRC was undergoing a structural reform on the supply side and a milder economic growth was recorded. Against the backdrop of deteriorating economic environment, the pharmaceutical industry in which the Group operates was further challenged by the release of a series of relevant policies especially the public hospital reform and price cut of drug prices to reduce and simplify the chain and layers of drug circulation and to control usage of drugs. The aforesaid policies put the pharmaceutical enterprises including the Group into a challenging position and affect the profitability of the industry.

Facing the market challenges, the Group implemented its strategy of product diversification and expansion of its distribution network by obtaining new exclusive distribution rights and enlarging its market share by sourcing new products complementary to the Group's existing product portfolio in order to minimise the impact of unfavourable external factors to the Group. For the Year, the total revenue of the Group was approximately HK$225.4 million, representing a decrease of approximately 10.9% as compared to that for year 2015. Due to the increasing price cut pressure, the Group's gross profit margin for the Year was approximately 15.3%, which has decreased by 10.6 percentage points when compared to the year 2015. In order to tackle the challenges in the industry, the Group deployed more resources in marketing which increased the cost of sales. There was a significant increase in selling and distribution expenses of the Group as compared with those for year 2015. On the other hand, the Group recorded the realised fair value losses and impairment losses of its available-for-sale investments of approximately HK$21.4 million as a result of the volatile stock market in Hong Kong for the Year. As a result, the Group recorded a loss attributable to owners of the Company of approximately HK$20.5 million as compared to a profit of approximately HK$14.8 million for year 2015.

Looking ahead, the "Two Invoice" System (兩票制) will be implemented in the PRC within a year, which aims to reduce the drug circulation chain and layers between drug manufacturers and end user medical institutions. On the other hand, the Group expects the price cut measures will continue in view of the recently released tendering results in Guangdong Province, which may result in a drop in the sales of products and drop in the average profit margin of the Group's products. However, the Group remains prudently optimistic in spite of the headwind that the industry will face in the future. The aging population, urbanisation, increase in chronic diseases and household income, and 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. The new policies will bring challenges for many enterprises, in particular the small and medium-size ones, which will accelerate the consolidation and concentration of the market players in the industry. The Group will closely monitor the guidelines of the national policy and adapt to the market changes. The Group will endeavour to maximise return for shareholders by focusing on proprietary drugs with outstanding marketing and sales performance and looking out for new opportunity to acquire new distribution right, with the aforesaid the Group is poised to benefit from this development.

# CHAIRMAN'S STATEMENT

Meanwhile, 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. 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.

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

**Zhou Ling**
*Chairman and Executive Director*

Hong Kong
30 March 2017

# MANAGEMENT DISCUSSION AND ANALYSIS

The Group is principally engaged in the trading of pharmaceutical products in the PRC. The Group has continued to maintain its leading position in the distribution of the prescription drug market in Zhejiang province with its unremitting efforts in business development.

## Business Review

As at 31 December 2016, the Group had 21 pharmaceutical products, of which 18 pharmaceutical products were included in the Medical Insurance Drugs Catalogs. Those drugs are applied to various diseases or illness such as cardiovascular diseases, cerebrovascular diseases, digestive system illness, rheumatism, urinary system illness, anti-viral infection and or used as health supplements. The Group's injection drugs have generated a predominant portion of revenue. Other products of the Group include capsule and granule drugs, tablet drugs and other drugs. The Group's current product portfolio primarily comprises 12 injection drugs which are mainly prescription drugs. The table below sets out the revenue of the Group (by form of products) for the two years ended 31 December 2016, respectively.

| | **Revenue contributed from each of the segments** | | | | **Gross Profit Margin** | |
|---|---|---|---|---|---|---|
| | 2015<br>HK$'000 | <br>% | **2016**<br>**HK$'000** | <br>**%** | 2015<br>% | **2016**<br>**%** |
| Injection drugs | 211,038 | 83.4 | **207,031** | **91.9** | 25.5 | **15.7** |
| Capsule and granule drugs | 35,470 | 14.0 | **15,656** | **6.9** | 27.6 | **11.0** |
| Tablet drugs | 2,302 | 0.9 | **305** | **0.1** | 11.7 | **5.9** |
| Other drugs | 4,175 | 1.7 | **2,396** | **1.1** | 40.8 | **2.4** |
| Total | 252,985 | 100.0 | **225,388** | **100.0** | 25.9 | **15.3** |

**(i) Injection Drugs**

The injection drugs segment generated a revenue of approximately HK$207.0 million for the Year (2015: HK$211.0 million), representing a decrease of approximately 1.9% as compared to 2015. Such decrease was primarily attributable to the cessation of sales of the Group's injection products with relatively low gross profit margin after the price cut for drugs in the public hospitals drug procurement list imposed by several city governments in Zhejiang province since the third quarter of 2015. The gross profit margin of the injection drugs segment was approximately 15.7% in 2016, representing a decrease of approximately 9.8 percentage points, as compared to approximately 25.5% in 2015. The lower gross profit margin was due to the price cut for drugs in the public hospitals drug procurement list as imposed by the several city governments in Zhejiang province since the third quarter of 2015 and increase in expenses to obtain an injection drug's exclusive distribution right and increase in amortisation expenses on the trademark of an injection drug.

## Business Review *(Continued)*

**(ii) Capsule and Granule Drugs**

The capsule and granule drugs segment generated a revenue of approximately HK$15.7 million for the Year (2015: HK$35.5 million), representing a decrease of approximately 55.8% as compared to 2015. Such decrease was primarily attributable to the cessation of sales of (i) the Group's granule product Cefprozil Granules（頭孢丙烯顆粒）after the expiry of the distribution agreement in November 2015; and (ii) the Group's capsule products with relatively low gross profit margin after the price cut for drugs in the public hospitals drug procurement list imposed by several city governments in Zhejiang province since the third quarter of 2015. The gross profit margin of the capsule and granule drugs segment was approximately 11.0% in 2016, as compared to approximately 27.6% in 2015, decreasing by approximately 16.6 percentage points from 2015 due to the price cut for the drugs in the public hospitals drug procurement list as imposed by several city governments in Zhejiang province since the third quarter of 2015.

**(iii) Tablet Drugs**

The tablet drugs segment generated a revenue of approximately HK$0.3 million for the Year (2015: HK$2.3 million), representing a decrease of approximately 87.0% as compared to 2015. Such decrease was primarily attributable to the decrease in the sales of the Group's major products in this segment, namely Cefixime Dispersible Tablet（頭孢克肟分散片）as such product was categorised as antibiotic which should be under limited use as stated in the Administrative Catalogue of the Clinical Use of Antibiotics of Zhejiang Province (2012 version).

**(vi) Other Drugs**

The other drugs segment generated a revenue of approximately HK$2.4 million for the Year (2015: HK$4.2 million). The decrease was primarily due to the decrease of sales of several vitro diagnostic reagents during the Year.

Regarding the Group's distribution network, as of 31 December 2016, the Group procured pharmaceutical products throughout the PRC from 21 suppliers and the Group sold pharmaceutical products through a network of 216 distributor customers, of which 44 distributor customers cover Zhejiang province with the remaining 172 distributor customers being spread over 22 regions in the PRC, including Shanghai, Chongqing, Anhui province, Sichuan province, Hebei province and Guangdong province. In addition, the Group successfully promoted its products to over 800 hospitals through the last tendering process in Zhejiang province in 2014. The Group will assist its suppliers by providing (i) its industry and market expertise; (ii) the marketing intelligence of the products and the provincial market; and (iii) the competitive price suggestions in relation to the collective tendering process, to the suppliers. The Group's reliable supply network and extensive distributorship allow its products to penetrate into different niche markets effectively. The Group believes the assistance provided to the suppliers will strengthen the relationship between the Group and its suppliers and will increase the Group's exposure in China's pharmaceutical market in order to attract reputable suppliers and distributor customers.

## Future Prospects

### (i) Recent Development

***Zhejiang provincial collective tendering process***

Generally, all pharmaceutical products procured by public hospitals and medical institutions in the PRC are subject to provincial collective tendering process that involves bidding by pharmaceutical manufacturers of these products. The latest provincial collective tendering process in Zhejiang Province was held in 2014 which involved three batches of tendering. 7 pharmaceutical products distributed by Group as at 31 December 2016 were involved in the Batch 3 provincial collective tendering process ("Batch 3 Tendering Process").

The results of the Batch 3 Tendering Process are pending to be released.

***Enhance its product portfolio***

In the year of 2016, the Group continued 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. During the Year, the Group renewed the distribution rights of a product, namely Cefamandole Nafate for Injection（注射用頭孢孟多酯鈉）and acquired the distribution right of a new product, namely Ampicillin Sodium and Sulbactam Sodium for Injection（注射用氨苄西林鈉舒巴坦鈉）.

*Cefamandole Nafate for Injection（注射用頭孢孟多酯鈉）*

In January 2016, the Group entered into a distribution agreement with a manufacturer as referred by another distributor, pursuant to which the manufacturer granted the exclusive national distribution right of the product Cefamandole Nafate for Injection under two different specifications (i.e. 0.5g and 1.0g) in the PRC to the Group for an initial period from 1 January 2016 to 31 December 2018.

*Ampicillin Sodium and Sulbactam Sodium for Injection（注射用氨苄西林鈉舒巴坦鈉）*

In April 2016, the Group entered into a distribution agreement with a distributor in the PRC, pursuant to which the Group was granted an exclusive national distribution right for Ampicillin Sodium and Sulbactam Sodium for Injection in the PRC. Pursuant to the distribution agreement, the distribution period is from April 2016 to April 2017 and the Group paid RMB6,000,000 as deposit for obtaining the distribution right of Ampicillin Sodium and Sulbactam Sodium for Injection. Such deposit shall be refundable upon expiry of the distribution period.

## Future Prospects *(Continued)*

**(i) Recent Development** *(Continued)*

***Diversification of healthcare business***

Recently, the Group has invested into certain different group of companies, namely, (1) an aggregate of 14% of the issued share capital of C&C International Healthcare Group Limited ("C&C International") in October 2016 and March 2017; (2) approximately 11% of the issued shares of Rui Kang Pharmaceutical Group Investments Limited ("RK Pharmaceutical"), a company whose shares are listed on the Growth Enterprise Market of the Stock Exchange (stock code: 8037) in January 2017; and (3) 15% of the issued share capital of Eternal Charm International Limited 恒雅國際有限公司 ("Eternal Charm") in March 2017. C&C International and its subsidiaries (collectively, the "C&C Group") are principally engaged in the provision of contracted medical schemes ("Schemes") for integrated medical and healthcare check-up services. The customers of the C&C Group are corporate clients which have engaged the C&C Group to provide the Schemes mainly in Hong Kong so as to allow the employees of such corporate clients to seek medical and healthcare services offered by the network of the C&C Group. Meanwhile, the C&C Group also works for the corporate customers in providing administrative services and other value-added services of the Schemes. The medical and healthcare services provided by the C&C Group include a combination of medical services (comprising general practice and specialist), in-patient management, dental services, and auxiliary services (comprising imaging and laboratory services, physiotherapy, etc.). The C&C Group's suppliers include doctors, dentists, auxiliary services providers and other medical professionals in Hong Kong and Macau. The management of the C&C Group has extensive experience in the management of the Schemes. Currently, the C&C Group has a network of more than 700 contracted specialist and general practitioner doctors for providing medical and healthcare services under the Schemes, RK Pharmaceutical and its subsidiaries are engaged in (i) manufacture, research and development, sale and distribution of health related and pharmaceutical products in the PRC and Hong Kong; (ii) provision of medical laboratory testing services and health check services in Hong Kong; and (iii) trading of securities in Hong Kong; and The principal business of Eternal Charm and its subsidiaries ("Eternal Charm Group") is the distribution of pharmaceutical products in the PRC and its management team has extensive experience in obtaining exclusive distribution rights of the imported prescription drugs in the PRC.

**(ii) Industry Outlook**

The "Two Invoice" System（兩票制）will be implemented in the PRC within a year, which aims to reduce the drug circulation chain and layers between drug manufacturers and end user medical institutions. On the other hand, the Group expects the price cut measures will continue in view of the recently released tendering results in Guangdong Province, which may result in a drop in the sales of products 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.

## Future Prospects *(Continued)*

### (iii) Growth Strategies

#### *(a) Continue to diversify the existing product portfolio*

In order to maintain a diversified product portfolio, the Group has been identifying and acquiring the exclusive distribution rights of pharmaceutical products. The Group has actively identified and obtained new exclusive distribution rights of products in 2016. During the Year, the Group renewed the distribution right of product, namely Cefamandole Nafate for Injection（注射用頭孢孟多酯鈉）and acquired the distribution right of a new product, namely Ampicillin Sodium and Sulbactam Sodium for Injection（注射用氨苄西林鈉舒巴坦鈉）.

In 2017, the Group will actively seek new business opportunities in order to diversify and improve the Group's product portfolio by fully utilising the Group's existing distribution network, resources and market position. The Group will actively identify and obtain new distribution rights of the pharmaceutical products from the existing and potential new suppliers in the PRC and overseas in order to improve and complement the Group's existing product portfolio. The Group has been distributing imported prescription drugs since 2014. The Group is currently distributing the following imported prescription drugs, namely Cefamandole Nafate for Injection（注射用頭孢孟多酯鈉）, Italy Levocarnitine Injection（意大利左卡尼丁注射液）and Monosialotetrahexosylganglioside Sodium Injection（單唾液酸四已糖神經節苷脂鈉注射液）. The revenue generated from distributing imported prescription drugs amounted to a total of HK$44.6 million, HK$104.0 million and HK$138.3 million for the years ended 31 December 2014, 2015 and 2016 respectively. The Group plans to invest more resources in its business of distribution of imported prescription drugs in the PRC by obtaining exclusive distribution rights of the imported prescription drugs which have superior features and quality as the Group expects that the demand for imported prescription drugs will grow faster than that for the domestically manufactured drugs. In line with such strategy, the Group will make potential investments in the equity interests (in part or in full) of pharmaceutical companies which are principally engaged in overseas pharmaceutical business in the PRC to accelerate growth in distributing business of the imported prescription drugs.

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

The Group has actively identified and hired additional sales and marketing personnel throughout the Year to strengthen the Group's sales and marketing capabilities. In addition, after the transfer of the Company to the Main Board of The Stock Exchange of Hong Kong Limited ("Stock Exchange") in 2015, the Group is able to leverage on the Group's profile and brand recognition to approach various international pharmaceutical enterprises for business opportunities.

Meanwhile, 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.

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.

# MANAGEMENT DISCUSSION AND ANALYSIS

## Environmental Policies and Performance

The Group recognises the importance of environmental protection. The Group has introduced various steps and procedures to ensure all resources are efficiently utilised. The Group has well-established practices in reducing electricity consumption and recycling ink cartridges and toner cartridges. In addition, it has encouraged our employees to participate in environmental protection activities which benefit the community as a whole.

## Relationships with Stakeholders

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

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

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

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

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

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

### Pharmaceutical Operation Permit and Business Licence

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

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

**Pharmaceutical Operation Permit and Business Licence** *(Continued)*

In this connection, the Group has obtained the pharmaceutical operation permit granted by Zhejiang Province Food and Drug Administration, which is the competent drug administrative authority of Zhejiang province, the province where the Group registers. The Group has also obtained the business licence granted by and registered with the relevant administration for industry and commerce in accordance with the applicable PRC laws and regulations. The pharmaceutical operation permit is valid till 11 December 2019.

**Good Supply Practices ("GSP")**

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

In this regard, the Group has obtained the GSP certificate granted by Zhejiang Province Food and Drug Administration which is the competent drug administrative authority of Zhejiang province where the Group has registered for its pharmaceutical distribution operation. The GSP certificate is valid till 11 December 2019.

## Principal risks and Uncertainties

There are certain principal risks and uncertainties related to the business of the Group in the PRC's pharmaceutical industry, the principal risks are:

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

- the government policies of the pharmaceutical industry in the PRC – the pharmaceutical industry in the PRC is highly regulated, a substantial amount of the products distributed by the Group are subject to the government price controls or other price restrictions in the PRC. To mitigate the impact of the government policies of the pharmaceutical industry in the PRC, the Group will continue to seek potential merger and acquisition opportunities in medical related industries to diversify its business risks.

# MANAGEMENT DISCUSSION AND ANALYSIS

## Financial Review

### Revenue

The total revenue for the Year was approximately HK$225.4 million, representing a decrease of approximately 10.9% from approximately HK$253.0 million for the year ended 31 December 2015. Such decrease was mainly attributable to the cessation of sales of the Group's products with relatively low gross profit margin after the price cut for drugs in the public hospitals drug procurement list imposed by several city governments in Zhejiang province since the third quarter of 2015.

### Cost of sales

The cost of sales for the Year was approximately HK$191.0 million, representing an increase of approximately 1.9% from approximately HK$187.4 million for the year ended 31 December 2015. Although there was a drop in revenue during the Year, the increase in cost of sales was resulted from the increase in proportion of the revenue generated from products with relatively low gross profit margin and increase in expenses to obtain an injection drug's exclusive distribution right and increase in amortisation expenses on the trademark of an injection drug during the Year.

### Gross profit and gross profit margin

Gross profit decreased by approximately HK$31.2 million, or approximately 47.6%, from approximately HK$65.6 million for the year ended 31 December 2015 to approximately HK$34.4 million for the Year mainly due to the decrease in revenue generated from the distribution of the Group's products. The Group's average gross profit margin decreased from approximately 25.9% for the year ended 31 December 2015 to approximately 15.3% for the Year. Such decrease in gross profit margin was mainly attributable to (i) the price cut for drugs in the public hospitals drug procurement list as imposed by several city governments in Zhejiang province since the third quarter of 2015 and (ii) the increase in expenses to obtain an injection drug's exclusive distribution right and increase in amortisation expenses on the trademark of an injection drug.

### Other income, gains and losses

The net other losses for the Year were approximately HK$19.1 million (2015: approximately HK$10.1 million). Such change was primarily attributable to the increase in realised fair value losses and impairment losses on the Group's available-for-sale investments of approximately HK$21.4 million (2015: HK$11.8 million) as a result of the volatile stock market in Hong Kong for the Year.

### Selling and distribution expenses

Selling and distribution expenses for the Year were approximately HK$21.8 million, representing an increase of approximately HK$10.3 million from approximately HK$11.5 million for the year ended 31 December 2015. Such increase was mainly due to the Group's strategy on enhancing its brand name and expanding its market share, distribution network and marketing efforts through (i) increasing the salaries and headcounts of the Group's sales team, (ii) participating in drugs fairs held by PharmChina, a national pharmaceutical trade exhibition, to promote the Group's brand name, (iii) organising and providing training programs and marketing materials to medical practitioners and the Group's distributor customers, and (iv) participating in various marketing activities on Group's products more frequently, especially those for promotion of the Group's products Cefamandole Nafate for Injection (注射用頭孢孟多酯鈉).

## Financial Review *(Continued)*

### Administrative expenses

Administrative expenses for the Year were approximately HK$19.6 million, representing a decrease of approximately 16.2% from approximately HK$23.4 million for the year ended 31 December 2015. Such decrease was mainly due to the decrease in corporate marketing expenses and donation expenses incurred, which was partly offset by the increase in salaries of the back office staff.

### Share of results of an associate

Share of results of an associate was approximately HK$12.4 million, which was contributed by the associate company, Saike International Medical Group Limited ("Saike International"), a company owned as to 50% by the Group.

### Income tax expenses

Income tax expenses for the Year were approximately HK$6.8 million, representing a decrease of approximately 55.6% from approximately HK$15.3 million in 2015. Such decrease was primarily due to the decrease in taxable profit partly offset by the increase in non-deductible expenses for tax purposes which was primarily attributable to the increase in realised fair value and impairment loss on the Group's available-for-sale investments during the Year.

### Loss for the year

Loss for the Year was approximately HK$20.5 million, while the net profit attributable to owners of the Company was approximately HK$14.8 million for the year ended 31 December 2015.

The loss for the Year was primarily due to (i) the increase in realised fair value losses and impairment losses on the Group's available-for-sale investments of approximately HK$21.4 million (2015: HK$11.8 million) as a result of the volatile stock market in Hong Kong in 2016; (ii) the significant increase in selling and distribution expenses of the Group by approximately HK$10.3 million for the Year as compared to 2015; (iii) the general decrease in the gross profit margin and thus the gross profit of the Group for the Year as compared to 2015 due to the price cut for drugs in the public hospitals drug procurement list as imposed by several city governments in Zhejiang province since the third quarter of 2015 and increase in expenses to obtain an injection drug's exclusive distribution right and increase in amortisation expenses on the trademark of an injection drug; and (iv) the decrease in the revenue of the Group for the Year as compared with that for 2015 due to the decrease in revenue as a result of the cessation of sales of the Group's products with relatively low gross profit margin after the price cut for drugs in the public hospitals drug procurement list as imposed by several city governments in Zhejiang province since the third quarter of 2015.

### Available-for-sale investments

The Group's available-for-sale investments represent (i) equity securities listed in Hong Kong as stated at fair value which have been determined based on the quoted market bid prices available on the Stock Exchange, 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 measured at cost less impairment at the end of the reporting period because the range of reasonable fair value estimates is so significant that the Directors are of the opinion that their fair values cannot be measured reliably.

As at 31 December 2016, a stock namely Golden Throat Holdings Group Company Limited (a company whose shares are listed on the Main Board of the Stock Exchange with stock code: 6896) with a total carrying amount of HK$20.3 million, accounted for approximately 86.4% of the total carrying amount of the Group's listed available-for-sale investments as at 31 December 2016. During the Year, the Group received dividend income of approximately HK$387,000 from this investment and recorded an impairment loss of approximately HK$11,166,000 on this investment due to decline in its fair value as at 31 December 2016.

## Financial Review *(Continued)*

**Available-for-sale investments** *(Continued)*

The Group is optimistic about the prospects of Golden Throat Holdings Group Company Limited because the Group believes that the PRC pharmaceutical industry will be fueled with new opportunities and momentum for growth in the long term.

