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

# 2017
# Annual Report

# CONTENTS

# CORPORATE INFORMATION

## Board of Directors

### Executive Directors

Mr. Zhou Ling *(Chairman)*
Ms. Yang Fang *(Chief Executive Officer)*
Mr. Lee Chik Yuet (retired on 20 June 2017)

### Independent Non-executive Directors

Mr. Ho Hau Cheung, *SBS, MH*
Mr. Leung Chi Kin
Ms. Li Sin Ming Ivy (appointed on 20 June 2017)
Mr. Sung Hak Keung Andy (retired on 20 June 2017)

## Board Committees

### Audit Committee

Ms. Li Sin Ming Ivy *(Chairman)*
(appointed on 20 June 2017)
Mr. Ho Hau Cheung, *SBS, MH*
Mr. Leung Chi Kin
Mr. Sung Hak Keung Andy (retired on 20 June 2017)

### Remuneration Committee

Mr. Ho Hau Cheung, *SBS, MH (Chairman)*
Mr. Leung Chi Kin
Ms. Li Sin Ming Ivy (appointed on 20 June 2017)
Mr. Sung Hak Keung Andy (retired on 20 June 2017)

### Nomination Committee

Mr. Leung Chi Kin *(Chairman)*
Mr. Ho Hau Cheung, *SBS, MH*
Ms. Li Sin Ming Ivy (appointed on 20 June 2017)
Mr. Sung Hak Keung Andy (retired on 20 June 2017)

### Corporate Governance Committee

Mr. Zhou Ling *(Chairman)*
(appointed as Chairman on 20 June 2017)
Ms. Yang Fang
Mr. Lee Chik Yuet (retired on 20 June 2017)

## Company Secretary

Mr. Lai Kwok Wa, *HKICPA*

## Auditors

Moore Stephens CPA Limited
*Certified Public Accountants*

## Stock Code

6108

## Registered Office

Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

## Headquarters

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

## Principal Place of Business in Hong Kong

Room 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

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

## Hong Kong Branch Share Registrar and Transfer Office

Tricor Investor Services Limited
Level 22
Hopewell Centre
183 Queen's Road East
Hong Kong

## Website

www.newraymedicine.com

# FINANCIAL SUMMARY

## 2017 Financial Highlights

- The Group recorded a revenue of approximately HK$235.2 million for the year ended 31 December 2017 (2016: approximately HK$225.4 million), representing an increase of approximately 4.4% as compared to 2016.

- The Group's gross profit for the year ended 31 December 2017 was approximately HK$47.3 million (2016: approximately HK$34.4 million), representing an increase of approximately 37.5% as compared to 2016.

- Net loss attributable to owners of the Company for the year ended 31 December 2017 was approximately HK$105.0 million while the net loss attributable to owners of the Company for the year ended 31 December 2016 was approximately HK$20.5 million.

- The Board does not recommend the payment of dividend for the year ended 31 December 2017.

- The Group had a gearing ratio (defined as total bank and other borrowings divided by total equity) of zero as at 31 December 2017 (2016: 3.5%).

# FINANCIAL SUMMARY

| | 2013<br>HK$'000 | 2014<br>HK$'000 | 2015<br>HK$'000 | 2016<br>HK$'000 | **2017**<br>**HK$'000** |
|---|---|---|---|---|---|
| **Operating results** | | | | | |
| Revenue | 192,854 | 206,928 | 252,985 | 225,388 | **235,248** |
| Gross profit | 50,635 | 61,177 | 65,626 | 34,401 | **47,325** |
| Profit/(loss) before tax | 28,724 | 43,858 | 30,063 | (13,708) | **(94,389)** |
| Profit/(loss) for the year | 17,403 | 29,681 | 14,804 | (20,458) | **(105,012)** |
| **Profitability** | | | | | |
| Gross profit margin | 26.3% | 29.6% | 25.9% | 15.3% | **20.1%** |
| Net profit margin | 9.0% | 14.3% | 5.9% | N/A | **N/A** |
| **Asset status** | | | | | |
| Total assets | 233,887 | 329,734 | 516,572 | 534,736 | **830,384** |
| Equity attributable to owners of the Company | 213,198 | 303,191 | 477,663 | 471,687 | **726,825** |
| Total liabilities | 20,689 | 26,543 | 38,909 | 63,049 | **103,559** |
| Bank balances and cash | 93,409 | 150,942 | 56,795 | 71,599 | **90,195** |
| Quick ratio (times) | 12.0 | 13.0 | 7.4 | 4.5 | **3.5** |
| Current ratio (times) | 12.5 | 13.7 | 7.6 | 4.8 | **4.9** |