During the Year, the Group disposed of certain equity securities listed in Hong Kong. As a result, the fair value loss of approximately HK$6,018,000 previously accumulated in the investment revaluation reserve is reclassified to profit or loss accordingly. Besides, due to a significant decline in the fair value of certain listed investments to prices below their costs, impairment losses amounting to approximately HK$15,366,000 have been recognised during the Year which were reclassified from the investment revaluation reserve. Together, the realised fair value losses and impairment losses on the Group's available-for-sale investments were approximately HK$21.4 million for the Year. The Group will continue to monitor its investments cautiously in view of recent uncertain market conditions.

**Liquidity, Financial Resources and Capital Structure**

The capital structure of the Group consists of cash and cash equivalents, bank borrowings and equity attributable to owners of the Company, comprising share capital, various reserves and retained profits.

During the Year, the long-term funding and working capital required by the Group were primarily derived from income generated from its core business operations, bank borrowings and the net proceeds from the placings of shares conducted by the Company during the Year, and were used to settle the suppliers' trade payable and the initial deposit for obtaining distribution rights of new products and renewal of distribution rights of existing products. The Group's liquidity position was well-managed in the Year.

The Group's gearing ratio (defined as total bank and other borrowings divided by total equity) was 3.5% as at 31 December 2016 (2015: zero).

The Group had net cash (total cash and cash equivalents less bank and other borrowings) of approximately HK$54.8 million as at 31 December 2016 (2015: approximately HK$56.8 million). The Group's cash and cash equivalents amounted to approximately HK$71.6 million in total as at 31 December 2016 (2015: HK$56.8 million). Total bank and other borrowings amounted to approximately HK$16.8 million as at 31 December 2016 (2015: nil).

The Group's financial resources are sufficient to support its business operations. The Group will also consider other financing activities when appropriate business opportunities arise under favourable market conditions.

**Foreign currency risk**

The Group carries out its business in the PRC and most of the transactions are denominated in Renminbi ("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 Year, the Directors did not consider it necessary to adopt a foreign currency hedging policy as the potential impact to the profit or loss of the Group due to the exchange rate fluctuations was immaterial.

**Employee Information**

As at 31 December 2016, the Group had 53 employees (2015: 50). Staff costs for the Year, including Directors' remuneration, amounted to approximately HK$21.5 million (2015: HK$11.4 million). The Group's remuneration policy is based on the positions, duties and performances of the employees. The employees' remunerations vary according to their positions, which may include salaries, overtime allowances, bonuses and various subsidies. The Group offers a comprehensive and competitive remuneration and benefits package to all its employees. In addition, the Group has adopted a share option scheme for the purpose of providing incentives and rewards to eligible persons who contribute to the success of the Group's operations.

## Financial Review *(Continued)*

### Employee Information *(Continued)*

The Group has also adopted other employee benefits including a provident fund scheme for its employees in Hong Kong, as required under the Mandatory Provident Fund Schemes Ordinance, and has participated in employee pension schemes organised and governed by the relevant local governments for its employees in the PRC.

### Contingent Liabilities

As at 31 December 2016, the Group did not have any significant contingent liabilities.

### Material Acquisitions or Disposals and Significant Investments

***Acquisition of Saike International***

In March 2015, the Group entered into a sale and purchase agreement with Ms. Zhao Lei ("Vendor"), an independent third party, for the acquisition of 50% equity interest in Saike International ("Sale Shares") at a consideration of RMB95 million (subject to downward adjustments).

Pursuant to the sale and purchase agreement for the acquisition of 50% equity interest in Saike International, the consideration shall be subject to downward adjustments (if applicable) as follows:

(i) in the event that the audited consolidated net profits of Saike International after taxation for the year ended 31 December 2015 ("2015 Audited Profits") are less than RMB19 million ("2015 Target Profits"), the Vendor shall pay to the Group a sum in cash equal to the difference between the 2015 Target Profits and the 2015 Audited Profits;

(ii) in the event that the audited consolidated net profits of Saike International after taxation for the year ended 31 December 2016 ("2016 Audited Profits") are less than RMB22 million ("2016 Target Profits"), the Vendor shall pay to the Group a sum in cash equal to the difference between the 2016 Target Profits and the 2016 Audited Profits; and

(iii) in the event that the audited consolidated net profits of Saike International after taxation for the year ending 31 December 2017 ("2017 Audited Profits") are less than RMB25 million ("2017 Target Profits"), the Vendor shall pay to the Group a sum in cash equal to the difference between the 2017 Target Profits and the 2017 Audited Profits.

Based on the audited consolidated financial statements of Saike International for the years ended 31 December 2015 and 2016, the 2015 Audited Profits and 2016 Audited Profits were approximately RMB19.3 million and RMB21.5 million. Therefore, no adjustment would be made for the year 2015. However, the Vendor shall pay to the Group a sum in cash equalling the difference between the 2016 Target Profits and the 2016 Audited Profits, which is approximately RMB$0.5 million.

Saike International and its subsidiaries are principally engaged in the trading of medical devices and equipment in the PRC. On 16 July 2015, all the conditions precedent to the sale and purchase agreement have been fulfilled and the completion took place on the same day. In connection with the completion, on 16 July 2015, the Group and the Vendor entered into a put option deed ("Put Option Deed"), pursuant to which the Vendor granted a put option ("Put Option") to the Group entitling the Group to require the Vendor to purchase the Sale Shares from the Group at the put option exercise price in accordance with the terms and conditions of the Put Option Deed.

## Financial Review *(Continued)*

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

#### *Acquisition of Saike International* (Continued)

The Put Option is exercisable by the Group commencing on the date of completion and ending on the earlier of (i) 30 April 2017; or (ii) the day on which the option notice is served by the Group to the Vendor. As at the date of this report, the Put Option has not been exercised. Details of such acquisition and the Put Option Deed are set out in the Company's announcements dated 14 February 2015, 20 March 2015, 26 June 2015 and 16 July 2015.

#### Acquisition of property and right to use two car park spaces

On 6 June 2016, 浙江新銳醫藥有限公司 (in English, for identification purpose, Zhejiang Xin Rui Pharmaceutical Co., Ltd.) ("Zhejiang Xin Rui"), a wholly-owned subsidiary of the Company, entered into (i) a sale and purchase agreement with Mr. Yang Qi and Ms. Tu Yue Li as vendors in relation to the acquisition of a property located at Room 3703, Dikai International Center, Jianggan District, Hangzhou City, Zhejiang Province, the PRC (the "Property") at a cash consideration of RMB14,000,000 (equivalent to approximately HK$16,660,000); and (ii) a sale and purchase agreement with Mr. Yang Qi as vendor in relation to the acquisition of the right to use two car park spaces located at Car Park Nos. 267 and 270 on 2nd floor of Basement, Dikai International Center, Jianggan District, Hangzhou City, Zhejiang Province, the PRC (the "Car Park Spaces") at a total cash consideration of RMB700,000 (equivalent to approximately HK$833,000).

Mr. Yang Qi and Ms. Tu Yue Li are the brother and sister-in-law of Ms. Yang Fang, an executive Director and the chief executive officer of the Company. Each of them is a connected person of the Company under the Rules Governing the Listing of Securities on the Stock Exchange ("Listing Rules"). As certain applicable percentage ratios (as defined under the Listing Rules) in respect of the acquisitions of the Property and the Car Park Spaces were more than 5% but all applicable percentage ratios were less than 25%, and the total consideration was more than HK$10 million, the acquisitions were discloseable and connected transactions and subject to reporting, announcement and independent shareholders' approval requirements under the Listing Rules. The acquisitions were approved by the independent shareholders at a special general meeting of the Company on 29 July 2016.

On 29 July 2016, all the conditions precedent to the two sale and purchase agreements above have been fulfilled and the completion took place in August 2016. For details, please refer to the announcements of the Company dated 6 June 2016 and 29 July 2016 and the circular of the Company dated 12 July 2016.

#### Acquisition of C&C International

On 18 October 2016 and 30 November 2016, Major Bright Holdings Limited ("Major Bright"), a wholly-owned subsidiary of the Company, as purchaser and the Company as guarantor entered into a sale and purchase agreement and a supplemental agreement (collectively, the "C&C Acquisition Agreement") respectively with JFA Capital, an independent third party, for the acquisition of an aggregate of 26% of the issued share capital of C&C International in two tranches. The first tranche acquisition involved the acquisition of 9% of the issued share capital of C&C International by the Group at a consideration of HK$43,687,800 in cash. The second tranche acquisition involved the acquisition of 17% of the issued share capital of C&C International by the Group at a consideration of HK$82,521,400 in cash.

The first tranche acquisition, standing alone, constituted a discloseable transaction of the Company. The first tranche acquisition was subject to the notification and announcement requirements under Chapter 14 of the Listing Rules. Each of (i) the second tranche acquisition, standing alone, and (ii) the first tranche acquisition and the second tranche acquisition, in aggregate, constituted a major transaction of the Company and was subject to the notification, announcement and shareholders' approval requirements under Chapter 14 of the Listing Rules. C&C Group is principally engaged in the provision of contracted medical schemes for integrated medical and healthcare check-up services. Completion of the first tranche acquisition of 9% of the issued share capital of C&C International took place on 31 October 2016.

## Financial Review *(Continued)*

### Acquisition of C&C International *(Continued)*

The parties to the C&C Acquisition Agreement entered into a deed of termination on 13 March 2017 and agreed not to proceed with the second tranche acquisition of 17% of the issued share capital of C&C International since it was unlikely for the Company to obtain the shareholder's approval, being one of the conditions precedent to the second tranche acquisition by the long stop date of 31 March 2017, and the parties could not come to a consensus as to the extension of the long stop date.

On 16 March 2017, Major Bright as purchaser entered into a sale and purchase agreement with Eagle Networks Company Limited（鷹匯網絡有限公司）, an independent third party, for the acquisition of 5% of the issued share capital of C&C International at a consideration of HK$25,500,000 in cash. The completion of the acquisition took place on the same day. Each of (i) the acquisition of 5% interest in C&C International, standing alone; and (ii) the acquisition of 5% interest in C&C International and the first tranche acquisition of 9% interest in C&C International, in aggregate, constituted a discloseable transaction of the Company and was therefore subject to the notification and announcement requirements under Chapter 14 of the Listing Rules.

The Group held 14% of the issued share capital of C&C International as at the date of this report and such investment in C&C International is accounted for as available-for-sale financial asset of the Group in its financial statements. For further details, please refer to the announcements of the Company dated 18 October 2016, 30 November 2016, 30 December 2016, 26 January 2017, 28 February 2017, 13 March 2017 and 16 March 2017.

### Acquisition of RK Pharmaceutical

On 2 December 2016, China New Rich Medicine Holding Co. Limited (中國新銳醫藥控股有限公司), a wholly-owned subsidiary of the Company, entered into a sale and purchase agreement with China Wah Yan Healthcare Limited, shares of which are listed on the Main Board of the Stock Exchange (Stock Code: 648), to acquire approximately 29% of the issued shares of RK Pharmaceutical, a company whose shares are listed on the Growth Enterprise Market of the Stock Exchange (stock code: 8037) in two tranches. RK Pharmaceutical and its subsidiaries are principally engaged in (i) manufacture, research and development, sale and distribution of health related and pharmaceutical products in the PRC and Hong Kong; (ii) provision of medical laboratory testing services and health check services in Hong Kong; and (iii) trading of securities in Hong Kong. The first tranche acquisition involved the acquisition of approximately 11% of the issued share capital of RK Pharmaceutical by the Group at a consideration of HK$33,362,160 in cash. The second tranche acquisition involved the acquisition of approximately 18% of the issued share capital of RK Pharmaceutical by the Group at a consideration of HK$54,610,816 in cash. As at the date of the sale and purchase agreement, China Wah Yan Healthcare Limited and its subsidiaries held 34,356,960 shares of the Company, representing 8.25% of the then issued share capital of the Company.

The first tranche acquisition, standing alone, constituted a discloseable transaction of the Company and was subject to the notification and announcement requirements under Chapter 14 of the Listing Rules. Each of (i) the second tranche acquisition, standing alone, and (ii) the first tranche acquisition and the second tranche acquisition, in aggregate, constituted a major transaction of the Company and was subject to the notification, announcement and shareholders' approval requirements under Chapter 14 of the Listing Rules.

## Financial Review *(Continued)*

### Acquisition of RK Pharmaceutical *(Continued)*

Completion of the first tranche acquisition took place in January 2017. The Group and China Wah Yan Healthcare Limited entered into a deed of termination on 27 March 2017 and agreed not to proceed with the second tranche acquisition of approximately 18% of the issued share capital of RK Pharmaceutical since it was unlikely for the Company and China Wah Yan Healthcare Limited to obtain their respective shareholders' approvals, being the conditions precedent to the second tranche acquisition by the long stop date of 30 April 2017, and the parties could not come to a consensus as to the extension of the long stop date.

As at the date of this report, the Group held approximately 11% of the issued share capital of RK Pharmaceutical and such investment in RK Pharmaceutical is accounted for as available-for-sale financial asset of the Group in its financial statements. For further details, please refer to the announcements of the Company dated 2 December 2016 and 27 March 2017.

### Acquisition of Eternal Charm

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"), an independent third party, for the acquisition of 15% of the issued share capital of Eternal Charm at a consideration of RMB47.25 million (subject to downward adjustments after completion) in cash. Pursuant to the sale and purchase agreement (as amended and supplemented by the supplemental agreement), subject to completion, the consideration shall be subject to downward adjustments (if applicable) as follows:

(i) in the event that the audited consolidated net operating profit of Eternal Charm after taxation for the year ending 31 December 2017 ("Eternal Charm 2017 Audited Profit") is less than RMB35.0 million ("Eternal Charm 2017 Target Profit"), Mr. Wang shall pay to the Group a sum in cash equal to 15% of the difference between the Eternal Charm 2017 Target Profit and the Eternal Charm 2017 Audited Profit;

(ii) in the event that the audited consolidated net operating profit of Eternal Charm after taxation for the year ending 31 December 2018 ("Eternal Charm 2018 Audited Profit") is less than RMB38.5 million ("Eternal Charm 2018 Target Profit"), Mr. Wang shall pay to the Group a sum in cash equal to 15% of the difference between the Eternal Charm 2018 Target Profit and the Eternal Charm 2018 Audited Profit; and

(iii) in the event that the audited consolidated net operating profit of Eternal Charm after taxation for the year ending 31 December 2019 ("Eternal Charm 2019 Audited Profit") is less than RMB42.35 million ("Eternal Charm 2019 Target Profit"), Mr. Wang shall pay to the Group a sum in cash equal to 15% of the difference between the Eternal Charm 2019 Target Profit and the Eternal Charm 2019 Audited Profit.

For the purpose of calculating the above adjustments, where the audited consolidated net operating profit of Eternal Charm after taxation for the relevant financial year is a negative figure, such profit after taxation shall remain as a negative figure.

# MANAGEMENT DISCUSSION AND ANALYSIS

## Financial Review *(Continued)*

**Acquisition of Eternal Charm** *(Continued)*

Eternal Charm and its subsidiaries are principally engaged in the distribution of pharmaceutical products in the PRC and their management team has extensive experience in obtaining exclusive distribution rights of imported prescription drugs in the PRC.

Completion of the acquisition of 15% of the issued share capital of Eternal Charm took place on 17 March 2017 and such investment in Eternal Charm 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.

Save as aforesaid, the Group had no material acquisition or disposal during the Year.

**Capital Structure**

The capital of the Company comprises only ordinary shares. As at 31 December 2016, the Group had shareholders' equity of approximately HK$471.7 million (2015: HK$477.7 million).

**Increase in authorised share capital**

As disclosed in the Company's circular dated 6 May 2016, the Board proposed to increase the authorised share capital of the Company from HK$20,000,000 to HK$40,000,000 divided into 800,000,000 shares of HK$0.05 each by the creation of an additional 400,000,000 new shares of HK$0.05 each which was conditional upon the passing of an ordinary resolution at the annual general meeting of the Company. On 15 June 2016, the ordinary resolution to approve the increase in authorised share capital was duly passed by the shareholders of the Company by way of poll at the annual general meeting of the Company.

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 of HK$0.05 each by the creation of an additional 2,200,000,000 new shares of HK$0.05 each 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 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.

## Financial Review *(Continued)*

### Placing of new shares under general mandate

***Placing of new shares in April 2016***

On 7 April 2016, the Company as issuer and SBI China Capital Financial Services Limited (軟庫中華金融服務有限公司) as placing agent entered into a placing agreement in relation to an offer by way of private placing on a best endeavour basis of up to 57,840,000 new ordinary shares of HK$0.05 each in the share capital of the Company, to not less than six placees who and whose ultimate beneficial owners were third parties independent of and not connected nor acting in concert with the Company or any of its connected persons or their respective associates, at a price of HK$0.40 per placing share pursuant to the general mandate refreshed by shareholders at the special general meeting of the Company in March 2016. The market price of the shares was HK$0.47 per share as at the date of the placing agreement. The placing was subject to the grant of listing approval of the placing shares by the Stock Exchange.

The placing price represented (i) a discount of approximately 14.89% to the closing price of HK$0.47 per share as quoted on the Stock Exchange on 7 April 2016, being the date of the placing agreement; and (ii) a discount of approximately 14.71% to the average closing price of HK$0.469 per share as quoted on the Stock Exchange for the five consecutive trading days of the shares immediately prior to the date of the placing agreement.

On 28 April 2016, the Company completed the placing of 57,840,000 ordinary shares under the general mandate, at a placing price of HK$0.40 per placing share. The gross proceeds from the placing were approximately HK$23.1 million. The net proceeds from the placing, after deducting commission and other expenses of the placing, were approximately HK$22.1 million. On such basis, the net issue price was approximately HK$0.38 per placing share. The aggregate nominal value of the placing shares was HK$2,892,000.

The Directors were of the view that the placing could strengthen the financial position of the Group and provided funding to the Group to meet any future development and obligations. The placing also represented good opportunities to broaden the shareholders' base and capital base of the Company. The Directors considered that the placing was in the interest of the Company and its shareholders as a whole.

The Company intended to utilise the net proceeds from the placing as general working capital and/or future investment of the Group as and when opportunities arose. As at the date of this report, approximately HK$21.3 million, representing approximately 96% of the net proceeds, has been utilised as general working capital of the Group. The unutilised net proceeds of approximately HK$0.8 million remained in the bank accounts of the Group. Details of the placing are set out in the Company's announcements dated 7 April 2016 and 28 April 2016.

## Financial Review *(Continued)*

**Placing of new shares under general mandate** *(Continued)*

***Placing of new shares in August 2016*** *(Continued)*

On 29 August 2016, the Company as issuer and Nuada Limited (洛爾達有限公司) as placing agent entered a placing agreement in relation to an offer by way of private placing on a best endeavour basis of up to 69,408,000 new ordinary shares of HK$0.05 each in the share capital of the Company, to not less than six placees who and whose ultimate beneficial owners were third parties independent of and not connected nor acting in concert with the Company or any of its connected persons or their respective associates, at a price of HK$0.34 per placing share pursuant to the general mandate approved by shareholders at the annual general meeting of the Company held on 15 June 2016. The market price of the share was HK$0.40 per share as at the date of the placing agreement. The placing was subject to the grant of the listing approval of the placing shares by the Stock Exchange.

The placing price represented (i) a discount of approximately 15.00% to the closing price of HK$0.40 per share as quoted on the Stock Exchange on 29 August 2016, being the date of the placing agreement; and (ii) a discount of approximately 10.53% to the average closing price of HK$0.38 per share as quoted on the Stock Exchange for the five consecutive trading days of the shares immediately prior to the date of the placing agreement.

On 22 September 2016, the Company completed the placing of 69,408,000 ordinary shares under the general mandate, at a placing price of HK$0.34 per placing share. The gross proceeds from the placing were approximately HK$23.6 million. The net proceeds from the placing, after deducting commission and other expenses of the placing, were approximately HK$22.6 million. On such basis, the net issue price was approximately HK$0.326 per placing share. The aggregate nominal value of the placing shares was HK$3,470,400.

The Directors were of the view that the placing could strengthen the financial position of the Group and provided funding to the Group to meet any future development and obligations. The placing also represented a good opportunity to broaden the shareholders' base and capital base of the Company. The Directors considered that the placing was in the interest of the Company and its shareholders as a whole.

The Company intended to utilise the net proceeds from the placing as general working capital and/or future investment of the Group as and when opportunities arose. As at the date of this report, approximately HK$22.6 million has been utilised for the acquisition of 9% of the issued share capital of C&C International. Details of the placing are set out in the Company's announcements dated 29 August 2016 and 22 September 2016.

## Financial Review *(Continued)*

### Pledge of assets

The Group did not pledge any assets as at 31 December 2015. The Group pledged the buildings and prepaid lease payments with the aggregate carrying value of approximately HK$26.9 million as at 31 December 2016 to secure general banking facilities granted to the Group.

### Share Consolidation

On 29 January 2016, the Board proposed that every 5 issued and unissued existing ordinary shares of par value of HK$0.01 each in the then share capital of the Company be consolidated into 1 consolidated share of par value of HK$0.05 each in the share capital of the Company ("Share Consolidation"). Other than the relevant expenses, including but not limited to professional fees and printing charges incurred, the implementation of the Share Consolidation would not alter the underlying assets, business, operations, management or financial position of the Company. The Share Consolidation was conditional upon: (1) the passing of the necessary ordinary resolution by the shareholders of the Company to approve the Share Consolidation at a special general meeting of the Company; (2) the Stock Exchange granting the listing of, and the permission to deal in, the consolidated shares in issue upon the Share Consolidation becoming effective; and (3) the compliance with the relevant procedures and requirements under the laws of Bermuda and the Listing Rules to effect the Share Consolidation. The Share Consolidation was approved by the shareholders of the Company at the special general meeting held on 14 March 2016. As all the conditions precedent to the Share Consolidation have been fulfilled, the Share Consolidation has become effective on 15 March 2016.