# CHAIRMAN'S STATEMENT

On behalf of the board (the "Board") of directors (the "Directors") of New Ray Medicine International Holding Limited (the "Company", together with its subsidiaries, the "Group"), I am pleased to present the annual results of the Group for the year ended 31 December 2017 (the "Year"). Year 2017 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. The pharmaceutical industry in which the Group operates was challenged by the release of a series of policies by the Chinese government to reform its healthcare system, such as the public hospital reform which promotes price cut for drug, and the "Two-Invoice" System (兩票制) which aims to reduce and simplify the chain and layers of drug circulation and to control usage of drugs. In particular, the "Two-Invoice" System had been implemented in most of the areas in the PRC in 2017, including our major market, Zhejiang Province. 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 has been actively tightening the cooperation with other pharmaceutical distribution companies to acquire new distribution rights and endeavouring to improve its sales and marketing capabilities and make effort to expand its distribution network in order to minimise the impact of unfavourable external factors on the Group.

For the Year, the total revenue of the Group was approximately HK$235.2 million, representing an increase of approximately 4.4% as compared to 2016. The increase in revenue was mainly attributable to the increased sales of products such as Cefamandole Nafate for injection (注射用頭孢孟多酯鈉). Due to the higher proportion of contribution from sale of the pharmaceutical products which had a higher profit margin, the Group's gross profit margin for the Year was approximately 20.1%, which has increased by 4.8 percentage points when compared to 2016. In order to tackle the challenges in the industry, the Group deployed more resources to product promotion and marketing which increased its selling and distribution expenses as compared to 2016. On the other hand, the Group recorded an impairment losses on its available-for-sale investments of approximately HK$131.8 million for the Year, which was mainly related to the investment of the Group in the shares of Town Health International Medical Group Limited ("Town Health"), the shares of which are listed on the Main Board of the Stock Exchange (stock code: 3886). As a result, the Group recorded a loss attributable to owners of the Company of approximately HK$105.0 million for the Year as compared to a loss of approximately HK$20.5 million for the year 2016.

The pharmaceutical distributors in the PRC are facing the headwind amid the healthcare industry reform. The "Two-Invoice" System, which aims to reduce the drug circulation chain and layers between drug manufacturers and end user medical institutions, had been implemented in most of the provinces in the PRC during the Year. It will substantially increase industry concentration, and as a result, the Group will be in the unfavoured situation to compete with the national leading pharmaceutical distribution companies. In addition, in view of the released results of the price negotiation on the National Reimbursement Drug List (國家醫保藥品目錄) and the results of the tendering in the PRC during the Year, the Group expects that the drugs pricing pressure and reimbursement control measures on medical insurance will continue, which may result in loss of sales and drop in the average profit margin of the Group's products. 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-sized ones, which will accelerate the consolidation and concentration of the market players in the industry. The Group will closely monitor the guidelines of the national policy and adapt to the market changes. The Group will endeavour to maximise return for shareholders by focusing on proprietary drugs with promising marketing and sales performance and looking out for new opportunity to acquire new distribution rights, 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
29 March 2018

# MANAGEMENT DISCUSSION AND ANALYSIS

The Group is principally engaged in the distribution and trading of pharmaceutical products and the provision of marketing and promotion services in the PRC. The Group will continue to maintain its leading position in the distribution of the prescription drug market in Zhejiang province with its unremitting efforts in business development.

## Business Review

During the Year, the revenue of the Group was mainly contributed by the revenue of (i) the distribution and trading of pharmaceutical products; and (ii) the provision of marketing and promotion services, in the PRC. The pharmaceutical products distributed by the Group are primarily classified as (i) injection drugs; (ii) capsule and granule drugs; (iii) tablet drugs; and (iv) other drugs.

During the Year, 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. Those drugs are applied to various diseases or illness such as cardiovascular diseases, cerebrovascular diseases, digestive system illness, rheumatism, urinary system illness, essential hypertension or used as health supplements.

The table below sets out the revenue and gross profit margin of the Group (by form of products and services) for the years ended 31 December 2017 and 31 December 2016 respectively.

| | Revenue contributed from each business segment | | | | Gross Profit Margin | |
|---|---|---|---|---|---|---|
| | 2016 HK$'000 | % | **2017 HK$'000** | **%** | 2016 % | **2017 %** |
| *(1) Distribution and trading of pharmaceutical products:* | | | | | | |
| Injection drugs | 207,031 | 91.9 | **227,335** | **98.0** | 15.7 | **19.2** |
| Capsule and granule drugs | 15,656 | 6.9 | **1,525** | **0.7** | 11.0 | **16.0** |
| Tablet drugs | 305 | 0.1 | **3,119** | **1.3** | 5.9 | **11.0** |
| Other drugs | 2,396 | 1.1 | **–** | **–** | 2.4 | **–** |
| | 225,388 | 100.0 | **231,979** | **100.0** | | |
| *(2) Provision of marketing and promotion services* | – | | **3,269** | | N/A | **N/A** |
| Total | 225,388 | | **235,248** | | | |

## Business Review *(Continued)*

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

#### *(i) Injection Drugs*

The injection drugs segment generated a revenue of approximately HK$227.3 million for the Year (2016: HK$207.0 million), representing an increase of approximately 9.8% as compared to 2016. The increase was primarily due to the increased sales of products such as Cefamandole Nafate for Injection (注射用頭孢孟多酯鈉) as a result of the increasing effort in sales and marketing capabilities and expansion of the distribution network. However, the increase was partially offset by the decrease in revenue due to the cessation of sales of certain injection products under the impacts brought by the implementation of the "Two-Invoice" System during the Year. The gross profit margin of the injection drugs increased from 15.7% in 2016 to 19.2% in 2017. Such increase was primarily attributable to the higher proportion of contribution from the sale of the pharmaceutical products which had a higher profit margin during the Year.

#### *(ii) Capsule and Granule Drugs*

The capsule and granule drugs segment generated a revenue of approximately HK$1.5 million for the Year (2016: HK$15.7 million), representing a decrease of approximately 90.4% as compared to 2016. Such decrease was primarily attributable to the cessation of sales of 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.

#### *(iii) Tablet Drugs*

The tablet drugs segment generated a revenue of approximately HK$3.1 million for the Year (2016: HK$0.3 million), which was over 9 times the revenue from the tablet drugs segment for 2016. Such increase was primarily due to the contribution from the sale of an imported prescription tablet drug which the Group obtained its distribution right during the Year.

#### *(iv) Other Drugs*

The other drugs segment generated an insignificant amount of revenue during the Year (2016: HK$2.4 million). The decrease was primarily due to the cessation of sales of several vitro diagnostic reagents during the Year.

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

The Group has been transforming its business model from the distribution agent model to the marketing and promotion model on certain products of the Group, e.g. Levocarnitine Injection (左卡尼汀注射液), under the implementation of the "Two-Invoice" System during the Year. The Group's marketing and promotion model involves formulating marketing and promotion strategies and conducting academic promotion programs of the Group's products in return for service income from the suppliers.

## Business Review *(Continued)*

Regarding the Group's distribution network, as of 31 December 2017, the Group procured pharmaceutical products throughout the PRC from 16 suppliers and sold pharmaceutical products through a network of 142 distributor customers, of which 24 distributor customers cover Zhejiang province with the remaining 118 distributor customers being spread over 19 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 assists 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 network allow its products to penetrate into different niche markets effectively. The Group believes that 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) Industry Outlook

The pharmaceutical distributors in the PRC are facing the headwind amid the healthcare industry reform. The "Two-Invoice" System, which only allows a single layer of distributors between the sale of drugs from the manufacturers to the end customers (e.g. hospitals) for the purpose of reducing the drug circulation chain and layers between drug manufacturers and end user medical institutions, has been implemented in most of the provinces in the PRC during the Year. It will substantially increase industry concentration, and as a result, the Group will be in the unfavoured situation to compete with the national leading pharmaceutical distribution companies. In addition, in view of the released results of the price negotiation on the National Reimbursement Drug List (國家醫保藥品目錄) and the results of the provincial tendering in the PRC during the Year, the Group expects the drug pricing pressure and reimbursement control measures on medical insurance will continue, which may result in loss of sales and drop in the average profit margin of the Group's products.