### Subsequent event

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 rights issue of 1,249,344,000 Rights Shares ("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. The net issue price per Rights Share was approximately HK$0.264 and the aggregate nominal value of the Rights Shares was HK$62,467,200. Details of the Rights Issue are 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.

# BIOGRAPHICAL DETAILS OF THE DIRECTORS AND SENIOR MANAGEMENT

## Executive Directors

**Mr. Zhou Ling** ("Mr. Zhou"), aged 40, is the Chairman and an executive Director, and one of the founding members of the Group. Mr. Zhou joined the Group in 2001. He is also a member of the Corporate Governance Committee of the Board. He has over 17 years of experience in pharmaceutical distribution industry. He graduated from the Correspondence Institute of the Party School of the Central Committee of Communist Party of China, majoring in economics management. He is responsible for the operation of the Group's business and the overall sales and marketing strategies of the Group. He is also a director of a number of subsidiaries of the Company. He is the spouse of Ms. Yang Fang, who is an executive Director and the chief executive officer of the Company. Mr. Zhou and Ms. Yang are collectively interested in 125,207,786 shares and underlying shares of the Company as at the date of this report.

**Ms. Yang Fang** ("Ms. Yang"), aged 40, is an executive Director and the chief executive officer of the Company. Ms. Yang joined the Group in 2005. She is a member of the Corporate Governance Committee of the Board. Prior to joining the Group, Ms. Yang was a pharmacist of Zhejiang Province Prison's Hospital from 1995 to 2004 and a quality control officer of Hainan Rich Medicine Co., Ltd from 2004 to 2007. She has over 18 years of experience in the pharmaceutical industry. She completed an online post-secondary course in pharmacy at Institute of Distance Education of Zhejiang University in 2008. Ms. Yang is a registered pharmacist in the PRC. She is responsible for the overall administrative and human resource function and the overall development strategies of the Group. She is the spouse of Mr. Zhou Ling, who is the Chairman and an executive Director. Ms. Yang and Mr. Zhou are collectively interested in 125,207,786 shares and underlying shares of the Company as at the date of this report.

**Mr. Lee Chik Yuet** ("Mr. Lee"), aged 62, is an executive Director of the Company. Mr. Lee joined the Group in 2012. He is also a director of a number of subsidiaries of the Company and the Chairman of the Corporate Governance Committee of the Board. Mr. Lee graduated from The Chinese University of Hong Kong with a bachelor degree in Social Sciences. He also holds a bachelor degree and a master degree in Laws from The University of Hong Kong. Prior to joining the Group, Mr. Lee had been a practising solicitor for more than 14 years in Hong Kong specialising in commercial, corporate finance and investment laws and practice in Hong Kong and the PRC. Mr. Lee is currently an executive director of Town Health International Medical Group Limited (Stock Code: 3886), a company whose shares are listed on the Main Board of the Stock Exchange.

# BIOGRAPHICAL DETAILS OF THE DIRECTORS AND SENIOR MANAGEMENT

## Independent Non-executive Directors

**Mr. Ho Hau Cheung** *BBS, MH*, ("Mr. Ho"), aged 64, has been an independent non-executive Director since 26 September 2013. He is also the Chairman of the Remuneration Committee and a member of the Audit Committee and Nomination Committee of the Board. Mr. Ho is currently an elected member of Shatin District Council in Hong Kong. Mr. Ho was awarded the Medal of Honour in 2006 and the Bronze Bauhinia Star in 2011, respectively, by the Government of Hong Kong. Mr. Ho has been working in the education field in Hong Kong for more than 30 years. He obtained a bachelor degree in education in 1991 from Wolverhampton Polytechnic (currently known as University of Wolverhampton), the United Kingdom.

**Mr. Sung Hak Keung, Andy** ("Mr. Sung"), aged 43, has been an independent non-executive Director since 26 September 2013. He is also the Chairman of the Audit Committee and a member of the Remuneration Committee and Nomination Committee of the Board. Mr. Sung has over 15 years of experience in accounting and finance industry. Prior to joining the Group, Mr. Sung has worked in an international accounting firm in Hong Kong. Mr. Sung is a member of Certified Public Accountants of the United States, a certified public accountant of the Hong Kong Institute of Certified Public Accountants and Chartered Global Management Accountant of the United States. Mr. Sung has obtained a bachelor degree in commerce in 1997 from University of Toronto, Canada and obtained a master degree in business administration in 2007 from University of Manchester, the United Kingdom. Mr. Sung was a vice president of China Smartpay Group Holdings Limited (formerly known as Oriental City Group Holdings Limited) (stock code: 8325) during the period from August 2009 to 13 November 2013, the issued shares of which are listed on GEM. He was a company secretary of China Smartpay Group Holdings Limited (formerly known as Oriental City Group Holdings Limited) (stock code: 8325) during the period from January 2009 to 11 January 2013. Since 21 November 2016, Mr. Sung has been appointed as an independent non-executive director of KNK Holdings Limited (stock code: 8039), a company whose shares are listed on GEM.

**Mr. Leung Chi Kin** ("Mr. Leung"), aged 67, has been an independent non-executive Director since 26 September 2013. He is also the Chairman of the Nomination Committee and a member of the Audit Committee and Remuneration Committee of the Board. Mr. Leung was an elected member of the Shatin District Council in Hong Kong from 1994 to 2011. Mr. Leung was also awarded a Medal of Honour by the Government of Hong Kong. Mr. Leung was an independent non-executive director of each of Hanergy Thin Film Power Group Limited (formerly known as Hanergy Solar Group Limited and Apollo Solar Energy Technology Holdings Limited) (stock code: 566) (during the period from 1 May 2008 to 25 November 2009) and Silk Road Energy Services Group Limited (formerly known as China Natural Investment Company Limited) (stock code: 8250) (during the period from 27 November 2009 to 26 November 2012), the issued shares of which are listed on the Main Board of the Stock Exchange and GEM, respectively.

## Senior Management

**Mr. He Linxing** ("Mr. He"), aged 42, is responsible for the overall sales management of our Group's business in the PRC. He joined the Group in 2001. Mr. He has approximately 19 years of experience in the pharmaceutical distribution and trading industry. Mr. He graduated from the Correspondence Institute of the Party School of the Central Committee of Communist Party of China in 2009, majoring in economics management.

**Mr. Lai Kwok Wa** ("Mr. Lai"), aged 32, joined the Group in June 2012, and is the company secretary and the financial controller of the Company. Mr. Lai has approximately 10 years of experience in auditing and accounting. Prior to joining the Group, Mr. Lai has worked in the audit department of an international accounting firm in Hong Kong. Mr. Lai obtained a bachelor degree of business administration in Accounting in 2007 from The City University of Hong Kong. He is a certified public accountant of the Hong Kong Institute of Certified Public Accountants.

# REPORT OF THE DIRECTORS

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

## Principal Activities

The Company acts as an investment holding company. The Group is principally engaged in trading of pharmaceutical products in the PRC.

## Principal Subsidiaries, Associates and Jointly Controlled Entities

Details of the principal subsidiaries, associates and jointly controlled entities as at 31 December 2016 are set out in notes 39, 19 and 20 to the consolidated financial statements respectively.

## Results and Appropriations

The results of the Group for the Year are set out in the consolidated statements of profit or loss and other comprehensive income on page 58 of this report.

## Dividend

The Board does not recommend the payment of any dividend for the Year (2015: Nil).

## Donations

Charitable donations made by the Group during the Year amounted to HK$140,000.

## Property, Plant and Equipment

Details of movements in the property, plant and equipment of the Group during the Year are set out in note 13 to the consolidated financial statements.

## Share Capital

Details of movements in the share capital of the Company during the Year are set out in note 28 to the consolidated financial statements and the paragraphs headed "Placing of new shares under general mandate" in the Management Discussion and Analysis.

## Pre-emptive Rights

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

## Reserves and Distributable Reserves

Details of movements in the reserves of the Group during the Year are set out on page 60 of this report. As at 31 December 2016, the reserves available for distribution to the Company's shareholders are set out in note 29 to the consolidated financial statements.

# REPORT OF THE DIRECTORS

## BUSINESS REVIEW

A fair review of the business of the Group during the Year, particulars of important events affecting the Group during the Year, an analysis of the Group's performance using financial key performance indicators, and an indication of likely future developments in the Group's business are provided in the sections headed "Chairman's Statement" and "Management Discussion and Analysis" of this report. Description of the principal risks and uncertainties faced by the Group can be found throughout this report, particularly in the sub-section headed "Principal risks and Uncertainties" in the section headed "Management Discussion and Analysis" of this report. Also, the capital risk management of the Company can be found in the note 30 to the consolidated financial statements. In addition, discussions on the Group's relationships with its key stakeholders are also provided in the sub-section headed "Relationships with Stakeholders" in the section headed "Management Discussion and Analysis" of this report. These discussions form part of this report of the Directors.

## Directors

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

**Executive Directors:**

Mr. Zhou Ling *(Chairman)*
Ms. Yang Fang *(Chief Executive Officer)*
Mr. Lee Chik Yuet

**Independent Non-executive Directors:**

Mr. Ho Hau Cheung, *BBS, MH*
Mr. Sung Hak Keung, Andy
Mr. Leung Chi Kin

## Directors' Services Contracts

Each of the executive Directors has entered into a service contract with the Company for a term of 2 years commencing on 25 October 2016. Each of the independent non-executive Directors has entered into a letter of appointment with the Company for a term of 2 years commencing on 1 October 2015. They are all subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the Bye-laws.

In accordance with bye-law 84(1) of the Bye-laws, Mr. Lee Chik Yuet, Mr. Ho Hau Cheung, *BBS, MH*, Mr. Sung Hak Keung, Andy and Mr. Leung Chi Kin will retire from office by rotation at the forthcoming annual general meeting of the Company. Mr. Ho Hau Cheung, *BBS, MH*, and Mr. Leung Chi Kin are eligible and offer themselves for re-election.

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

## Independent Non-executive Directors

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

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

As at 31 December 2016, the interests and short positions of the Directors and the chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register required to be kept under Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of the Listed Issuers (the "Model Code"), were as follows:

| Name of Director | Capacity | Number of ordinary shares/ underlying shares | Position | Approximate % of the total issued shares (Note 1) |
|---|---|---|---|---|
| Mr. Zhou Ling | Beneficial owner and interest of spouse | 36,360,000 | Long | 8.73% (Note 2) |
| Ms. Yang Fang | Beneficial owner and interest of spouse | 36,360,000 | Long | 8.73% (Note 2) |
| Mr. Lee Chik Yuet | Beneficial Owner | 3,464,000 | Long | 0.83% (Note 3) |

Notes:

1. The percentage of shareholding is calculated based on the issued share capital of the Company as at 31 December 2016 comprising 416,448,000 shares of the Company.

2. Mr. Zhou Ling, an executive Director and chairman of the Board, beneficially owns 24,343,238 shares/underlying shares. Ms. Yang Fang, an executive Director and the chief executive officer of the Company, beneficially owns 12,016,762 shares/underlying shares. Mr. Zhou Ling is the spouse of Ms. Yang Fang. Accordingly, Mr. Zhou Ling was deemed to be interested in all the 12,016,762 shares/underlying shares held by Ms. Yang Fang by virtue of the SFO and Ms. Yang Fang was deemed to be interested in all the 24,343,238 shares/underlying shares held by Mr. Zhou Ling by virtue of the SFO. Among these 36,360,000 shares/underlying shares of the Company, each of Mr. Zhou and Ms. Yang had interest in 3,464,000 underlying shares of the Company with an exercise period from 14 September 2016 to 13 September 2017 at an exercise price of HK$0.402 per share.

3. These interests are underlying shares of the Company in respect of share options granted by the Company to Mr. Lee Chik Yuet. Such underlying shares of the Company had an exercise period from 14 September 2016 to 13 September 2017 with an exercise price of HK$0.402 per share.

Save as disclosed above, as at 31 December 2016, none of the Directors or the 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 SFO) as recorded in the register required to be kept by the Company under Sections 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

## Substantial Shareholders' Interests and Short Positions In Shares and Underlying Shares

As at 31 December 2016, other than the interests in respect of certain Directors and the chief executive of the Company disclosed above, the following persons 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.

# REPORT OF THE DIRECTORS

**Interest in Shares and underlying shares of the Company**

| Name of Shareholder | Capacity | Number of ordinary shares | Approximate % of the total issued shares |
|---|---|---|---|
| Chan Kim Ling (Note 3) | Interest of a controlled corporation | 1,249,344,000 (L)<br>1,249,344,000 (S) | 75.00%<br>75.00%<br>(Note 1) |
| Winfield Investment Holdings Limited (Note 3) | Interest of a controlled corporation | 1,249,344,000 (L)<br>1,249,344,000 (S) | 75.00%<br>75.00%<br>(Note 1) |
| Noble Dream Investments Limited (Note 3) | Interest of a controlled corporation | 1,249,344,000 (L)<br>1,249,344,000 (S) | 75.00%<br>75.00%<br>(Note 1) |
| Nuada Holdings Limited (Note 3) | Interest of a controlled corporation | 1,249,344,000 (L)<br>1,249,344,000 (S) | 75.00%<br>75.00%<br>(Note 1) |
| Nuada Limited (Note 3) | Other | 1,249,344,000 (L)<br>1,249,344,000 (S) | 75.00%<br>75.00%<br>(Note 1) |
| Astrum Capital Management Limited ("Astrum") (Note 4) | Other | 1,249,344,000 (L)<br>550,000,000 (S) | 75.00%<br>33.02%<br>(Note 1) |
| Major Harvest Investments Limited (Note 4) | Interest of a controlled corporation | 1,249,344,000 (L)<br>550,000,000 (S) | 75.00%<br>33.02%<br>(Note 1) |
| Astrum Financial Holdings Limited (Note 4) | Interest of a controlled corporation | 1,249,344,000 (L)<br>550,000,000 (S) | 75.00%<br>33.02%<br>(Note 1) |
| Autumn Ocean Limited (Note 4) | Interest of a controlled corporation | 1,249,344,000 (L)<br>550,000,000 (S) | 75.00%<br>33.02%<br>(Note 1) |
| Pan Chik (Note 4) | Interest of a controlled corporation | 1,249,344,000 (L)<br>550,000,000 (S) | 75.00%<br>33.02%<br>(Note 1) |
| Liu Ming Lai Lorna (Note 4) | Interest of spouse | 1,249,344,000 (L)<br>550,000,000 (S) | 75.00%<br>33.02%<br>(Note 1) |

# REPORT OF THE DIRECTORS

| Name of Shareholder | Capacity | Number of ordinary shares | Approximate % of the total issued shares |
|---|---|---|---|
| Convoy Global Holdings Limited (Note 5) | Interest of a controlled corporation | 300,000,000 (L) | 18.01% (Note 1) |
| CSL Securities Limited ("CSL Securities") (Note 5 ) | Other | 300,000,000 (L) | 18.01% (Note 1) |
| China Jianxin Financial Services Limited ("China Jianxin") (Note 6) | Other | 250,000,000 (L) | 15.01% (Note 1) |
| Universe International Financial Holdings Limited (Note 6) | Other | 250,000,000 (L) | 15.01% (Note 1) |
| China Wah Yan Healthcare Limited (Note 7) | Interest of a controlled corporation | 34,356,960 (L) | 8.25% (Note 2) |

Notes:

1. The percentage shareholding is calculated based on the expected issued share capital of the Company as enlarged by the issue of the Rights Shares under the Rights Issue comprising 416,448,000 shares of the Company and 1,249,334,000 Rights Shares expected to be allotted and issued.

2. The percentage shareholding is calculated based on the issued share capital of the Company as at 31 December 2016 comprising 416,448,000 shares of the Company.

3. The long position in respect of 1,249,344,000 shares is the Rights Shares which Nuada Limited as the underwriter is interested in under the underwriting agreement in respect of the Rights Issue on the assumption of no acceptance by the qualifying shareholders under the Rights Issue. The short position in respect of 1,249,344,000 Shares represents the number of shares sub-underwritten out by Nuada Limited to Astrum as at 31 December 2016. Nuada Limited is owned as to 100% by Noble Dream Investments Limited, which is in turn owned as to 100% by Nuada Holdings Limited and which is in turn owned as to 70% by Winfield Investment Holdings Limited. Winfield Investment Holdings Limited is wholly owned by Mr. Chan Kim Ling.

4. The long position in respect of 1,249,344,000 shares is the Rights Shares which Astrum as the sub-underwriter procured by the Underwriter is interested in on the assumption of no acceptance by the qualifying shareholders under the Rights Issue. The short position in respect of 550,000,000 Shares represents the aggregate number of shares sub-underwritten to China Jianxin and CSL Securities as at 31 December 2016. Astrum is a wholly-owned subsidiary of Major Harvest Investments Limited, which is in turn wholly owned by Astrum Financial Holdings Limited, and is in turn owned as to 66% by Autumn Ocean Limited. Autumn Ocean Limited is wholly owned by Mr. Pan Chik, whose spouse is Ms. Liu Ming Lai Lorna.

5. The long position in respect of 300,000,000 shares is the Rights Shares which CSL Securities as the sub-underwriter procured by Astrum is interested in on the assumption of no acceptance by the qualifying shareholders under the Rights Issue. CSL Securities is a wholly-owned subsidiary of Convoy Global Holdings Limited.

6. The long position in respect of 250,000,000 shares is the Rights Shares which China Jianxin as the sub-underwriter procured by Astrum is interested in on the assumption of no acceptance by the qualifying shareholders under the Rights Issue. China Jianxin is a wholly-owned subsidiary of Universe International Financial Holdings Limited.

7. Based on the corporate substantial shareholder notice dated 26 September 2016 filed by China Wah Yan Healthcare Limited, a company whose shares are listed on the Main Board of the Stock Exchange (Stock Code: 648), these 34,356,960 shares were held by Classic Estate Investments Limited, which is in turn wholly owned by China Wah Yan Healthcare Limited. Accordingly, China Wah Yan Healthcare Limited was deemed to be interested in all the 34,356,960 shares held by Classic Estate Investments Limited by virtue of the SFO.

8. The letter (L) above denotes long position and the letter (S) above denotes short position.

Save as disclosed above, as at 31 December 2016, no person had any interests or short positions in the shares or underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO.

## Major Customers and Suppliers

For the Year, the percentage of turnover attributable to the Group's five largest customers is approximately 64.4% of the Group's total turnover and the percentage of turnover attributable to the Group's largest customer is approximately 29.1% of the Group's total turnover. The Group's five largest suppliers accounted for approximately 81.2% of the Group's total purchases and the Group's largest supplier accounted for approximately 30.8% of the Group's total purchases.

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

## Director's Interest in Competing Business

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

## Directors' Rights to Acquire Shares or Debentures

Save as disclosed in the sub-sections headed "Directors' and Chief Executive's Interests and Short Positions in Shares, Underlying Shares and Debentures" and "Share Option Scheme" in this report of the Directors, at no time during the Year was the Company or any of its subsidiaries, a party to any arrangement to enable the Directors or the chief executive of the Company or their spouse or children under 18 years of age to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

## Contracts of Significance

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

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

## Share Option Scheme

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

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

The maximum number of ordinary shares of the Company which could be issued upon exercise of all options that may be granted under the existing Scheme limit is 16,000,000 ordinary shares of HK$0.05 each. Such existing Scheme limit has been utilised in full as at 31 December 2016.

During the Year, the Company granted share options to three Directors and two employees of the Group which entitled the holders thereof to subscribe for an aggregate of 16,000,000 ordinary shares of the Company at an exercise price of HK$0.402 per share. The closing price of the shares of the Company on 13 September 2016, being the date immediately before the date of grant, was HK$0.385 per share. Consideration received by the Group for the grant of the share options was HK$1.00 paid by each grantee upon acceptance of the share options granted. Adjustments were made to the number of shares of the Company falling to be issued upon exercise of the subscription rights attached to these share options from 16,000,000 shares to 17,274,336 shares and the related exercise price per share from HK$0.402 per share to HK$0.372 per share upon the allotment and issue of the Rights Shares on 6 March 2017. The share options granted were not exercised or cancelled by the Company under the Scheme during the Year.

The options were granted on 14 September 2016. The estimated fair value of the options granted on that date is HK$1,750,000. The fair value of share options granted was priced using a binomial option pricing model which requires the management's estimates and assumptions on significant calculation inputs, including the estimated life of share options granted, the volatility of share price and expected dividend yield. Changes in the subjective input assumptions could materially affect the fair value estimate.

## Share Option Scheme *(Continued)*

The following table sets out the movements of the number of the Company's share options held by the eligible participants during the Year:

| Category of participants | Outstanding at 31.12.2015 | Granted during the year | Exercised during the year | Forfeited/ Cancelled during the year | Outstanding at 31.12.2016 |
|---|---|---|---|---|---|
| Directors | | | | | |
| Mr. Zhou Ling | – | 3,464,000 | – | – | 3,464,000 |
| Ms. Yang Fang | – | 3,464,000 | – | – | 3,464,000 |
| Mr. Lee Chik Yuet | – | 3,464,000 | – | – | 3,464,000 |
| Employees | – | 5,608,000 | – | – | 5,608,000 |
| | – | 16,000,000 | – | – | 16,000,000 |
| Exercisable at the end of the year | | | | | 16,000,000 |
| Weighted average exercise price (HK$) | N/A | 0.402 | 0.402 | 0.402 | 0.402 |

Particulars of the Scheme are set out in note 32 to the consolidated financial statements.

**Senior Management 's remuneration**

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

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

The remuneration of each of the Directors for the Year is set out in note 10 to the consolidated financial statements.

## Purchase, Sale or Redemption of the Company's Listed Securities

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

## Corporate Governance

Principal corporate governance practices adopted by the Company are set out in the Corporate Governance Report on page 38 of this report.

## Related Party Transactions

On 31 March 2015, the Group's wholly-owned subsidiary Zhejiang Xin Rui as tenant entered into a tenancy agreement with Mr. Yang Qi and Ms. Tu Yue Li as landlords ("PRC Tenancy Agreement") to lease the Property at an annual rent of RMB550,099 for a term of 1 year from 1 April 2015 to 31 March 2016 for its office use. During the Year, Zhejiang Xin Rui renewed the PRC Tenancy Agreement with landlords at an monthly rent RMB45,842 to extend the lease period to 31 May 2017.

Mr. Yang Qi and his spouse, Ms. Tu Yue Li, are the brother and sister-in-law of Ms. Yang Fang respectively, an executive Director and the chief executive officer of the Company. Mr. Yang Qi and Ms. Tu Yue Li are therefore associates of Ms. Yang Fang and are connected persons of the Company under the Listing Rules.

China New Rich Medicine Holding Co. Limited（中國新鋭醫藥控股有限公司）, a wholly-owned subsidiary of the Company, as tenant entered into a tenancy agreement on 22 December 2014 with Profit Sources Limited as landlord ("HK Tenancy Agreement") to lease the premises at Room 517, 5th Floor, Town Health Technology Centre, 10-12 Yuen Shun Circuit, Siu Lek Yuen, Shatin, New Territories, Hong Kong at a monthly rent of HK$16,343 (inclusive of the management fees) for a term of 2 years from 1 January 2015 to 31 December 2016 for its office use.

Profit Sources Limited is the wholly-owned subsidiary of Town Health International Medical Group Limited ("Town Health International"). Town Health International was a substantial shareholder of the Company at the relevant time during the Year. Profit Sources Limited was an associate of Town Health International and was a connected person of the Group under the Listing Rules.

Since 23 June 2016, Town Health International has ceased to be a substantial shareholder of the Company and therefore the HK Tenancy Agreement ceased to be a continuing connected transaction with the effect thereof.

As each of the above transactions is on normal commercial terms and all of the applicable percentage ratios are, on an annual basis, less than 5% and the annual rent under each of the PRC Tenancy Agreement and HK Tenancy Agreement is less than HK$3 million, each of the above transactions constitutes de minimis continuing connected transaction under Chapter 14A of the Listing Rules and is exempted from the reporting, annual review, announcement and independent shareholders' approval requirements.

## Related Party Transactions *(Continued)*

On 6 June 2016, Zhejiang Xin Rui entered into (i) a sale and purchase agreement with Mr. Yang Qi and Ms. Tu Yue Li as vendors in relation to the acquisition of the Property at a cash consideration of RMB14,000,000 (equivalent to approximately HK$16,660,000); and (ii) a sale and purchase agreement with Mr. Yang Qi as vendor in relation to the acquisition of the right to use the Car Park Spaces at a total cash consideration of RMB700,000 (equivalent to approximately HK$833,000).

Each of Mr. Yang Qi and Ms. Tu Yue Li is a connected person of the Company under the Listing Rules. As certain applicable percentage ratios (as defined under the Listing Rules) in respect of the acquisitions of the Property and the Car Park Spaces are more than 5% but all applicable percentage ratios are less than 25%, and the total consideration is more than HK$10 million, the acquisitions are discloseable and connected transactions and subject to reporting, announcement and independent shareholders' approval requirements under the Listing Rules. The acquisitions were approved by the independent shareholders at a special general meeting of the Company on 29 July 2016.

On 29 July 2016, all the conditions precedent to the two sale and purchase agreements above have been fulfilled and the completion took place on 17 August 2016. The PRC Tenancy Agreement also ended on 17 August 2016 after the completion.

The Directors confirm that save for the purchase of the medical equipment from Saike International and its subsidiaries, all other related party transactions during the Year as disclosed in note 38 to the consolidated financial statements fall under the definition of "connected transaction" or "continuing connected transaction" (as the case may be) in Chapter 14A of the Listing Rules.

Save as disclosed above, there were no other material transactions which constituted connected transaction(s) or continuing connected transaction(s) of the Company under Chapter 14A of the Listing Rules during the Year. The Directors confirm that the Company has complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules.

## Emolument Policy

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

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

## Retirement Benefit Scheme

Details of the retirement benefit scheme are set out in notes 33 to the consolidated financial statements.

## Share Issue During the Year

Details of the shares issued by the Company during the Year are set out in note 28 to the consolidated financial statements and the sub-section headed "Financial Review – Placing of new shares under general mandate" in the section headed "Management Discussion and Analysis" of this report. Such disclosure forms part of this report of the Directors.

## Equity-linked Agreements

Other than the Scheme as disclosed under the sub-section headed "Share Option Scheme" in this report of the Directors and note 32 to the consolidated financial statements and the placing agreements as disclosed in the sub-section headed "Financial Review – Placing of new shares under general mandate" in the section headed "Management Discussion and Analysis" of this report, no equity-linked agreements were entered into by the Company during the Year or subsisted at the end of the Year. Such disclosure forms part of this report of the Directors.

## Permitted Indemnity

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

## Sufficiency of Public Float

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

## Auditors

The Company has appointed Deloitte Touche Tohmatsu as the auditors of the Company for the Year. Deloitte Touche Tohmatsu will retire and, being eligible, offer itself for re-appointment at the forthcoming annual general meeting. A resolution to re-appoint Deloitte Touche Tohmatsu and to authorise the Directors to fix its remuneration will be proposed at the forthcoming annual general meeting.

## Review By Audit Committee

The audited consolidated financial statements of the Company for the Year have been reviewed by the audit committee of the Company.

On behalf of the Board

**Mr. Lee Chik Yuet**
*Executive Director*

30 March 2017

# CORPORATE GOVERNANCE REPORT

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

The Board is committed to maintaining a good corporate governance standard. The Board believes that a good corporate governance standard will provide a framework for the Group to formulate the business strategies and policies, and manage the associated risks through effective internal control procedures. It will also enhance the transparency of the Group and strengthen the accountability to the shareholders and creditors. In this regard, a corporate governance committee of the Board has been established with primary responsibility for developing and reviewing the Company's policies and practices on corporate governance and making recommendations to the Board.

The Company has adopted its own code of corporate governance based on the principles and 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 that the chairman of the Board to hold meetings at least annually with the non-executive Directors (including the independent non-executive Directors) without the executive Directors present. The chairman of the Board during the Year, Mr. Zhou Ling, was himself an executive Director and as such compliance with this code provision was infeasible. Save as disclosed above, the Company had complied with the CG Code to the extent applicable and permissible to the Company during the Year.

## Directors' Securities Transactions

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

## Board of Directors

As at the date of this report, the Board comprises six members, three of which are executive Directors, namely Mr. Zhou Ling who is the Chairman of the Board, Ms. Yang Fang who is the chief executive officer of the Company, and Mr. Lee Chik Yuet. Three other members are independent non-executive Directors, namely Mr. Ho Hau Cheung, *BBS, MH*, Mr. Sung Hak Keung, Andy and Mr. Leung Chi Kin. The biographical details of the Directors and relationship between them (if any) are set out in the section headed "Biographical Details of the Directors and Senior Management" on page 25 and 26 of this report.

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

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

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

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

## Attendance of Directors at Meetings

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

| | Number of meetings attended/held | | | | | |
|---|---|---|---|---|---|---|
| | General meetings | Board meetings | Audit Committee meetings | Remuneration Committee meetings | Nomination Committee meeting | Corporate Governance Committee meeting |
| Zhou Ling *(Chairman)* | 3/4 | 15/15 | N/A | N/A | N/A | 1/1 |
| Yang Fang *(Chief executive officer)* | 2/4 | 15/15 | N/A | N/A | N/A | 1/1 |
| Lee Chik Yuet | 4/4 | 15/15 | N/A | N/A | N/A | 1/1 |
| Ho Hau Cheung, *BBS, MH* | 3/4 | 14/15 | 3/3 | 2/2 | 2/2 | N/A |
| Sung Hak Keung, Andy | 4/4 | 15/15 | 3/3 | 2/2 | 2/2 | N/A |
| Leung Chi Kin | 4/4 | 15/15 | 3/3 | 2/2 | 2/2 | N/A |

## Directors' continuous professional development

All Directors confirmed that they had complied with the code provision A.6.5 of the CG Code during the Year by participating in continuous professional development. The Company had arranged a seminar on the Listing Rules for the Directors. All of them had been provided with the training materials for such seminar and each of them confirmed that he/she had read the training materials.

## Chairman and Chief Executive Officer

Mr. Zhou Ling is the Chairman of the Board and Ms. Yang Fang is the Chief Executive Officer of the Company, and they have segregated and clearly defined roles. The Chairman of the Board provides leadership for the Board and ensures good corporate governance practices and procedures are established. The chief executive officer of the Company is responsible for the Group's overall development strategies and general daily management. Mr. Zhou Ling is the spouse of Ms. Yang Fang.

## Company Secretary

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

## Independent Non-Executive Directors

The Company has three independent non-executive Directors, one of them has appropriate professional qualification or accounting or related financial management expertise. The Company has received a written confirmation of independence from each of the independent non-executive Directors. The Company considers that each of the independent non-executive Directors is and has remained independent.

## Term of Appointment of Non-Executive Directors

All the independent non-executive Directors have been appointed for a term of two years commencing on 1 October 2015.

## Remuneration Committee

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

During the Year and as at the date of this report, the Remuneration Committee comprised three independent non-executive Directors, namely Mr. Ho Hau Cheung, *BBS, MH* as the chairman of the Remuneration Committee, Mr. Sung Hak Keung, Andy and Mr. Leung Chi Kin.

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

## Nomination Committee

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

During the Year and as at the date of this report, the Nomination Committee comprised three independent non-executive Directors, namely Mr. Leung Chi Kin as the Chairman of the Nomination Committee, Mr. Sung Hak Keung, Andy and Mr. Ho Hau Cheung, *BBS, MH*.

The major responsibilities of the Nomination Committee are to review the structure, size and composition of the Board, formulate and implement the policy for nominating candidates for election by shareholders at the general meetings of the Company (either to fill a casual vacancy or as an addition to the Board) and assess the independence of independent non-executive Directors, propose re-election of retiring Directors and the appointment or re-appointment of and succession planning for the Directors. All Directors' appointments will be based on meritocracy, having due regard for the benefits of diversity on the Board, details of which are set out in the paragraph headed "Board Diversity Policy" below. The process for the nomination of Directors is led by the Nomination Committee, which has been made on a merit basis.

According to the Bye-laws, any Director appointed by the Board to fill a casual vacancy shall hold office until the first general meeting of the Company after his appointment and be subject to re-election at such meeting, and any Director appointed by the Board as an addition to the Board shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election. All Directors are subject to retirement by rotation and re-election at the annual general meeting of the Company at least once every three years.

During the Year, two meeting of the Nomination Committee were held to review the structure and composition of the Board. All members of the Nomination Committee attended the meetings.

## Board Diversity Policy

The Board adopted a board diversity policy setting out the approach to achieve diversity on the Board. The Company considered that diversity of board members can be achieved through consideration of a number of aspects, including but not limited to gender, age, cultural and educational background, professional experience, skills and knowledge. All Directors' appointments will be based on meritocracy, and candidates will be considered against objective criteria, having due regard to the benefits of diversity on the Board.

## Audit Committee

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

During the Year and as at the date of this report, the Audit Committee comprised three independent non-executive Directors, namely Mr. Sung Hak Keung, Andy as the Chairman of the Audit Committee, Mr. Ho Hau Cheung, *BBS, MH* and Mr. Leung Chi Kin. The Audit Committee held three meetings during the Year to review the financial results of the Group for the year ended 31 December 2015 and the six months ended 30 June 2016, financial reporting, risk management and internal control system of the Group. Two of the meetings were attended with the Company's external auditors so that the members of the Audit Committee could exchange their views and concerns on the financial reporting process of the Group with the auditors. All members of the Audit Committee attended the three meetings during the Year.

## Corporate Governance Committee

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

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

During the Year and as at the date of this report, the Corporate Governance Committee comprised three executive Directors, namely Mr. Lee Chik Yuet as the Chairman of the Corporate Governance Committee, Mr. Zhou Ling and Ms. Yang Fang. The Corporate Governance Committee held one meeting during the Year and reviewed (i) the Company's policies and practices on corporate governance; (ii) the training and continuous professional development of directors and senior management; (iii) the Company's policies and practices on compliance with legal and regulatory requirements; (iv) the code of conduct and compliance manual applicable to the Directors and employees of the Group; and (v) the Company's compliance with the CG Code and disclosure in the Corporate Governance Report as required under Appendix 14 to the Listing Rules ; the Company's policies which provides a guidance to the Directors, senior management and relevant employees in handling confidential information and monitoring information disclosure.

## Corporate Governance Functions

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

## Accountability and Audit

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

The statement issued by the auditors of the Company, Deloitte Touche Tohmatsu, regarding their reporting responsibilities is set out in the section headed "Independent Auditor's Report" on pages 52 to 57 of this report.

## Internal Controls

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

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

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

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

## Internal Controls *(Continued)*

The Board, through the Audit Committee, conducted a review on the effectiveness of the Group's internal control system of financial and non-financial controls (including operational and compliance controls) and considered the adequacy of resources, staff qualifications and experience, training programmes, and budget of the Group's accounting and financial reporting functions during the Year. The Board is satisfied that the current system of internal control is effective and adequate throughout the Year.

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

## Auditors' Remuneration

The auditors, Deloitte Touche Tohmatsu, provided statutory audit services and non-audit services to the Group during the Year. The Audit Committee is responsible for making recommendations to the Board on the appointment, re-appointment, removal and remuneration of the external auditors.

Fees paid or payable by the Group for statutory audit services provided to the Group for the Year amounted to approximately HK$1,880,000. (2015: HK$1,680,000).

Non-audit services include agreed upon procedures on review of financial statements and transactions. Total fees paid by the Group for non-audit services during the Year were approximately HK$490,000.

## Constitutional Documents

During the Year, there is no significant change in the Company's constitutional documents.

## Communication with Shareholders and Investors

The Company provides information in relation to the Group to the shareholders and investors in a timely manner through a number of formal channels, including publication of interim and annual reports, announcements and circulars. Such published documents together with the corporate information of the Group are also available on the Company's website (www.newraymedicine.com).

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

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

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

## Communication with Shareholders and Investors *(Continued)*

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

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

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

**Procedures for shareholders sending enquiries to the Board**

***1. Enquiries about shareholdings***

Shareholders should direct their enquiries about their shareholdings to the Company's Branch Share Registrar, Tricor Investor Services Limited, via its online holding enquiry service at www.tricoris.com, or send email to is-enquiries@hk.tricorglobal.com or go in person to its public counter at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong.

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

The Company will not normally deal with verbal or anonymous enquiries. Shareholders may send written enquiries to the Company, for the attention of the Board or Company Secretary, by mail to Room 517, 5th Floor, Town Health Technology Centre, 10-12 Yuen Shun Circuit, Siu Lek Yuen, Shatin, New Territories, Hong Kong. Shareholders may call the Company at (852) 2210 2120 for any assistance.

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

This is the first Environmental, Social and Governance ("ESG") report by the Group, highlighting its ESG performance.

The Group is mainly engaged in pharmaceutical distribution business with headquarters in Zhejiang province in the PRC. Further information about the Group's principal business is available in the paragraph headed "BUSINESS REVIEW" in the Management Discussion and Analysis in this annual report.

This report covers the Group's overall performance in two subject areas, namely, Environmental and Social aspects of its operations in the PRC, from 1 January 2016 to 31 December 2016, unless otherwise stated. The Group's operation in Hong Kong is excluded from the scope as it is identified to be insignificant to the Group operation in the discussion sessions with stakeholders.

## Reporting Standards

This report is prepared in accordance with the updated Environmental, Social and Governance (ESG) Reporting Guide set out in Appendix 27 to the Listing Rules ("HKEx ESG Reporting Guide"), as outlined in the Consultation Conclusions – Review of the Environmental, Social and Governance Reporting Guide issued in December 2015. The Company has complied with the "comply or explain" provisions set out in the HKEx ESG Reporting Guide for the year ended 31 December 2016.

## Stakeholder Engagement and Materiality

In order to identify the most significant aspects for the Group for this report, key stakeholders including employees, suppliers, distributors and customers have been involved in regular engagement meetings to discuss and to review areas of attention which will help the business meet its potential growth and be prepared for future challenges.

## Stakeholders' Feedback

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

## The Company's Sustainability Vision

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

## Natural Resources

The Group is constantly looking for ways to implement more sustainable practices in its business processes to reduce environmental impact by efficient use of resources. The Group has always strictly complied with the applicable laws and regulatory requirements on environmental protection in the PRC.

## Environmental

The Group's policy is to ensure compliance with applicable laws and regulatory requirements in the PRC and to promote environmental awareness among employees through efficient use of resources.

As the Group 's business does not involve manufacturing or production, the type of emissions the Group involved in the reporting period was mainly electricity, unleaded petrol, water and paper. The Group's operations do not involve activities that directly emit air pollutants. Hence, the legal and regulatory requirements that govern direct greenhouse gases emission and other air pollutants emission have no material impact on the Group. The Group indirectly emits air pollutants principally through its electricity consumptions and transportation activities during its business processes to provide services to customers and in its general administration.

1. **Electricity**

   The Group consumes electricity mainly during its business processes to provide services to customers and in its general administration. In order to minimise its consumption of electricity during its business processes, all employees were reminded to switch off light and air-conditioners before leaving work or meeting rooms. The Group is constantly encouraging employees to reduce its carbon footprints through efficient use of electricity.

2. **Water**

   The Group consumes water in its business processes. In order to minimise its consumption of water during its business processes, all employees were reminded to conserve water resources and avoid unnecessary flushing.

3. **Unleaded Petrol**

   The Group consumes unleaded petrol in the transportation activities during its business processes to provide services to customers and in its general administration. Air pollutants emitted by the Group through consumption on unleaded petrol by vehicles are not material. In order to minimise its consumption of unleaded petrol during its business processes, all employees were reminded to reduce the travelling of its staff in operationally feasible.

4. **Non-hazardous Waste**

   Non-hazardous waste from the Group's operation mainly was paper waste in its general administration. The Group continues implementing paper saving practices among employees.

## SOCIAL

### Employment and Labour Practices

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

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

Any employees resigning from the Group are required to give one month's written notice stating reason for leaving to their managers. The managers are responsible for hosting a meeting to discuss with employees concerned and are required to fill in relevant documents, which will also be reviewed, discussed and signed by human resources department for final decision. Further details can be referred to the Group's Dismissal Management Policy.

During the Year, the Group complied with all applicable employment and labour related laws and regulations including Labour Law of the PRC（中華人民共和國勞動法）and Labour Contract Law of the PRC（中華人民共和國勞動合同法）.

### Employee Health and Safety

As stated in employment contract, the Group has established operation related safety protocol in accordance with national laws and regulations, and each employee is required to strictly follow the safety protocol. Also, the Group has set preventive and control measures for occupational health to provide safe working environmental and essential personal protective equipment. In summer seasons, the Group reschedules work intensity and working time, as well as rearranging more frequent rest periods for those who work under hot weather to reduce employees' exposures to hot environment and to minimise their health risk. Allowance for cold drinks will be given to employee in accordance with Labour Law of the PRC（中華人民共和國勞動法）and Standards for Distribution of High-temperature Subsidies in Zhejiang Province《浙江省高溫補貼發放標準》.

The Group regularly reviews the employees' health and safety procedures to safeguard employees' well-being. There was no work injury during the Year.

## SOCIAL *(Continued)*

### Development and Training

The Group believes enhancing skills and knowledge of its staff helps them contribute fully to its future growth.

Throughout the Year, the Group has arranged various training courses for employees from different departments. The Group has the duty to assist the new employees to adapt to the corporate culture. The new employee will receive training on corporate culture, rules and regulations and necessary pre-job skills. The Group also arranges various trainings for all employees, which include procurement management, warehouse and delivery management, product knowledge, product storage management, product recall procedure, customer service and complaint procedure, sales and marketing skill, administrative management, risk management, refrigerated products management and emergency preparedness.

### Labour Standards

The Group strictly prohibits all forms of child labour and forced labour, and does not hire anyone under age 18. During the recruitment process, the Group conducted background check for every new employee and verified the details concerning the identity of such candidate. In addition, no employees of the Group would be required to work extra hours involuntarily and required to pay compulsory deposits. There was neither child nor forced labour in the Group's operations in the reporting period in compliance with Special Protection for Female and Juvenile Workers, Chapter VII, and the Labour Law of the People's Republic of China and Provisions on the Prohibition against the Use of Child Labour (State Council Order No. 364) 《禁止使用童工規定》（國務院令第364號）.

### Equal Opportunity

Equal opportunities are given to employees in respect of recruitment, training and development, job advancement, and compensation and benefits. Employees are not discriminated against or deprived of such opportunities based on gender, ethnic background, religion, colour, sexual orientation, age, marital status, family status, retirement, disability, pregnancy or any other discrimination prohibited by Labour Law of the PRC（中華人民共和國勞動法）.

At the end of 2016, the total headcount was 53. The breakdowns of the number of the Group's employee are shown in the table below:

| Workforce by Gender | | Female | Male |
|---|---|---|---|
| As at 31 December 2016 | | 32 | 21 |
| **Workforce by Age Group** | **<30** | **30-50** | **>50** |
| As at 31 December 2016 | 22 | 26 | 5 |

## Operating Practices

### Supply Chain Management

30 to 40 percent of products were originated from overseas, the rest were sourced from Mainland China. Currently the Group is developing a more comprehensive supply chain management policy. The Group has obtained the pharmaceutical operation permit（藥品經營許可證）and the certificate of Good Supply Practices (GSP) for pharmaceutical products（藥品經營質量管理規範認證證書）from the State Food and Drug Administration in order to carry out our distribution business in the PRC. The Company is very selective about its suppliers and products and performed continuous assessment of the potential suppliers prior to acquisition of new distribution rights of products and on our existing suppliers. The management assesses the potential suppliers with reference to the operation scale, the reputation, the manufacturing capacity and capabilities, the quality of the products, the financial performance and the historical quality control records. In addition, the Group appoints an independent search agency to conduct a background search of potential suppliers. The Group also conducts an annual appraisal of the suppliers in order to review (i) the performance of our suppliers; and (ii) the financial performance of our suppliers.

***(i) Product Responsibility***

The Group partners with over 150 distributors serving customer of over 800 hospitals, clinic offices and pharmacies. Product quality is a key element of sustainability of the Group's business.

The Group has a standard procedure for inspecting and receiving all the purchased or returned pharmaceutical products. In compliance with the laws and regulations such as Pharmaceutical Administration Law and GSP, a system is developed to ensure and control product quality. For example, Quality Inspectors in the Quality Assurance Department must be qualified professionals with academic background related to pharmaceutical, medicine, biology or chemistry, and have attended necessary trainings and are in good health conditions.

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

Moreover, the Group will carry out laboratory or clinical testing of the quality of the pharmaceutical products on the sampling basis to safeguard the quality of the products, which is not compulsorily required under GSP Standards.

For employees in Sales and Marketing Department, the Group has policy on managing the quality of sales practice, ensuring no illegal engagement is involved and protecting the customers in terms of product quality in accordance with national laws and regulations such as Drug Administration Law, GSP, etc.

There was no work injury during the Year.

## Operating Practices *(Continued)*

**Supply Chain Management** *(Continued)*

***(i) Product Responsibility*** *(Continued)*

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

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

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

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

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

There were no product sold or shipped subject to recalls and no product or service related complaints received in 2016.

***(ii) Anti-corruption***

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

– Dishonest;

– Fraud;

– Corruption;

– Illegal behaviour (including theft, trafficking/taking of drugs, use of violence or threat of using violence and criminal damage to property);

– Discrimination;

– Sexual harassment;

## Operating Practices *(Continued)*

**Supply Chain Management** *(Continued)*

***(ii) Anti-corruption*** *(Continued)*

- In contravention of the laws of the PRC or bye-laws;
- Immoral behaviour;
- Other serious misconduct (including serious mismanagement, serious and significant waste or repeated violations of administrative procedures);
- Dangerous working practices;
- Failing to comply with the Group's policy;
- Any other act which may result in financial or non-financial loss to the Group or composite entity or otherwise prejudice the interests of ABC or any of its employees

Under such whistleblowing policy, the employees are encouraged to report any reportable conduct (such as corruption or fraudulent behaviors) directly to the incident manager, Mr Lee Chik Yuet. No reports or related complaints were received from employees in 2016.

## Community

**Community Investment**

The Company strives to contribute to the communities in which it operates. In recent years, the Group made donations supporting various community activities. The Group is currently developing plan and policy to further understand the needs of surrounding communities and types of resources to contribute in the coming years.

# INDEPENDENT AUDITOR'S REPORT

Deloitte. 德勤

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

## Opinion

We have audited the consolidated financial statements of New Ray Medicine International Holding Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 58 to 120, which comprise the consolidated statement of financial position as at 31 December 2016, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2016, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

## Basis for Opinion

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

## Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

| Key audit matters | How our audit addressed the key audit matters |
|---|---|
| *Valuation of interest in an associate, Saike International Medical Group Limited ("Saike International")* | |
| We identified the valuation of interest in Saike International as a key audit matter due to significant judgment exercised by the Group's management on the valuation.<br><br>As disclosed in notes 4 and 19 to the consolidated financial statements, the carrying amount of the interest in Saike International is HK$125,958,000 (2015: HK$127,537,000).<br><br>In determining the recoverable amount of Saike International, estimation of the value in use of Saike International is required and the valuation is carried out by an external independent valuer (the "Valuer") engaged by the Gorup. In determining the value in use, management's estimates are based on cash flow forecast for the relevant business and requires the adoption of certain assumptions such as budgeted sales, gross margin, other related expenses, discount rate and terminal growth rate.<br><br>Management has concluded that there is no impairment in respect of the interest in Saike International as at 31 December 2016. | Our procedures in relation to the valuation of interest in Saike International included:<br><br>• Understanding the Group's estimation of the recoverable amounts of Saike International, including the valuation model adopted, key assumptions used and the involvement of the Valuer appointed by the Group;<br><br>• Assessing the competence, capabilities and objectivity of the Valuer performing the valuation;<br><br>• Evaluating the appropriateness of the valuation methodology and the discount rate used; and<br><br>• Evaluating the reasonableness of the budgeted sales, gross margin and other related expenses and terminal growth rate with reference to the historical financial data, financial budgets and the available industry and market data. |

## Key Audit Matters *(Continued)*

| Key audit matters | How our audit addressed the key audit matters |
|---|---|
| *Valuation of deposits paid to suppliers* | |
| We identified the valuation of deposits paid to suppliers as a key audit matter due to the involvement of management judgment in assessing its recoverability.<br><br>As set out in notes 4 and 23 to the consolidated financial statements, deposits were paid to suppliers under the distribution agreements to acquire distribution rights of specific products whereby such deposits would be proportionately forfeited if the committed minimum purchase requirement is not met in a particular year. Management performs assessment on the recoverability of the deposits to suppliers based on the contract terms and estimated purchase amounts with reference to the business plan and relevant market condition.<br><br>As at 31 December 2016, the carrying amount of deposits paid to suppliers was HK$105,428,000 (2015: HK$66,788,000). | Our procedures in relation to the valuation of deposits paid to suppliers included:<br><br>• Understanding the Group's key controls over the assessment of the recoverability of the deposits paid to suppliers;<br><br>• Discussing with management the basis of estimation of the purchase amounts from the suppliers under the committed minimum purchase arrangement and assessing the reasonableness of such estimation with reference to the Group's historical pattern, current business plan and market condition; and<br><br>• Checking, on a sample basis, for subsequent refund of the deposits paid to suppliers following the termination or completion of the purchase agreements with the suppliers. |

## Other Information

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

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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

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

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

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

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion solely to you, as a body, in accordance with Section 90 of the Bermuda Companies Act, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

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

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

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

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

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

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

## Auditor's Responsibilities for the Audit of the Consolidated Financial Statements *(Continued)*

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

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

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

The engagement partner on the audit resulting in the independent auditor's report is Lau Ngai Kee, Ricky.

**Deloitte Touche Tohmatsu**
*Certified Public Accountants*
Hong Kong
30 March 2017

# CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2016

| | NOTES | 2016<br>HK$'000 | 2015<br>HK$'000 |
|---|---|---|---|
| Revenue | 5 | **225,388** | 252,985 |
| Cost of sales | | **(190,987)** | (187,359) |
| | | **34,401** | 65,626 |
| Other income, gains and losses | 6 | **(19,055)** | (10,063) |
| Selling and distribution expenses | | **(21,779)** | (11,525) |
| Administrative expenses | | **(19,606)** | (23,386) |
| Finance costs | 7 | **(110)** | – |
| Share of profit of an associate | 19 | **12,441** | 9,411 |
| (Loss) profit before tax | | **(13,708)** | 30,063 |
| Income tax expense | 8 | **(6,750)** | (15,259) |
| (Loss) profit for the year | 9 | **(20,458)** | 14,804 |
| **Other comprehensive expense for the year** | | | |
| *Items that will not be reclassified to profit or loss:* | | | |
| Exchange difference arising on translation of functional currency to presentation currency | | **(27,545)** | (9,819) |
| Share of exchange difference of an associate | | **(1,449)** | (505) |
| | | **(28,994)** | (10,324) |
| *Items that may be subsequently reclassified to profit or loss:* | | | |
| Fair value loss on available-for-sale investments | | **(24,313)** | (8,012) |
| Reclassification adjustment upon impairment on available-for-sale investments | | **15,366** | 10,747 |
| Released on disposal of available-for-sale investments | | **6,018** | 1,054 |
| | | **(2,929)** | 3,789 |
| Other comprehensive expense for the year | | **(31,923)** | (6,535) |
| **Total comprehensive (expense) income for the year** | | **(52,381)** | 8,269 |
| (Loss) profit for the year attributable to owners of the Company | | **(20,458)** | 14,804 |
| Total comprehensive (expense) income for the year attributable to owners of the Company | | **(52,381)** | 8,269 |
| | | | (Restated) |
| (Loss) earnings per share | 12 | | |
| Basic (HK cents) | | **(5.89)** | 6.28 |

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2016

| | NOTES | 2016 HK$'000 | 2015 HK$'000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Property, plant and equipment | 13 | **11,860** | 9,434 |
| Prepaid lease payments | 14 | **19,220** | 7,635 |
| Prepayment for a distribution right | 15 | **28,619** | 34,388 |
| Intangible asset | 16 | **15,353** | 18,308 |
| Club debenture | 17 | **559** | 597 |
| Available-for-sale investments | 18 | **67,226** | 73,456 |
| Interests in associates | 19 | **125,958** | 127,537 |
| Interest in a joint venture | 20 | **–** | – |
| Amount due from a joint venture | 20 | **–** | – |
| | | **268,795** | 271,355 |
| **Current assets** | | | |
| Inventories | 21 | **11,291** | 6,122 |
| Trade and other receivables | 22 | **178,999** | 165,695 |
| Amount due from an associate | 19 | **–** | 12,601 |
| Prepayment for a distribution right | 15 | **3,577** | 3,821 |
| Prepaid lease payments | 14 | **475** | 183 |
| Bank balances and cash | 24 | **71,599** | 56,795 |
| | | **265,941** | 245,217 |
| **Current liabilities** | | | |
| Trade and other payables | 25 | **38,685** | 29,483 |
| Tax payable | | **473** | 2,708 |
| Bank borrowings | 26 | **16,769** | – |
| | | **55,927** | 32,191 |
| **Net current assets** | | **210,014** | 213,026 |
| **Total assets less current liabilities** | | **478,809** | 484,381 |
| **Non-current liability** | | | |
| Deferred tax liabilities | 27 | **7,122** | 6,718 |
| | | **471,687** | 477,663 |
| **Capital and reserves** | | | |
| Share capital | 28 | **20,822** | 14,460 |
| Share premium and reserves | | **450,865** | 463,203 |
| Equity attributable to owners of the Company | | **471,687** | 477,663 |

The consolidated financial statements on pages 58 to 120 were approved and authorised for issue by the Board of Directors on 30 March 2017 and are signed on its behalf by:

| **ZHOU LING** | **LEE CHIK YUET** |
|---|---|
| *DIRECTOR* | *DIRECTOR* |

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2016

| | Attributable to owners of the Company | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | **Share capital** HK$'000 | **Share premium** HK$'000 | **Contributed surplus** HK$'000 | **PRC statutory reserve** HK$'000 (Note) | **Investments revaluation reserve** HK$'000 | **Share options reserve** HK$'000 | **Translation reserve** HK$'000 | **Retained profits** HK$'000 | **Total** HK$'000 |
| At 1 January 2015 | 9,600 | 137,935 | 50,167 | 14,243 | (860) | – | 9,641 | 82,465 | 303,191 |
| Profit for the year | – | – | – | – | – | – | – | 14,804 | 14,804 |
| Other comprehensive expense for the year | – | – | – | – | 3,789 | – | (10,324) | – | (6,535) |
| Total comprehensive income for the year | – | – | – | – | 3,789 | – | (10,324) | 14,804 | 8,269 |
| Issue of shares (note 28) | 4,860 | 167,950 | – | – | – | – | – | – | 172,810 |
| Transaction costs attributable to issue of shares | – | (6,607) | – | – | – | – | – | – | (6,607) |
| Transfer | – | – | – | 4,431 | – | – | – | (4,431) | – |
| At 31 December 2015 | 14,460 | 299,278 | 50,167 | 18,674 | 2,929 | – | (683) | 92,838 | 477,663 |
| Loss for the year | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **(20,458)** | **(20,458)** |
| Other comprehensive expense for the year | **–** | **–** | **–** | **–** | **(2,929)** | **–** | **(28,994)** | **–** | **(31,923)** |
| Total comprehensive expense for the year | **–** | **–** | **–** | **–** | **(2,929)** | **–** | **(28,994)** | **(20,458)** | **(52,381)** |
| Issue of shares (note 28) | **6,362** | **40,372** | **–** | **–** | **–** | **–** | **–** | **–** | **46,734** |
| Transaction costs attributable to issue of shares | **–** | **(2,079)** | **–** | **–** | **–** | **–** | **–** | **–** | **(2,079)** |
| Recognition of equity-settled share-based payments (note 32) | **–** | **–** | **–** | **–** | **–** | **1,750** | **–** | **–** | **1,750** |
| Transfer | **–** | **–** | **–** | **1,190** | **–** | **–** | **–** | **(1,190)** | **–** |
| At 31 December 2016 | **20,822** | **337,571** | **50,167** | **19,864** | **–** | **1,750** | **(29,677)** | **71,190** | **471,687** |

Note: For the Company's subsidiaries, Zhejiang Xin Rui Pharmaceutical Co. Ltd. ("Zhejiang Xin Rui Pharmaceutical") and Zhejiang Hong Rui Trading Co. Ltd. ("Hong Rui Trading"), as stipulated by the relevant laws and regulations in the People's Republic of China (the "PRC"), they are required to maintain a statutory surplus reserve fund. Appropriation to such reserve is made out on 10% of the net profit after taxation as reflected in the statutory financial statements of the PRC subsidiaries in accordance with relevant laws and regulations applicable to PRC enterprises. The statutory surplus reserve fund can be used to make up prior years' losses, if any, and can be applied in conversion into capital by means of capitalisation issue. The statutory surplus reserve can be released to the retained profits upon the dissolution or winding up of the entity.

For Hong Rui (Hangzhou) Bio-medical Technology Co. Ltd. ("Hong Rui Bio-medical"), the Company's subsidiary, as it is a wholly foreign owned enterprise, appropriation to statutory surplus reserve fund is based on the management's discretion.

# CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2016

| | NOTE | 2016<br>HK$'000 | 2015<br>HK$'000 |
|---|---|---|---|
| **OPERATING ACTIVITIES** | | | |
| (Loss) profit before tax | | **(13,708)** | 30,063 |
| Adjustments for: | | | |
| Impairment loss on available-for-sale investments | | **15,366** | 10,747 |
| Realised loss on disposal of available-for-sale investments | | **6,018** | 1,054 |
| Amortisation of prepayment for a distribution right | | **3,695** | – |
| Depreciation of property, plant and equipment | | **2,085** | 1,773 |
| Amortisation of an intangible asset | | **1,848** | 814 |
| Equity-settled share-based payment expenses | | **1,750** | – |
| Amortisation of prepaid lease payment | | **282** | 188 |
| Interest expenses | | **110** | – |
| Loss on disposal of property, plant and equipment | | **2** | 10 |
| Interest income | | **(376)** | (1,603) |
| Compensation from Targeted Profit Requirement | 19 | **(522)** | – |
| Dividend income from available-for-sale investments | | **(583)** | (140) |
| Share of profit of an associate | | **(12,441)** | (9,411) |
| Operating cash flows before movements in working capital | | **3,526** | 33,495 |
| (Increase) decrease in inventories | | **(5,742)** | 7,815 |
| Increase in trade and other receivables | | **(22,090)** | (42,994) |
| Increase in trade and other payables | | **11,316** | 14,283 |
| Cash (used in) generated from operations | | **(12,990)** | 12,599 |
| Income tax paid | | **(8,021)** | (15,714) |
| **NET CASH USED IN OPERATING ACTIVITIES** | | **(21,011)** | (3,115) |
| **INVESTING ACTIVITIES** | | | |
| Proceeds on disposal of available-for-sale investments | | **30,201** | 16,618 |
| Receipts on advance to an associate | | **12,601** | – |
| Dividends received from available-for-sale investments | | **583** | 140 |
| Interest received | | **376** | 1,603 |
| Purchases of available-for-sale investments listed in Hong Kong | | **(4,596)** | (79,363) |
| Purchases of property, plant and equipment | | **(5,214)** | (3,905) |
| Purchase of prepaid lease payment | | **(13,064)** | – |
| Purchase of unlisted available-for-sale investments | | **(43,688)** | – |
| Proceeds on disposal of property, plant and equipment | | **–** | 16 |
| Advance to an associate | | **–** | (12,601) |
| Purchase of an intangible asset | | **–** | (19,538) |
| Payment for a distribution right | | **–** | (39,077) |
| Acquisition of investments in associates | | **–** | (118,631) |
| **NET CASH USED IN INVESTING ACTIVITIES** | | **(22,801)** | (254,738) |

# CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2016

| | NOTE | 2016<br>HK$'000 | 2015<br>HK$'000 |
|---|---|---|---|
| **FINANCING ACTIVITIES** | | | |
| Proceeds from placing of shares | | **46,734** | 172,810 |
| New bank loans raised | | **17,321** | – |
| Interest paid | | **(110)** | – |
| Payment of transaction costs attributable to issue of new shares | | **(2,079)** | (6,607) |
| **NET CASH FROM FINANCING ACTIVITIES** | | **61,866** | 166,203 |
| **NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS** | | **18,054** | (91,650) |
| **CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR** | | **56,795** | 150,942 |
| **EFFECT OF FOREIGN EXCHANGE RATE CHANGES** | | **(3,250)** | (2,497) |
| **CASH AND CASH EQUIVALENTS AT END OF THE YEAR,** represented by bank balances and cash | | **71,599** | 56,795 |

## 1. GENERAL

New Ray Medicine International Holding Limited (the "Company", together with its subsidiaries, the "Group") was incorporated on 9 August 2012 and registered as an exempted company with limited liability in Bermuda.

The shares of the Company were listed on the Growth Enterprise Market (the "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 the annual report.

The Company is an investment holding company. Its principal subsidiaries are principally engaged in trading of pharmaceutical products in the PRC.

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

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

**Amendments to HKFRSs that are mandatorily effective for the current year**

The Group has applied the following amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") for the first time in the current year:

| | |
|---|---|
| Amendments to HKAS 1 | Disclosure initiative |
| Amendments to HKAS 16 and HKAS 38 | Clarification of acceptable methods of depreciation and amortisation |
| Amendments to HKAS 16 and HKAS 41 | Agriculture: Bearer plants |
| Amendments to HKFRSs | Annual improvements to HKFRSs 2012 – 2014 cycle |
| Amendments to HKFRS 10, HKFRS 12 and HKAS 28 | Investment entities: Applying the consolidation exception |
| Amendments to HKFRS 11 | Accounting for acquisitions of interests in joint operations |

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

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

**New and amendments to HKFRSs issued but not yet effective**

The Group has not early applied the following new and amendments to HKFRSs that have been issued but are not yet effective:

| | |
|---|---|
| HKFRS 9 | Financial instruments[1] |
| HKFRS 15 | Revenue from contracts with customers and the related amendments[1] |
| HKFRS 16 | Leases[2] |
| Amendments to HKFRSs | Annual improvements to HKFRSs 2014-2016 cycle[5] |
| Amendments to HKFRS 2 | Classification and measurement of share-based payment transactions[1] |
| Amendments to HKFRS 4 | Applying HKFRS 9 Financial instruments with HKFRS 4 Insurance contracts[1] |
| Amendments to HKFRS 10 and HKAS 28 | Sale or contribution of assets between an investor and its associate or joint venture[3] |
| Amendments to HKAS 7 | Disclosure initiative[4] |
| Amendments to HKAS 12 | Recognition of deferred tax assets for unrealised losses[4] |

1 Effective for annual periods beginning on or after 1 January 2018.
2 Effective for annual periods beginning on or after 1 January 2019.
3 Effective for annual periods beginning on or after a date to be determined.
4 Effective for annual periods beginning on or after 1 January 2017.
5 Effective for annual periods beginning on or after 1 January 2017 or 1 January 2018, as appropriate.

**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 of HKFRS 9 which are relevant to the Group are:

- all recognised financial assets that are within the scope of HKFRS 9 are required to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are generally measured at fair value through other comprehensive income ("FVTOCI"). All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under HKFRS 9, entities 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.

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

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

- with regard to the measurement of financial liabilities designated as at fair value through profit or loss, HKFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Under HKAS 39 "Financial instruments: Recognition and measurement", the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss is presented in profit or loss.

- in relation to the impairment of financial assets, HKFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under HKAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

- the new general hedge accounting requirements retain the three types of hedge accounting mechanisms currently available in HKAS 39. Under HKFRS 9, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the retrospective quantitative effectiveness test has been removed. Enhanced disclosure requirements about an entity's risk management activities have also been introduced.

Based on the Group's financial instruments and risk management policies as at 31 December 2016, application of HKFRS 9 in the future may have a material impact on the classification and measurement of the Group's financial assets. The Group's available-for-sale investments, including those currently stated at cost less impairment, will either be measured as fair value through profit or loss or be designated as FVTOCI (subject to fulfillment of the designation criteria). In addition, the expected credit loss model may result in early provision of credit losses which are not yet incurred in relation to the Group's financial assets measured at amortised cost.

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

**HKFRS 15 Revenue from contracts with customers**

HKFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. HKFRS 15 will supersede the current revenue recognition guidance including HKAS 18 "Revenue", HKAS 11 "Construction contracts" and the related Interpretations when it becomes effective.

The core principle of HKFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the Standard introduces a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

Under HKFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in HKFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by HKFRS 15.

In 2016, the HKICPA issued Clarifications to HKFRS 15 in relation to the identification of performance obligations, principal versus agent considerations, as well as licensing application guidance.

The directors of the Company anticipate that the application of HKFRS 15 in the future may have an impact on the amounts reported and more disclosures relating to revenue is required. However, it is not practicable to provide a reasonable estimate of the effect of HKFRS 15 until the Group performs a detailed review. In addition, the application of HKFRS 15 in the future may result in more disclosures in the consolidated financial statements.

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

**HKFRS 16 Leases**

HKFRS 16, which upon the effective date will supersede HKAS 17 "Leases", introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. Specifically, under HKFRS 16, a lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. Accordingly, a lessee should recognise depreciation of the right-of-use asset and interest on the lease liability, and also classify cash repayments of the lease liability into a principal portion and an interest portion and present them in the consolidated statement of cash flow. Also, the right-of-use asset and the lease liability are initially measured on a present value basis. The measurement includes non-cancellable lease payments and also includes payments to be made in optional periods if the lessee is reasonably certain to exercise an option to extend the lease, or not to exercise an option to terminate the lease. The accounting treatment is significantly different from the lessee accounting for leases that are classified as operating leases under the predecessor standard, HKAS 17. In respect of the lessor accounting, HKFRS 16 substantially carries forward the lessor accounting requirements in HKAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.

As set out in note 35, total operating lease commitment of the Group in respect of office premises and a warehouse as at 31 December 2016 amounted to HK$1,575,000. Upon the adoption of HKFRS 16, the directors of the Company expect that the commitments in future will be required to be recognised in the statement of financial position as right-of-use assets and lease liabilities and it may have financial impact to the results of the Group. However, it is not practicable to provide a reasonable estimate of the effect on the Group's results until the Group performs a detailed review.

The directors of the Company anticipated that the application of other new and amendments to HKFRSs will have no material impact on the consolidated financial statements of the Group.

## 3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules") and by the Hong Kong Companies Ordinance ("CO").

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

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

## 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of HKFRS 2 "Share-based payment", leasing transactions that are within the scope of HKAS 17 "Leases", and measurements that have some similarities to fair value but are not fair value, such as net realisable value in HKAS 2 "Inventories" or value in use in HKAS 36 "Impairment of assets".

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

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

The principal accounting policies are set out below.

**Basis of consolidation**

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

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

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

## 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

**Basis of consolidation** *(Continued)*

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

Profit or loss and each component of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests.

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

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

**Goodwill**

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

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

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

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the amount of profit or loss on disposal.

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

## 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

**Investments in associates and a joint venture**

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

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The results and assets and liabilities of associates and joint ventures are incorporated in these consolidated financial statements using the equity method of accounting. Under the equity method, an investment in an associate or a joint venture is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associate or joint venture. When the Group's share of losses of an associate or joint venture exceeds the Group's interest in that associate or joint venture (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate or joint venture), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate or joint venture.

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

The requirements of HKAS 39 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investment in an associate or a joint venture. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with HKAS 36 "Impairment of assets" as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs of disposal) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with HKAS 36 to the extent that the recoverable amount of the investment subsequently increases.

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

## 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

**Revenue recognition**

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

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

Revenue from sales of goods is recognised when goods are delivered and title have passed.

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

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

**Property, plant and equipment**

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

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

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

**Intangible assets**

***Intangible assets acquired separately***

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

## 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

**Impairment on tangible and intangible assets other than goodwill (see the accounting policy in respect of goodwill above)**

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

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

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

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

**Leasing**

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

***The Group as lessee***

Operating lease payments, including the cost of acquiring land held under operating leases, are recognised as an expense on a straight-line basis over the lease term.

***Leasehold land and building***

When a lease includes both land and building elements, the Group assesses the classification of each element as a finance or an operating lease separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group, unless it is clear that both elements are operating leases in which case the entire lease is classified as an operating lease. Specifically, the minimum lease payments (including any lump-sum upfront payments) are allocated between the land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element of the lease at the inception of the lease.

To the extent the allocation of the lease payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as "prepaid lease payments" in the consolidated statement of financial position and is amortised over the lease term on a straight-line basis.

## 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

**Foreign currencies**

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

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

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

**Borrowing costs**

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

**Government grants**

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

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

**Retirement benefit costs**

Payments to state-managed retirement benefit schemes and the Mandatory Provident Fund Scheme are recognised as an expense when employees have rendered service entitling them to the contributions.

**Short-term and other long-term employee benefits**

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

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

Liabilities recognised in respect of other long-term employee benefits are measured at the present value of the estimated future cash outflows expected to be made by the Group in respect of services provided by employees up to the reporting date. Any changes in the liabilities' carrying amounts resulting from service cost, interest and remeasurements are recognised in profit or loss except to the extent that another HKFRS requires or permits their inclusion in the cost of an asset.

## 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Share-based payment arrangements

***Equity-settled share-based payment transactions***

*Share options granted to directors and employees of the Company*

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date. Details regarding the determination of the fair value of equity-settled share-based transactions are set out in note 32.

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of equity instruments that will eventually vest, with a corresponding increase in equity (share options reserve). At the end of each reporting period, the Group revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to the share options reserve. For share options that vest immediately at the date of grant, the fair value of the share options granted is expensed immediately to profit or loss.

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

### Taxation

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

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

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

## 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

**Taxation** *(Continued)*

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

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

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

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

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

**Inventories**

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

**Club debenture**

Club debenture with indefinite useful life is carried at cost less any subsequent accumulated impairment losses.

## 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

**Financial instruments**

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

***Financial assets***

Financial assets are classified as available-for-sale ("AFS") financial assets and loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

*Effective interest method*

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

Interest income is recognised on an effective interest basis for debt instruments.

*AFS financial assets*

AFS financial assets are non-derivatives that are either designated as available-for-sale or are not classified as loans and receivables, held-to-maturity investments or financial assets at FVTPL.

Equity and debt securities held by the Group that are classified as AFS financial assets and are traded in an active market are measured at fair value at the end of each reporting period. Changes in the carrying amount of AFS monetary financial assets relating to interest income calculated using the effective interest method are recognised in profit or loss. Dividends on AFS equity investments are recognised in profit or loss when the Group's right to receive the dividends is established. Other changes in the carrying amount of AFS financial assets are recognised in other comprehensive income and accumulated under the heading of investments revaluation reserve. When the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified to profit or loss (see accounting policy on impairment of financial assets below).

AFS equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity investments are measured at cost less any identified impairment losses at the end of each reporting period (see the accounting policy in respect of impairment loss on financial assets below).

## 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

**Financial instruments** *(Continued)*

***Financial assets*** *(Continued)*

*Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including trade and other receivables, amount due from a joint venture and bank balances and cash) are carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment of financial assets below).

Interest income is recognised by applying the effective interest rate, except for short-term receivables where the recognition of interest would be immaterial.

*Impairment of financial assets*

Financial assets are assessed for indicators of impairment at the end of the reporting period. Financial assets are considered to be impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

For AFS equity investments, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

For all other financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the respective credit period, observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

## 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

**Financial instruments** *(Continued)*

***Financial assets*** *(Continued)*

*Impairment of financial assets (Continued)*

When an AFS financial asset is considered to be impaired, cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss in the period.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

In respect of AFS equity securities, impairment losses previously recognised in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognised in other comprehensive income and accumulated under the heading of investments revaluation reserve.

***Financial liabilities and equity instruments***

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

*Equity instruments*

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

*Effective interest method*

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

*Financial liabilities at amortised cost*

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

## 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

**Financial instruments** *(Continued)*

***Derecognition***

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

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

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

## 4. KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

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

**Valuation of interest in Saike International Medical Group Limited ("Saike International")**

Determining whether interest in Saike International is impaired requires an estimation of the recoverable amount of the cash-generating units to which interest in Saike International has been allocated which is the value in use. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating units with key assumptions on budgeted sales, gross margin, other related expenses, terminal growth rates and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, or change in facts and circumstances which results in downward revision of future cash, further impairment loss may arise. As at 31 December 2016, the carrying amount of interest in Saike International is HK$125,958,000 (2015: HK$127,537,000).

**Estimated allowances of deposits paid to suppliers**

Deposits were paid to suppliers under the distribution agreements to acquire distribution rights of specific products whereby such deposits would be proportionately forfeited if the committed minimum purchase requirement is not met in a particular year. The Group makes allowance based on an assessment of the recoverability of deposits paid to suppliers.

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

**Estimated allowances of deposits paid to suppliers** *(Continued)*

Allowances are applied to deposits paid to the suppliers where events or changes in circumstances indicate that the balances may not be collectible. The identification of allowances of deposits paid to suppliers requires the estimation of future cash flows. Where the expectation of the recoverability of deposits paid to suppliers is different from the original estimate, such difference will impact the carrying value of deposits paid to suppliers and allowances of deposits paid to suppliers on the year in which such estimate has changed. As at 31 December 2016, the carrying amount of deposits paid to suppliers is HK$105,428,000 (2015: HK$66,788,000).

**Estimated allowances for doubtful receivables**

The Group makes allowances for doubtful debts based on an assessment of the recoverability of trade receivables. Allowances are applied to trade receivables where events or changes in circumstances indicate that the balances may not be collectible. The identification of doubtful receivables requires the estimation of future cash flows. Where the expectation of the recoverability of trade receivables is different from the original estimate, such difference will impact the carrying value of trade receivables and allowance for doubtful debts in the year in which such estimate has changed. As at 31 December 2016, the carrying amount of trade receivables is HK$51,927,000 (2015: HK$52,866,000).

**Allowance for inventories**

The management of the Group reviews the aging of the inventories at the end of the reporting period, and makes allowance for obsolete and slow-moving inventory items identified that are no longer saleable in the market. The identification of obsolete inventories requires the use of estimation of the net realisable value of items of inventory and estimates on the conditions and usefulness of items of inventories. Where the expectation on the net realisable value is lower than the cost for certain items, a write-down of inventories may arise. As at 31 December 2016, the carrying amount of inventories is HK$11,291,000 (2015: HK$6,122,000).

## 5. REVENUE AND SEGMENT INFORMATION

The Group is principally engaged in trading of pharmaceutical products in the PRC. Information reported to the chief operating decision maker (the "CODM"), being the executive directors of the Company, for the purposes of resources allocation and assessment of segment performance focuses on types of goods delivered.

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

(i) Injection drugs – trading of injection drugs

(ii) Capsule and granule drugs – trading of capsule and granule drugs

(iii) Tablet drugs – trading of tablet drugs

(iv) Others – trading of miscellaneous types of goods and drugs, other than injection drugs, capsule and granule drugs and tablet drugs

The accounting policies of the reportable and operating segments are the same as the Group's accounting policies described in note 3.

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

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

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

**Year ended 31 December 2016**

| | Injection drugs HK$'000 | Capsule and granule drugs HK$'000 | Tablet drugs HK$'000 | Others HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|
| REVENUE | | | | | |
| External sales and segment revenue | **207,031** | **15,656** | **305** | **2,396** | **225,388** |
| RESULT | | | | | |
| Segment profit | **32,598** | **1,728** | **18** | **57** | **34,401** |
| Other income, gains and losses | | | | | **(19,055)** |
| Selling and distribution expenses | | | | | **(21,779)** |
| Administrative expenses | | | | | **(19,606)** |
| Share of profit of an associate | | | | | **12,441** |
| Finance costs | | | | | **(110)** |
| Loss before tax | | | | | **(13,708)** |

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

**Year ended 31 December 2015**

| | Injection drugs HK$'000 | Capsule and granule drugs HK$'000 | Tablet drugs HK$'000 | Others HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|
| REVENUE | | | | | |
| External sales and segment revenue | 211,038 | 35,470 | 2,302 | 4,175 | 252,985 |
| RESULT | | | | | |
| Segment profit | 53,882 | 9,772 | 269 | 1,703 | 65,626 |
| Other income, gains and losses | | | | | (10,063) |
| Selling and distribution expenses | | | | | (11,525) |
| Administrative expenses | | | | | (23,386) |
| Share of profit of an associate | | | | | 9,411 |
| Profit before tax | | | | | 30,063 |

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

**Geographical information**

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

All of the Group's revenue from external customers is attributed to the group entities' country of domicile.

**Revenue from major products and services**

No analysis of revenue from external customers for each type of product and services is presented as the management of the Group considers the cost to develop it would be excessive.

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

**Information about major customers**

Revenue from customers of the corresponding years contributing over 10% of the total revenue of the Group are as follows:

| | 2016<br>HK$'000 | 2015<br>HK$'000 |
|---|---|---|
| Customer A[1] | **66,035** | 84,915 |
| Customer B[1] | **37,757** | N/A[2] |
| Customer C[1] | **24,165** | N/A[2] |

1 The revenue involved in injection drugs, capsule and granule drugs, tablet drugs and others segments.

2 The corresponding customers did not contribute over 10% of the total revenue of the Group.

## 6. OTHER INCOME, GAINS AND LOSSES

| | 2016<br>HK$'000 | 2015<br>HK$'000 |
|---|---|---|
| Incentives received from government grants (note) | **836** | – |
| Dividend income from AFS investments | **583** | 140 |
| Compensation from Targeted Profit Requirement (as defined in note 19) | **522** | – |
| Bank interest income | **376** | 1,603 |
| Sundry income | **14** | 5 |
| Impairment loss on AFS investments | **(15,366)** | (10,747) |
| Realised loss on disposal of AFS investments | **(6,018)** | (1,054) |
| Loss on disposal of property, plant and equipment | **(2)** | (10) |
| | **(19,055)** | (10,063) |

Note: During the year ended 31 December 2016, the Group was granted incentives of RMB724,000 (equivalent to approximately HK$836,000) by local government in Hangzhou, the PRC for the purpose of enhancing the development of the Group. The incentives were recognised in profit or loss immediately as all conditions attached to the incentives had been fulfilled.

## 7. FINANCE COSTS

| | 2016<br>HK$'000 | 2015<br>HK$'000 |
|---|---|---|
| Interest on bank borrowings | **110** | – |

## 8. INCOME TAX EXPENSE

| | 2016 HK$'000 | 2015 HK$'000 |
|---|---|---|
| Current tax: | | |
| PRC Enterprise Income Tax ("EIT") | **5,859** | 13,248 |
| Underprovision in prior year: | | |
| PRC EIT | **32** | 11 |
| Deferred tax (note 27) | **859** | 2,000 |
| | **6,750** | 15,259 |

Under the Law of the People's Republic of China on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries was 25% for the years ended 31 December 2016 and 2015.

No provision for Hong Kong Profits Tax has been made in the consolidated financial statements as the Group had no assessable profits in Hong Kong for both years.

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

| | 2016 HK$'000 | 2015 HK$'000 |
|---|---|---|
| (Loss) profit before tax | **(13,708)** | 30,063 |
| Tax at the domestic income tax rate of 25% (2015: 25%) (note) | **(3,427)** | 7,516 |
| Tax effect of share of profit of an associate | **(3,110)** | (2,353) |
| Tax effect of income not taxable for tax purpose | **(283)** | (116) |
| Tax effect of expense not deductible for tax purpose | **11,302** | 8,115 |
| Underprovision in prior year | **32** | 11 |
| Tax effect of tax losses not recognised | **1,377** | 114 |
| Utilisation of tax losses previously not recognised | **–** | (28) |
| Deferred tax on undistributed earnings of PRC subsidiaries | **859** | 2,000 |
| Income tax expense for the year | **6,750** | 15,259 |

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

## 9. (LOSS) PROFIT FOR THE YEAR

| | 2016<br>HK$'000 | 2015<br>HK$'000 |
|---|---|---|
| (Loss) profit for the year has been arrived at after charging: | | |
| Directors' emoluments, including contributions to retirement benefits scheme and equity-settled share-based payment expenses (note 10(a)) | **10,290** | 5,041 |
| Other staff costs | **10,044** | 5,865 |
| Contributions to retirement benefits scheme, excluding directors | **586** | 501 |
| Equity-settled share-based payment expenses, excluding directors | **613** | – |
| Total staff costs | **21,533** | 11,407 |
| Depreciation of property, plant and equipment | **2,085** | 1,773 |
| Amortisation of prepaid lease payment | **282** | 188 |
| Amortisation of prepayment for a distribution right (included in cost of sales) | **3,695** | – |
| Amortisation of intangible assets (included in cost of sales) | **1,848** | 814 |
| Minimum lease payment under operating leases in respect of rented premises | **894** | 1,321 |
| Auditor's remuneration | **1,880** | 1,680 |
| Legal and professional fees (included in administrative expenses) | **5,488** | 5,699 |
| Donations | **140** | 3,271 |
| Loss on disposal of property, plant and equipment | **2** | 10 |
| Cost of inventories recognised as an expense | **185,444** | 186,545 |

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

### (a) Directors' and chief executive's emoluments

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

| | Year ended 31 December 2016 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Executive directors | | | Independent non-executive directors | | | |
| | Zhou Ling ("Mr. Zhou") HK$'000 | Yang Fang ("Ms. Yang") HK$'000 | Lee Chik Yuet ("Mr. Lee") HK$'000 | Ho Hau Cheung BBS, MH HK$'000 | Leung Chi Kin HK$'000 | Sung Hak Keung, Andy HK$'000 | Total HK$'000 |
| Fees | 10 | 10 | 120 | 72 | 72 | 72 | 356 |
| Salaries and other benefits | 6,635 | 2,052 | – | – | – | – | 8,687 |
| Contributions to retirement benefits scheme | 52 | 52 | 6 | – | – | – | 110 |
| Equity-settled share-based payment expenses | 379 | 379 | 379 | – | – | – | 1,137 |
| Total emoluments | 7,076 | 2,493 | 505 | 72 | 72 | 72 | 10,290 |

| | Year ended 31 December 2015 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Executive directors | | | | Independent non-executive directors | | | |
| | Mr. Zhou HK$'000 | Dai Haidong HK$'000 (Note) | Ms. Yang HK$'000 | Mr. Lee HK$'000 | Ho Hau Cheung BBS, MH HK$'000 | Leung Chi Kin HK$'000 | Sung Hak Keung, Andy HK$'000 | Total HK$'000 |
| Fees | 10 | 10 | 10 | 120 | 72 | 72 | 72 | 366 |
| Salaries and other benefits | 2,224 | 1,458 | 847 | – | – | – | – | 4,529 |
| Contributions to retirement benefits scheme | 47 | 47 | 46 | 6 | – | – | – | 146 |
| Total emoluments | 2,281 | 1,515 | 903 | 126 | 72 | 72 | 72 | 5,041 |

Note: Resigned on 5 November 2015

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

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

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

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

Mr. Zhou is also the Chairman and Ms. Yang is the Chief Executive Officer of the Company respectively and their emoluments disclosed above include those for services rendered by them in such roles.

For both 2016 and 2015, no emoluments were paid by the Group to any of the directors as an inducement to join or upon joining the Group or as compensation for loss of office. No directors waived any emoluments for both 2016 and 2015.

### (b) Five highest paid employees

Of the five individuals with the highest emoluments in the Group, three (2015: three) were directors and the Chief Executive Officer of the Company whose emoluments are included in the disclosures above. The emoluments of the remaining two (2015: two) individuals were as follows:

| | **2016**<br>**HK$'000** | 2015<br>HK$'000 |
|---|---|---|
| Salaries and other allowances | **4,927** | 1,205 |
| Contributions to retirement benefits scheme | **70** | 43 |
| Equity-settled share-based payment expenses | **613** | – |
| | **5,610** | 1,248 |

Their emoluments were within the following band:

| | **Number of employees** | |
|---|---|---|
| | **2016** | 2015 |
| Nil to HK$1,000,000 | **1** | 2 |
| HK$4,500,001 to HK$5,000,000 | **1** | – |
| | **2** | 2 |

During the year ended 31 December 2016, certain directors and employees were granted share options, in respect of their services to the Group under the share option scheme of the Company. Details of the share option scheme are set out in note 32.

## 11. DIVIDENDS

No dividend was paid or proposed for ordinary shareholders of the Company during the year ended 31 December 2016 and 2015, nor has any dividend been proposed since the end of the reporting period.

## 12. (LOSS) EARNINGS PER SHARE

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

| | **2016** **HK$'000** | 2015 HK$'000 |
|---|---|---|
| **(Loss) earnings** | | |
| (Loss) profit for the year attributable to owners of the Company for the purposes of basic (loss) earnings per share | **(20,458)** | 14,804 |

| | **Number of ordinary shares** | |
|---|---|---|
| | **2016** **'000** | 2015 '000 (Restated) |
| **Number of shares** | | |
| Weighted average number of ordinary shares for the purposes of basic (loss) earnings per share | **347,546** | 237,676 |

The weighted average number of ordinary shares for the purpose of basic (loss) earnings per share has been adjusted for the consolidation of shares of the Company effective on 15 March 2016 as disclosed in note 28(b).

The computation of diluted loss per share for the year ended 31 December 2016 does not assume the conversion of the Company's outstanding share options as at 31 December 2016 since their assumed exercise would result in a decrease in loss per share.

Diluted earnings per share for the year ended 31 December 2015 is not presented as there were no dilutive potential ordinary shares in issue during 2015.

## 13. PROPERTY, PLANT AND EQUIPMENT

| | Buildings | Furniture, fixtures and equipment | Plant and machinery | Motor vehicles | Total |
|---|---|---|---|---|---|
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| COST | | | | | |
| At 1 January 2015 | 4,257 | 1,741 | 577 | 7,030 | 13,605 |
| Additions | – | 87 | – | 3,818 | 3,905 |
| Disposals | – | (34) | – | (90) | (124) |
| Exchange realignment | (190) | (79) | (26) | (395) | (690) |
| At 31 December 2015 | 4,067 | 1,715 | 551 | 10,363 | 16,696 |
| Additions | **4,221** | **152** | **15** | **826** | **5,214** |
| Disposals | **–** | **(42)** | **–** | **–** | **(42)** |
| Exchange realignment | **(393)** | **(113)** | **(36)** | **(687)** | **(1,229)** |
| At 31 December 2016 | **7,895** | **1,712** | **530** | **10,502** | **20,639** |
| ACCUMULATED DEPRECIATION | | | | | |
| At 1 January 2015 | 470 | 902 | 434 | 4,081 | 5,887 |
| Provided for the year | 107 | 272 | 31 | 1,363 | 1,773 |
| Disposals | – | (33) | – | (65) | (98) |
| Exchange realignment | (24) | (45) | (20) | (211) | (300) |
| At 31 December 2015 | 553 | 1,096 | 445 | 5,168 | 7,262 |
| Provided for the year | **142** | **174** | **22** | **1,747** | **2,085** |
| Disposals | **–** | **(40)** | **–** | **–** | **(40)** |
| Exchange realignment | **(40)** | **(74)** | **(29)** | **(385)** | **(528)** |
| At 31 December 2016 | **655** | **1,156** | **438** | **6,530** | **8,779** |
| CARRYING VALUES | | | | | |
| At 31 December 2016 | **7,240** | **556** | **92** | **3,972** | **11,860** |
| At 31 December 2015 | 3,514 | 619 | 106 | 5,195 | 9,434 |

## 13. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

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

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

The Group has pledged buildings and prepaid lease payments with aggregate carrying amounts of approximately HK$26,935,000 (2015: nil) as at 31 December 2016 to secure general banking facilities granted to the Group.

## 14. PREPAID LEASE PAYMENTS

| | **2016 HK$'000** | 2015 HK$'000 |
|---|---|---|
| Carrying value: | | |
| At 1 January | **7,818** | 8,374 |
| Addition | **13,064** | – |
| Charged to profit or loss during the year | **(282)** | (188) |
| Exchange realignment | **(905)** | (368) |
| At 31 December | **19,695** | 7,818 |
| Analysed for reporting purposes as: | | |
| Current asset | **475** | 183 |
| Non-current asset | **19,220** | 7,635 |
| | **19,695** | 7,818 |

## 15. PREPAYMENT FOR A DISTRIBUTION RIGHT

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

The Group obtained the exclusive distribution right on 1 January 2016 for an initial period of 3 years.

## 16. INTANGIBLE ASSET

| | HK$'000 |
|---|---|
| COST | |
| At 1 January 2015 | – |
| Addition | 19,538 |
| Exchange realignment | (434) |
| At 31 December 2015 | 19,104 |
| Exchange realignment | **(1,217)** |
| At 31 December 2016 | **17,887** |
| ACCUMULATED AMORTISATION | |
| At 1 January 2015 | – |
| Provided for the year | 814 |
| Exchange realignment | (18) |
| At 31 December 2015 | 796 |
| Provided for the year | **1,848** |
| Exchange realignment | **(110)** |
| At 31 December 2016 | **2,534** |
| CARRYING VALUE | |
| At 31 December 2016 | **15,353** |
| At 31 December 2015 | 18,308 |

## 16. INTANGIBLE ASSET *(Continued)*

The intangible asset represents the trademark of an injection drug which was purchased from a third party in 2015.

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

## 17. CLUB DEBENTURE

The club debenture represents entrance fee paid to a golf club with indefinite useful life. The directors of the Company consider no impairment indicators are identified with reference to market price of the club debenture.

## 18. AVAILABLE-FOR-SALE INVESTMENTS

AFS investments comprise:

| | **2016**<br>**HK$'000** | 2015<br>HK$'000 |
|---|---|---|
| Listed investments: | | |
| – Equity securities listed in Hong Kong | **23,538** | 73,456 |
| Unlisted investments: | | |
| – Equity securities | **43,688** | – |
| Total | **67,226** | 73,456 |
| Analysed for reporting purposes as: | | |
| Non-current assets | **67,226** | 73,456 |

The above unlisted equity investments represent investments in unlisted equity securities issued by C&C International Healthcare Group Limited ("C&C"), a private entity incorporated in the Cayman Islands with limited liability. C&C and its subsidiaries are principally engaged in the provision of contracted medical schemes for integrated medical and healthcare check-up services. The investments are measured at cost less impairment at the end of the reporting period because the range of reasonable fair value estimates is so significant that the directors of the Company are of the opinion that their fair values cannot be measured reliably. As at 31 December 2016, the directors of the Company reviewed the recoverability of the investments and considered the recoverable amounts are higher than the carrying value of the investments.

The Group's listed investments are stated at fair value which have been determined based on the quoted market bid prices available on the Stock Exchange. During the year ended 31 December 2016, a decrease in fair value of listed securities amounting to HK$24,313,000 (2015: HK$8,012,000) was recognised. The Group disposed certain of the equity securities listed in Hong Kong, the cumulative loss of HK$6,018,000 (2015: HK$1,054,000) previously accumulated in the investments revaluation reserve is reclassified to profit or loss accordingly. Besides, due to a significant decline in the fair values of certain listed investments below its costs, impairment losses amounting to HK$15,366,000 (2015: HK$10,747,000) have been recognised during the year which were reclassified from the investments revaluation reserve.

## 19. INTERESTS IN ASSOCIATES/AMOUNT DUE FROM AN ASSOCIATE

| | **2016 HK$'000** | 2015 HK$'000 |
|---|---|---|
| Cost of unlisted investments in associates | **118,631** | 118,631 |
| Share of post-acquisition profit and other comprehensive income | **19,898** | 8,906 |
| Exchange difference arising on translation | **(12,571)** | – |
| | **125,958** | 127,537 |
| Amount due from an associate (note b) | **–** | 12,601 |

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

Details of the Group's associates at 31 December 2016 and 2015 are as follows:

| Name | Place of incorporation/ operation | Proportion of ownership and voting rights held by the Group 2016 | 2015 | Principal activities |
|---|---|---|---|---|
| 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 |

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"), which is one of the then shareholders of the Company, entered into an agreement to incorporate a company, Sea Star, in the BVI with limited liability which would be held by Sharp Shine and Brilliant Dream as to 80% and 20% respectively. Sea Star is 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% and 20% with a view to financing a proposed business. As at 31 December 2016 and 31 December 2015, there is no shareholders' loan made to the investee during the year.

Details of the formation of the 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.

## 19. INTERESTS IN ASSOCIATES/AMOUNT DUE FROM AN ASSOCIATE *(Continued)*

Notes: *(Continued)*

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

Pursuant to the S&P Agreement, the Vendor irrevocably and unconditionally guarantees to Major Bright that the audited consolidated net profits after taxation (the "Audited Profits") of Saike Group for the years ended 31 December 2015 and 2016, and the year ending 31 December 2017 shall not be less than RMB19,000,000, RMB22,000,000 and RMB25,000,000 (equivalent to approximately HK$23,202,000, HK$25,404,000 and HK$27,949,000 respectively) (the "Targeted Profit Requirement") respectively. If the Audited Profits are less than the Targeted Profit Requirement, the Vendor shall pay the shortfall of the Targeted Profit Requirement to Major Bright.

On 16 July 2015, all the conditions precedent to the S&P Agreement have been fulfilled and the completion of Saike Acquisition (the "Completion") took place on the same day. In connection with the Completion, Major Bright and the Vendor entered into a put option deed (the "Put Option Deed"), pursuant to which the Vendor granted a put option (the "Put Option") to Major Bright requiring the Vendor to purchase the Sale Shares from Major Bright at the put option exercise price (which approximate the consideration to acquire Sales Shares minus any payment for the shortfall of the Targeted Profit Requirement with interest thereon) in accordance with the terms and conditions of the Put Option Deed.

The management of the Group has performed a review of the Audited Profits of Saike Group for the year ended 31 December 2016. The Audited Profits for 2016 is RMB21,548,000 (equivalent to approximately HK$24,882,000), which is below the Targeted Profit Requirement of RMB22,000,000 (equivalent to approximately HK$25,404,000) by RMB452,000 (equivalent to approximately HK$522,000). According to the S&P Agreement, the Vendor is required to pay in cash for such shortfall to the Group in fulfilling the Targeted Profit Requirement.

For the year ended 31 December 2016, shortfall of profit of HK$522,000 is recognised in profit or loss and included in the trade and other receivables.

As at 31 December 2016, the directors of the Company took into consideration of the discounted cash flow calculation of Saike Group and expected that the Audited Profits of Saike Group for the year ending 31 December 2017 could meet the Targeted Profit Requirement and the fair value of the Targeted Profit Requirement is zero.

The Put Option is exercisable by Major Bright commencing on the date of Completion and ending on the earlier of (i) 30 April 2017; or (ii) the day on which the option notice is served by Major Bright to the Vendor. In the opinion of the directors of the Company, the Group has not had any intention to exercise such Put Option as at 31 December 2015 and 31 December 2016 and the date of this report, and therefore the value of the Put Option has no material impact to the Group.

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

Included in the cost of interests in associates is goodwill of HK$98,747,000 (2015: HK$111,318,000) arising on acquisition of Saike International.

During the year ended 31 December 2015, the Group had advanced an amount of HK$12,601,000 to Saike International for its operations. The amount carried a fixed interest rate at 8% per annum, was unsecured and repayable on demand. The amount has been fully repaid during the year ended 31 December 2016.

During the years ended 31 December 2016 and 31 December 2015, the directors of the Company reviewed the carrying value of the Group's associates. The entire carrying amount of the interests in associates (including goodwill and the Put Option) is tested for impairment in accordance with HKAS 36 "Impairment of assets" as a single asset by comparing its recoverable amount with its carrying amount. Since the recoverable amount is higher when compared with its carrying amount, no impairment loss is recognised during the years ended 31 December 2016 and 31 December 2015.

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

## 19. INTERESTS IN ASSOCIATES/AMOUNT DUE FROM AN ASSOCIATE *(Continued)*

**Saike International**

| | 2016<br>HK$'000 | 2015<br>HK$'000 |
|---|---|---|
| Current assets | **95,221** | 98,333 |
| Non-current assets | **1,933** | 2,356 |
| Current liabilities | **(42,731)** | (68,251) |
| Net assets attributable to owners of Saike International | **54,423** | 32,438 |
| Revenue for the year/period from the date of the Completion to 31 December 2015 (the "Period") | **142,163** | 91,627 |
| Profit for the year/Period | **24,882** | 18,821 |
| Other comprehensive income for the year/Period | **(2,898)** | (1,011) |
| Total comprehensive income for the year/Period | **21,984** | 17,810 |
| Group's share of profit of Saike International | **12,441** | 9,411 |
| Dividends received from Saike International during the year/Period | **–** | – |

Reconciliation of the above summarised financial information to the carrying amount of the interest in the associates recognised in the consolidated financial statements:

| | 2016<br>HK$'000 | 2015<br>HK$'000 |
|---|---|---|
| Net assets of Saike International | **54,423** | 32,438 |
| Proportion of the Group's ownership interest in Saike International | **50%** | 50% |
| | **27,211** | 16,219 |
| Goodwill | **98,747** | 111,318 |
| Carrying amounts of the Group's interest in Saike International | **125,958** | 127,537 |

## 19. INTERESTS IN ASSOCIATES/AMOUNT DUE FROM AN ASSOCIATE *(Continued)*

**Significant restriction**

There are no significant restrictions on the ability of the associates to transfer funds to the Group in the form of cash dividends, or to repay loans or advance made by the Group.

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

| | **2016**<br>**HK$'000** | 2015<br>HK$'000 |
|---|---|---|
| Cost of unlisted investment in a joint venture | **604** | 604 |
| Share of post-acquisition loss | **(604)** | (604) |
| | **–** | – |
| Amount due from a joint venture (note) | **616** | 616 |
| Less: Impairment | **(600)** | (600) |
| Less: Share of post-acquisition loss that is in excess of the cost of the investment | **(16)** | (16) |
| | **–** | – |

The interest in a joint venture represents a 50.1% equity interest in Haikou Xin Lang Pharmaceutical Technology Co. Ltd. * ("Haikou Xin Lang") 海口新朗醫藥科技有限公司, 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.

* English translated name is for identification only

Details of the Group's joint venture at 31 December 2016 and 2015 are as follows:

| **Name** | **Place of incorporation/ operation** | **Proportion of ownership and voting rights held by the Group** | | **Principal activity** |
|---|---|---|---|---|
| | | **2016** | 2015 | |
| Haikou Xin Lang | PRC | **50.1%** | 50.1% | Inactive |

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

*(Continued)*

Note:

The amount 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 consider that the amount forms part of the net investment in the joint venture. Accordingly, the amount was classified as non-current.

The summarised financial information below represents amounts shown in the joint venture's financial statements prepared in accordance with HKFRSs.

The joint venture is accounted for using equity method in these consolidated financial statements.

| | **2016**<br>**HK$'000** | 2015<br>HK$'000 |
|---|---|---|
| Current assets | **1,125** | 1,204 |
| Non-current assets | **–** | – |
| Current liabilities | **(1,146)** | (1,224) |
| Non-current liabilities | **–** | – |
| Revenue | **–** | – |
| Loss for the year | **(2)** | (2) |
| Other comprehensive income | **–** | – |
| Total comprehensive expenses for the year | **(2)** | (2) |
| Dividends received from the joint venture during the year | **–** | – |

Reconciliation of the above summarised financial information to the carrying amount of the interest in the joint venture recognised in the consolidated financial statements:

| | **2016**<br>**HK$'000** | 2015<br>HK$'000 |
|---|---|---|
| Net liabilities of the joint venture | **(21)** | (20) |
| Proportion of the Group's ownership interest in the joint venture | **50.1%** | 50.1% |
| Carrying amounts of the Group's interest in a joint venture | **–** | – |

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

*(Continued)*

**Significant restriction**

There are no significant restrictions on the ability of the joint venture to transfer funds to the Group in the form of cash dividends, or to repay loans or advance made by the Group.

## 21. INVENTORIES

| | **2016** **HK$'000** | 2015 HK$'000 |
|---|---|---|
| Finished goods | **11,291** | 6,122 |

## 22. TRADE AND OTHER RECEIVABLES

| | **2016** **HK$'000** | 2015 HK$'000 |
|---|---|---|
| Trade receivables | **51,927** | 52,866 |
| Compensation from Targeted Profit Requirement (note 19) | **522** | – |
| Other prepayments | **718** | 1,364 |
| Prepayments to suppliers | **20,163** | 44,430 |
| Deposits paid to suppliers (note 23) | **105,428** | 66,788 |
| Others | **241** | 247 |
| | **178,999** | 165,695 |

The Group allows an average credit period ranging from 30 to 90 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 period.

| | **2016** **HK$'000** | 2015 HK$'000 |
|---|---|---|
| Trade receivables: | | |
| 0 – 30 days | **23,202** | 19,424 |
| 31 – 60 days | **22,093** | 26,271 |
| 61 – 90 days | **4,269** | 4,445 |
| 91 – 180 days | **2,363** | 2,726 |
| | **51,927** | 52,866 |

## 22. TRADE AND OTHER RECEIVABLES *(Continued)*

Before accepting any new customers, the Group assesses the potential customer's credit quality and defines credit limits by the customer. Limits attributed to customers are reviewed periodically. Majority of the trade receivables that are neither past due nor impaired have no default payment history. The average age of these receivables as at 31 December 2016 is 76 days (2015: 82 days).

Included in the Group's trade receivable balance are debtors with aggregate carrying amount of approximately HK$2,363,000 (2015: HK$2,726,000) which are past due but not impaired as at 31 December 2016. The Group has not provided for impairment loss because management is of the opinion the credit quality of these customers has not deteriorated. The Group does not hold any collateral over these balances.

As at 31 December 2016, an amount of HK$313,000 (2015: nil) included in prepayments paid to suppliers was a prepayment made to 杭州賽科醫療器械有限公司 ("Hangzhou Saike"), an indirect wholly owned subsidiary of Saike International, for the Group's purchase of medical equipment. The amount was unsecured, interest-free and repayable on demand.

Ageing of trade receivables which are past due but not impaired:

| | **2016**<br>**HK$'000** | 2015<br>HK$'000 |
|---|---|---|
| 91 – 180 days | **2,363** | 2,726 |

Prepayments and deposits paid to suppliers represent the prepayments and deposits paid for purchase of pharmaceutical products. The Group is required to make prepayments and trade deposits to certain suppliers to secure regular supply of products. The amount of prepayment to suppliers varies with the terms of supplier contracts entered with different suppliers, which is determined based on the amount of goods purchased from the suppliers. The prepayment is made upon placement of order for the purchase of goods, recorded under "trade and other receivables" and set off against the trade payable upon the delivery of goods to the Group. The amounts of trade deposits required vary on case by case basis. The deposits paid will be refunded upon expiry of contracts.

As at 31 December 2015, the amount of HK$164,000 (2016: nil) included in other prepayments were prepaid rental expenses to Mr. Yang Qi and his spouse, family members of a director.

## 23. DEPOSITS PAID TO SUPPLIERS

From time to time, the Group is required to make deposit payments to its suppliers as a condition of acquiring the distribution rights of specific products and as security for purchase of products. The deposit will be collected from suppliers at the end of the distribution agreement. Except for purchase agreements with several major suppliers detailed below, the deposits payments are expected to be collected or utilised for purchases in the next twelve months from the end of each reporting period and are therefore classified as current assets.

For the arrangement with the suppliers, if the minimum purchase requirement is not met in a particular year, the deposits paid to the suppliers in relation to the minimum purchase commitment would be proportionately forfeited or the relevant contract to be terminated by the supplier.

The management has performed detail assessment on these contracts and no impairment losses nor provision were considered necessary for both years.

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

| | **2016** | 2015 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| At 1 January | **66,788** | 45,445 |
| Deposits paid | **55,110** | 46,609 |
| Deposits refunded | **(12,390)** | (22,993) |
| Exchange realignment | **(4,080)** | (2,273) |
| At 31 December | **105,428** | 66,788 |
| Classified as: | | |
| Current asset (included in trade and other receivables) | **105,428** | 66,788 |

The Group's deposits paid to suppliers that are denominated in currencies other than the functional currencies of the relevant group entities are set out below:

| | **2016** | 2015 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| HK$ | **36,105** | 12,173 |

## 24. BANK BALANCES AND CASH

Bank balances and cash comprise cash held by the Group and short-term bank deposits with an original maturity of three months or less. The deposits carry interest at market rates which range from 0.01% to 3.80% (2015: 0.01% to 3.80%) per annum, for the year ended 31 December 2016.

As at 31 December 2016, deposits of HK$7,840,000 (2015: HK$1,656,000) were placed with the securities brokers for trading securities in Hong Kong. The amounts were unrestricted and withdrawable on demand.

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

| | **2016<br>HK$'000** | 2015<br>HK$'000 |
|---|---|---|
| HK$ | **5,550** | 13,668 |

## 25. TRADE AND OTHER PAYABLES

| | **2016<br>HK$'000** | 2015<br>HK$'000 |
|---|---|---|
| Trade payables | **25,671** | 18,206 |
| Deposits received | **2,786** | 507 |
| Receipts in advance | **3,659** | 3,056 |
| Value-added tax payables | **1,366** | 3,541 |
| Other tax payables | **354** | 312 |
| Accruals | **4,849** | 3,861 |
| | **38,685** | 29,483 |

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

| | **2016<br>HK$'000** | 2015<br>HK$'000 |
|---|---|---|
| 0 – 30 days | **16,704** | 11,044 |
| 31 – 60 days | **180** | 740 |
| 61 – 90 days | **3,794** | 1,612 |
| Over 90 days | **4,993** | 4,810 |
| | **25,671** | 18,206 |

## 25. TRADE AND OTHER PAYABLES *(Continued)*

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 notes 22 and 23.

## 26. BANK BORROWINGS

| | **2016**<br>**HK$'000** | 2015<br>HK$'000 |
|---|---|---|
| Secured bank loans | **16,322** | – |
| Unsecured bank loan | **447** | – |
| | **16,769** | – |
| The carrying amounts of the above borrowings are repayable within one year | **16,769** | – |

The bank borrowings carry fixed interest rates ranged from 5.00% to 7.10% per annum. The borrowings of RMB14,600,000 (equivalent to approximately HK$16,322,000) are secured by buildings and prepaid lease payments with aggregate carrying amounts of HK$26,935,000 as at 31 December 2016.

All bank borrowings are denominated in the functional currency of the relevant group entity.

## 27. DEFERRED TAX LIABILITIES

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

| | **Withholding tax on undistributed earnings of the PRC subsidiaries**<br>HK$'000 |
|---|---|
| At 1 January 2015 | 4,984 |
| Charge to profit or loss | 2,000 |
| Exchange realignment | (266) |
| At 31 December 2015 | 6,718 |
| Charge to profit or loss | **859** |
| Exchange realignment | **(455)** |
| At 31 December 2016 | **7,122** |

## 27. DEFERRED TAX LIABILITIES *(Continued)*

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

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

The Group has unused tax losses of approximately HK$3,980,000 (2015: HK$3,540,000) as at 31 December 2016, available for offset against future profits. No deferred tax asset has been recognised in respect of the unutilised tax losses due to the unpredictability of future profits stream. Included in unrecognised tax losses as at 31 December 2016 are losses of HK$2,032,000, HK$403,000, HK$418,000, HK$265,000 and HK$440,000 that will expire in 2017, 2018, 2019, 2020 and 2021 respectively.

## 28. SHARE CAPITAL OF THE COMPANY

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

| | **Number of shares** | **Amount** |
|---|---|---|
| | '000 | HK$'000 |
| Ordinary shares | | |
| Authorised: | | |
| At 1 January 2015 | 1,000,000 | 10,000 |
| Increased on 13 February 2015 (note a) | 1,000,000 | 10,000 |
| At 31 December 2015 | 2,000,000 | 20,000 |
| Share consolidation (note b) | **(1,600,000)** | **–** |
| Increased on 15 June 2016 (note c) | **400,000** | **20,000** |
| At 31 December 2016 | **800,000** | **40,000** |
| Issued and fully paid: | | |
| At 1 January 2015 | 960,000 | 9,600 |
| Issue of shares (notes d & e) | 486,000 | 4,860 |
| At 31 December 2015 | 1,446,000 | 14,460 |
| Share consolidation (note b) | **(1,156,800)** | **–** |
| Issue of shares (notes f & g) | **127,248** | **6,362** |
| At 31 December 2016 | **416,448** | **20,822** |

## 28. SHARE CAPITAL OF THE COMPANY *(Continued)*

Notes:

(a) On 13 February 2015, the authorised share capital of the Company was increased from HK$10,000,000 to HK$20,000,000 by the creation of additional 1,000,000,000 ordinary shares of par value of HK$0.01 each.

(b) On 29 January 2016, the Board of Directors proposed that every 5 issued and unissued existing ordinary shares of par value of HK$0.01 each in the share capital of the Company be consolidated into 1 consolidated share of par value of HK$0.05 each in the share capital of the Company (the "Share Consolidation"). The Share Consolidation was approved by the shareholders of the Company at the special general meeting of the Company on 14 March 2016. As all the conditions precedent to the Share Consolidation have been fulfilled, the Share Consolidation became effective on 15 March 2016.

(c) On 15 June 2016, the authorised share capital of the Company was increased from HK$20,000,000 to HK$40,000,000 by the creation of additional 400,000,000 ordinary shares of par value of HK$0.05 each.

(d) On 12 May 2015, the Company issued 245,000,000 shares of par value of HK$0.01 each at the subscription price of HK$0.425 per share by way of placing. The net proceeds from the placing were approximately HK$100,000,000.

(e) On 15 September 2015, the Company issued 241,000,000 shares of par value of HK$0.01 each at the subscription price of HK$0.285 per share by way of placing. The net proceeds from the placing were approximately HK$66,203,000.

(f) On 28 April 2016, the Company issued 57,840,000 shares of par value of HK$0.05 each at the subscription price of HK$0.400 per share by way of placing. The net proceeds from the placing were approximately HK$22,104,000.

(g) On 22 September 2016, the Company issued 69,408,000 shares of par value of HK$0.05 each at the subscription price of HK$0.340 per share by way of placing. The net proceeds from the placing were approximately HK$22,551,000.

All ordinary shares issued during the year rank pari passu with the then existing ordinary shares in all respects.

## 29. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY

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

| | Note | 2016<br>HK$'000 | 2015<br>HK$'000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Investments in subsidiaries | | **75,367** | 75,367 |
| **Current assets** | | | |
| Other receivables | | **5** | 211 |
| Amounts due from subsidiaries | | **270,552** | 234,225 |
| Bank balances and cash | | **5,550** | 13,668 |
| | | **276,107** | 248,104 |
| **Current liabilities** | | | |
| Other payables | | **2,112** | – |
| **Net current assets** | | **273,995** | 248,104 |
| **Total assets less current liabilities** | | **349,362** | 323,471 |
| **Capital and reserves** | | | |
| Share capital (note 28) | | **20,822** | 14,460 |
| Reserves | (a) | **328,540** | 309,011 |
| **Equity attributable to owners of the Company** | | **349,362** | 323,471 |

## 29. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY

*(Continued)*

Note:

(a) Movement in the Company's reserves

| | Share premium HK$'000 | Contributed surplus HK$'000 | Share options reserve HK$'000 | Translation reserve HK$'000 | Accumulated losses HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|
| At 1 January 2015 | 137,935 | 50,167 | – | – | (24,126) | 163,976 |
| Total comprehensive expense for the year | – | – | – | (2,741) | (13,567) | (16,308) |
| Issue of shares (note 28) | 167,950 | – | – | – | – | 167,950 |
| Transaction costs attributable to issue of shares | (6,607) | – | – | – | – | (6,607) |
| At 31 December 2015 | 299,278 | 50,167 | – | (2,741) | (37,693) | 309,011 |
| Total comprehensive expense for the year | **–** | **–** | **–** | **(141)** | **(20,373)** | **(20,514)** |
| Issue of shares (note 28) | **40,372** | **–** | **–** | **–** | **–** | **40,372** |
| Transaction costs attributable to issue of shares | **(2,079)** | **–** | **–** | **–** | **–** | **(2,079)** |
| Recognition of equity-settled share-based payments (note 32) | **–** | **–** | **1,750** | **–** | **–** | **1,750** |
| **At 31 December 2016** | **337,571** | **50,167** | **1,750** | **(2,882)** | **(58,066)** | **328,540** |

## 30. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The Group's overall strategy remained unchanged from prior year.

The capital structure of the Group consists of cash and cash equivalents, bank borrowings and equity attributable to owners of the Company, comprising share capital, various reserves and retained profits.

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

## 31. FINANCIAL INSTRUMENTS

### 31a. Categories of financial instruments

| | 2016 HK$'000 | 2015 HK$'000 |
|---|---|---|
| **Financial assets** | | |
| AFS investments | **67,226** | 73,456 |
| Loans and receivables (including cash and cash equivalents) | **229,476** | 189,050 |
| | **296,702** | 262,506 |
| **Financial liabilities** | | |
| Amortised cost | **45,226** | 18,713 |

### 31b. Financial risk management objectives and policies

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

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

***Market risk***

*(i) Foreign currency risk management*

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

| | Assets | |
|---|---|---|
| | 2016 HK$'000 | 2015 HK$'000 |
| HK$ | **41,655** | 25,841 |

## 31. FINANCIAL INSTRUMENTS *(Continued)*

### 31b. Financial risk management objectives and policies *(Continued)*

***Market risk*** *(Continued)*

*(i) Foreign currency risk management (Continued)*

Foreign currency sensitivity analysis

The Group is mainly exposed to HK$. The following table details the Group's sensitivity to a 3% (2015: 3%) increase and decrease in the functional currency of each group entity against the above foreign currency. 3% (2015: 3%) is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rate. A positive number below indicates an after tax where the above foreign currency strengthens by 3% (2015: 3%) against the functional currency of the respective group entity. For a 3% (2015: 3%) weakening of the above foreign currency against the functional currency of the respective group entity, there would be an equal and opposite impact on the loss after tax and the balances below would be negative.

| | **2016 HK$'000** | 2015 HK$'000 |
|---|---|---|
| Loss after tax | **937** | 581 |

*(ii) Interest rate risk management*

The Group's cash flow interest rate risk relates primarily to bank deposits at floating interest rates.

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

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

## 31. FINANCIAL INSTRUMENTS *(Continued)*

### 31b. Financial risk management objectives and policies *(Continued)*

***Market risk*** *(Continued)*

*(iii) Other price risks*

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

Equity price sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to equity price risk at the end of the reporting period.

If the prices of the respective equity instruments had been 10% (2015: 10%) lower/higher:

- loss after tax for the year ended 31 December 2016 would increase by HK$2,354,000 (2015: profit after tax decrease by HK$1,943,000 and investments revaluation reserve decrease by HK$5,403,000) as a result of the changes in fair value of AFS investments which have been impaired; and

- investments revaluation reserve would increase by HK$2,354,000 (2015: increase by HK$7,346,000) for the Group as a result of the changes in fair value of other AFS investments.

The Group's sensitivity to AFS investments has not changed significantly from the prior year.

***Credit risk management***

As at 31 December 2016, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position.

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

## 31. FINANCIAL INSTRUMENTS *(Continued)*

### 31b. Financial risk management objectives and policies *(Continued)*

***Credit risk management*** *(Continued)*

The Group has concentration of credit risk on bank balances as 86% (2015: 90%) of balances are placed with three (2015: three) banks of which two (2015: two) are located in the PRC and one (2015: one) is located in Hong Kong as at 31 December 2016.

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

The Group has concentration of credit risks on its outstanding trade and other receivables as 83% (2015: 52%) of its trade and other receivables were due from four (2015: two) customers in aggregate as at 31 December 2016. These four (2015: two) customers are distributors which engaged in trading and wholesaling of drugs in Zhejiang, Shanghai and Hainan, as at 31 December 2016 (2015: Zhejiang and Shanghai). In addition, the Group also has concentration of credit risks on its deposits paid to suppliers as 46% (2015: 57%) of its deposits paid to suppliers were paid to four (2015: four) suppliers in aggregate as at 31 December 2016. Such suppliers are also principally engaged in pharmaceutical trading and distribution in the PRC. In the opinion of the directors of the Company, all of these customers and suppliers have good credit quality by taking into account of their credit history. The Group has delegated a team responsible for determination of credit limits and monitoring procedures to ensure that follow-up action to recover overdue debts and to monitor credit risk on suppliers.

The Group has concentration of credit risk on its AFS investments listed in Hong Kong as 100% (2015: 74%) of its equity interests held by the Group are issued by three (2015: two) independent third parties. The management of the Group considers that the credit risk on the AFS investments in the equity interests held is limited as they were issued by three (2015: two) companies which shares are listed on the Stock Exchange.

The Group has concentration of credit risk on its unlisted AFS investments as 100% (2015: nil) of its equity interests held by the Group are issued by one (2015: nil) independent third party. The management of the Group considers that the credit risk on the AFS investments in equity interests held is limited as the directors of the Company took into consideration of the discounted cash flow calculation of the investments and considered that they could recover fully the carrying value of the investments.

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

***Liquidity risk management***

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

## 31. FINANCIAL INSTRUMENTS *(Continued)*

### 31b. Financial risk management objectives and policies *(Continued)*

***Liquidity risk management*** *(Continued)*

*Liquidity tables*

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. Specifically, bank borrowings with a repayment on demand clause are included in the earliest time band regardless of the probability of the banks choosing to exercise their rights. The maturity dates for other non-derivative financial liabilities are based on the agreed repayment dates.

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

| | Weighted average interest rate % | On demand or less than 1 month HK$'000 | 1-3 months HK$'000 | 3 months to 1 year HK$'000 | Total undiscounted cash flows HK$'000 | Carrying amount HK$'000 |
|---|---|---|---|---|---|---|
| At 31 December 2016 | | | | | | |
| **Non-derivative financial liabilities** | | | | | | |
| Trade and other payables | **–** | **4,993** | **3,795** | **19,669** | **28,457** | **28,457** |
| Bank borrowings | **5.73** | **16,852** | **–** | **–** | **16,852** | **16,769** |
| | | **21,845** | **3,795** | **19,669** | **45,309** | **45,226** |
| At 31 December 2015 | | | | | | |
| **Non-derivative financial liabilities** | | | | | | |
| Trade and other payables | – | 4,810 | 1,612 | 12,291 | 18,713 | 18,713 |

## 31. FINANCIAL INSTRUMENTS *(Continued)*

### 31b. Financial risk management objectives and policies *(Continued)*

***Liquidity risk management*** *(Continued)*

*Liquidity tables (Continued)*

Bank loans with a repayment on demand clause are included in the "on demand or less than 1 month" time band in the above maturity analysis. As at 31 December 2016, the aggregate undiscounted principal amounts of these bank loans amounted to HK$16,769,000. Taking into account the Group's financial position, the directors do not believe that it is probable that the banks will exercise their discretionary rights to demand immediate repayment. The directors believe that such bank loans will be repaid within one year after the end of the reporting period in accordance with the scheduled repayment dates set out in the loan agreements, details of which are set out in the table below:

| | Maturity analysis – Bank loans with a repayment on demand clause based on scheduled repayments | | | | |
|---|---|---|---|---|---|
| | **Less than 1 month HK$'000** | **1-3 months HK$'000** | **3 months to 1 year HK$'000** | **Total undiscounted cash outflows HK$'000** | **Carrying amount HK$'000** |
| 31 December 2016 | **83** | **155** | **17,374** | **17,612** | **16,769** |

The Group did not have any bank borrowings as at 31 December 2015.

The amounts included above for variable interest rate instruments for non-derivative financial liabilities are subject to change if changes in variable interest rates differ to those estimates of interest rates determined at the end of the reporting period.

## 31. FINANCIAL INSTRUMENTS *(Continued)*

### 31c. 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 is 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).

| Financial asset | Fair value as at | | Fair value hierarchy | Valuation technique(s) and key inputs | Significant unobservable input(s) | Relationship of unobservable inputs to fair value |
|---|---|---|---|---|---|---|
| | 31 December 2016 HK$'000 | 31 December 2015 HK$'000 | | | | |
| AFS investments listed in Hong Kong | **23,538** | 73,456 | Level 1 | Quoted bid prices in an active market | N/A | N/A |

There were no transfers between Level 1 and 2 fair value measurements in 2016 and 2015.

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

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

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

## 32. SHARE OPTION SCHEME

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

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

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

Pursuant to the Scheme, the maximum number of shares in the Company in respect of which options may be granted when aggregated with any other share option scheme of the Company is not permitted to exceed 10% of the total number of shares in issue as at the date of adoption of the Scheme, i.e. 16,000,000 shares of HK$0.05 each after the share consolidation being effective on 15 March 2016. Subject to the issue of a circular and the approval of the shareholders of the Company in general meeting and/or such other requirements prescribed under the Main Board Listing Rules from time to time, the board may refresh the limit at any time to 10% of the total number of shares in issue as at the date of approval by the shareholders of the Company in general meeting. Notwithstanding the foregoing, the shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Scheme and any other share option schemes of the Company at any time shall not exceed 30% of the shares in issue from time to time.

## 32. SHARE OPTION SCHEME *(Continued)*

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

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

At 31 December 2016, the number of share options in respect of which options had been granted and remained outstanding under the Scheme was 16,000,000, representing 3.8% of the shares of the Company in issue at that date.

Details of specific categories of options are as follows:

| Date of grant | Vesting date | Exercise period | Exercise price |
|---|---|---|---|
| 14 September 2016 | 14 September 2016 | 14 September 2016 to 13 September 2017 | HK$0.402 |

The following table discloses movements of the number of the Company's share options held by the eligible participants during the year:

| Category of participants | Outstanding at 31.12.2015 | Granted during the year | Exercised during the year | Forfeited during the year | Outstanding at 31.12.2016 |
|---|---|---|---|---|---|
| Directors | – | 10,392,000 | – | – | 10,392,000 |
| Employees | – | 5,608,000 | – | – | 5,608,000 |
| | – | 16,000,000 | – | – | 16,000,000 |
| Exercisable at the end of the year | | | | | 16,000,000 |
| Weighted average exercise price (HK$) | N/A | 0.402 | 0.402 | 0.402 | 0.402 |

During the year ended 31 December 2016, options were granted on 14 September 2016. The estimated fair values of the options granted on that date is HK$1,750,000.

## 32. SHARE OPTION SCHEME *(Continued)*

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

| | |
|---|---|
| Share price | HK$0.38 |
| Exercise price | HK$0.402 |
| Expected volatility | 83.526% |
| Expected life | 1 year |
| Risk-free rate | 0.436% |
| Expected dividend yield | 0% |

Expected volatility was determined by using the historical volatility of the Company's share price movement over the previous one year. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.

The Group recognised the total expense of HK$1,750,000 for the year ended 31 December 2016 in relation to share options granted by the Company.

## 33. RETIREMENT BENEFIT PLANS

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

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

The total cost of HK$696,000 (2015: HK$647,000) for the year ended 31 December 2016 charged to consolidated statement of profit or loss and other comprehensive income represents contribution paid or payable to the above retirement benefit plans by the Group.

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

## 34. PLEDGE OF ASSETS

As at 31 December 2016, the Group has pledged the buildings and prepaid lease payments with aggregate carrying values of approximately HK$26,935,000 (2015: nil) to secure general banking facilities granted to the Group.

## 35. OPERATING LEASE

**The Group as lessee**

Minimum lease payment paid under operating leases for premises during the year ended 31 December 2016 was HK$894,000 (2015: HK$1,321,000).

At the respective reporting dates, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

| | **2016** **HK$'000** | 2015 HK$'000 |
|---|---|---|
| Within one year | **655** | 1,301 |
| In the second to fifth year inclusive | **920** | 2,073 |
| | **1,575** | 3,374 |

Operating lease payments represent rentals payable by the Group for certain of its office and warehouse. Leases are generally negotiated for terms from two to five years (2015: one to five years) and rentals are fixed over the lease terms.

## 36. CAPITAL COMMITMENTS

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

| | **2016** **HK$'000** | 2015 HK$'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 consolidated financial statements | **1,456** | 1,555 |

## 37. MAJOR NON-CASH TRANSACTION

During the year ended 31 December 2016, 7,000,000 shares of available-for-sale investments in Rui Kang Pharmaceutical Group Investments Limited ("RK Pharmaceutical"), shares of which are listed on the GEM of the Stock Exchange, with historical cost amounting to HK$1,596,000, was exchanged for 24,500,000 shares of available-for-sale investments in China Wah Yan Healthcare Limited ("China Wah Yan"), shares of which are listed on the Main Board of the Stock Exchange, with market price amounting to HK$2,127,000. An unrealised gain on the exchange of shares of HK$531,000 was recorded in the profit or loss.

## 38. RELATED PARTY DISCLOSURES

### (I) Related party transactions

During the year, the Group entered into the following transaction with related parties:

| Name of related parties | Relationship | Nature of transactions/ balances | 2016 HK$'000 | 2015 HK$'000 |
|---|---|---|---|---|
| Mr. Yang Qi and his spouse | Family members of Ms. Yang | Rental expense (note) | **265** | 672 |
| | | Purchase of office building and right to use two car park spaces, excluding tax | **16,975** | – |
| Hangzhou Saike | An indirect wholly owned subsidiary of Saike International | Purchase of medical equipment | **1,730** | – |

Note: The rental expense represents expense for leasing of the Group's office premises in the PRC.

The related party operating lease commitment as at 31 December 2015 is included in note 35.

### (II) Related party balances

Details of the Group's outstanding balances with related parties are set out in notes 19, 20 and 22.

### (III) Compensation of key management personnel

| | 2016 HK$'000 | 2015 HK$'000 |
|---|---|---|
| Short term benefits | **9,043** | 4,895 |
| Equity-settled share-based payment expenses | **1,137** | – |
| Post employment benefits | **110** | 146 |
| | **10,290** | 5,041 |

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

## 39. PARTICULARS OF THE SUBSIDIARIES

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

| Name of subsidiaries | Place and date of incorporation/ establishment/ operation | Equity interest attributable to the Group as at 31 December | | Issued and fully paid share capital/ registered capital | Principal activities |
|---|---|---|---|---|---|
| | | **2016** | 2015 | | |
| **Direct** | | | | | |
| Max Goodrich International Limited (note i) | BVI 21 September 2007 | **100%** | 100% | HK$163,800 | Investment holding |
| **Indirect** | | | | | |
| Brilliant Dream Holding Limited (note i) | BVI 7 July 2014 | **100%** | 100% | HK$1 | Inactive |
| Major Bright Holdings Limited (note i) | BVI 9 May 2014 | **100%** | 100% | HK$1 | Investment holding |
| Clever Ocean Finance Limited (note i) | Hong Kong 6 June 2014 | **100%** | 100% | HK$1 | Inactive |
| China New Rich Medicine Holding Co. Limited (note i) | Hong Kong 7 February 2005 | **100%** | 100% | HK$1 | Investment holding |
| Hong Rui Bio-medical 泓鋭（杭州）生物醫藥科技有限公司 (notes iii & iv) | PRC 8 July 2008 | **100%** | 100% | HK$75,000,000 | Investment holding |
| Zhejiang Xin Rui Pharmaceutical 浙江新鋭醫藥有限公司 (notes ii & iv) | PRC 26 April 2006 | **100%** | 100% | RMB65,000,000 | Trading of pharmaceutical products |
| Hong Rui Trading 浙江泓鋭貿易有限公司 (notes ii & iv) | PRC 6 September 2005 | **100%** | 100% | RMB5,000,000 | Inactive |

Notes:

(i) A company incorporated with limited liability.

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

(iii) A wholly foreign owned enterprise with limited liability.

(iv) English translated name is for identification only.

All of the above subsidiaries adopt 31 December as the financial year end date.

None of the subsidiaries had issued any debt securities at the end of the year.

## 40. EVENTS AFTER THE REPORTING PERIOD

### (i) Acquisition of 11% equity interest of RK Pharmaceutical

On 2 December 2016, China New Rich Medicine Holding Co. Limited ("China New Rich"), a wholly-owned subsidiary of the Company, has entered into a sale and purchase agreement with China Wah Yan to acquire an aggregate of approximately 29% equity interest of RK Pharmaceutical at a consideration of HK$87,973,000 in cash in two tranches.

On 13 January 2017, the first tranche acquisition has been completed and China New Rich has acquired approximately 11% equity interest of RK Pharmaceutical from China Wah Yan at a consideration of HK$33,362,000 in cash. The investments are accounted for available-for-sale investments. Details of the acquisition are set out in the Company's announcements dated 2 December 2016.

On 27 March 2017, the second tranche acquisition has been terminated. Details of the termination of acquisition are set out in the Company's announcements dated 27 March 2017.

### (ii) Completion of the rights issue

On 6 March 2017, the Group has completed the rights issue on the basis of three rights shares for every one share in issue at a subscription price of HK$0.275 per rights share (the "Rights Issue"). 1,249,344,000 ordinary shares were issued a result of the Rights Issue. Details of the Rights Issue are set out in the Company's announcements dated 9 December 2016 and 6 March 2017, circular dated 10 January 2017 and prospectus dated 10 February 2017.

### (iii) Acquisition of 15% equity interest of Eternal Charm International Limted

On 14 March 2017, the Group entered into a supplemental sale and purchase agreement with Mr. Wang Wei, an independent third party, to acquire 15% equity interest of Eternal Charm International Limited ("Eternal Charm"), a company incorporated in the BVI with limited liability at a cash consideration of RMB47,250,000 (equivalent to approximately HK$53,400,000). Eternal Charm is principally engaged in the business of distribution of pharmaceutical products on the PRC. The acquisition has been completed on 17 March 2017. Details of the proposed acquisition are set out in the Company's announcements dated 5 December 2016 and 14 March 2017.

### (iv) Acquisition of C&C

On 18 October 2016 and 30 November 2016, Major Bright has entered into a sale and purchase agreement and a supplemental agreement respectively with JFA Capital, an independent third party, for the acquisition of an aggregate of 26% equity interest of C&C at a consideration of HK$126,209,000 in cash in two tranches.

On 31 October 2016, the first tranche acquisition of 9% equity interest of C&C has been completed. Details of the unlisted available-for-sale investments of 9% equity interest of C&C are disclosed in Note 18.

On 13 March 2017, the second tranche acquisition of 17% equity interest of C&C has been terminated. Details of the termination of the second tranche acquisition are set out in the Company's announcements dated 13 March 2017.

On 16 March 2017, the Group entered into a sale and purchase agreement with Eagle Networks Company Limited, an independent third party company incorporated in the BVI with limited liability, to acquire additional 5% unlisted equity securities issued by C&C, at a cash consideration of HK$25,500,000. The acquisition has been completed on 16 March 2017. Details of the acquisition are set out in the Company's announcement dated 16 March 2017.