Although more stringent regulations may create short-term operating pressures, the Chinese government continues to commit resources to and invest in the healthcare sector as part of its long-term healthcare reform plan in the long run. Moreover, the aging population, urbanisation, increase in chronic diseases and household income and the wider coverage of medical insurance in the PRC will drive the demand for medical treatments and use of drugs. The Group believes that the pharmaceutical industry will be fueled with new opportunities and momentum for growth in the long term.

***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. 2 pharmaceutical products distributed by the Group as at 31 December 2017 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.

## Future Prospects *(Continued)*

**(ii) Growth Strategies**

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

During the Year, the Group acquired the distribution right of an imported prescription tablet drug, and the distribution right of a new product, namely Dutasteride Soft Capsules (度他雄胺軟膠囊). The Group will seek to acquire distribution rights of new products to enhance its product portfolio. Looking ahead to 2018, the Group will continue to enhance its product portfolio, distribution channels and marketing and promotion strategy in order to achieve a better and sustainable long term development of the Group.

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

The Group has actively identified and hired additional sales and marketing personnel during 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.

## 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 its employees to participate in environmental protection activities which benefit the community as a whole. Further discussions on the Group's environmental polices and performance is set out in the ESG Report of the Company in this report.

## Relationships with Stakeholders

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

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

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 highly 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.

In this connection, the Group has obtained the Pharmaceutical Operation Permit granted by Zhejiang 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 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.

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

## 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 and uncertainties 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 on 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.

## Financial Review

### Revenue

The total revenue for the Year was approximately HK$235.2 million, representing an increase of approximately 4.4% from approximately HK$225.4 million for the year ended 31 December 2016. Such increase was mainly attributable to the increased sales of products such as Cefamandole Nafate for injection (注射用頭孢孟多酯鈉) as a result of the increasing effort in sales and marketing capabilities and expansion of the distribution network. However, the increase was partially offset by the decrease in revenue due to the cessation of sales of the Group's products with relatively low gross profit margin and the cessation of sales of certain Group's products under the impacts brought by implementation of the "Two-Invoice" System during the Year.

### Cost of sales

The cost of sales for the Year was approximately HK$187.9 million, representing a decrease of approximately 1.6% from approximately HK$191.0 million for the year ended 31 December 2016. The decrease in cost of sales was mainly resulted from the increase in the proportion of revenue generated from products with relatively high gross profit margin during the Year.

### Gross profit and gross profit margin

Gross profit increased by approximately HK$12.9 million, or approximately 37.5%, from approximately HK$34.4 million for the year ended 31 December 2016 to approximately HK$47.3 million for the Year mainly due to the increase in revenue generated from the distribution of the Group's products and the increase in sales of the Group's products with relatively high gross profit margin during the Year. The Group's average gross profit margin increased from approximately 15.3% for the year ended 31 December 2016 to approximately 20.1% for the Year. The increase in gross profit margin was mainly attributable to the higher proportion of contribution from the sales of the injection drugs which had a higher profit margin during the Year.

## Financial Review *(Continued)*

### Other income, gains and losses

The net other losses for the Year were approximately HK$117.7 million (2016: approximately HK$19.1 million). The increase in net other losses was primarily attributable to the impairment losses on the Group's available-for-sale investments of approximately HK$131.8 million during the Year (2016: HK$15.4 million), which was mostly related to the investment of the Group in the shares of Town Health (stock code : 3886), the shares of which are listed on the Main Board of the Stock Exchange, despite that the net other losses were partially offset by the exchange gain and realised gain on disposal of the Group's available-for-sale investments during the Year.

### Selling and distribution expenses

Selling and distribution expenses for the Year were approximately HK$23.2 million, representing an increase of approximately HK$1.4 million from approximately HK$21.8 million for the year ended 31 December 2016. 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 of the selling and marketing staff; (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 such as Cefamandole Nafate for Injection (注射用頭孢孟多酯鈉).

### Administrative expenses

Administrative expenses for the Year were approximately HK$20.1 million, representing an increase of approximately 2.6% from approximately HK$19.6 million for the year ended 31 December 2016. Such increase was mainly due to the increase in legal and professional fees incurred for the Rights Issue (as defined below) and the acquisitions of interests in certain companies during the Year.

### Share of profit of associates

Share of profit of associates was approximately HK$19.5 million for the Year, which was mainly contributed by Saike International Medical Group Limited ("Saike International") and WinHealth International Company Limited ("WinHealth International"), the associate companies owned as to 50% and 15% by the Group, respectively.

### Income tax expenses

Income tax expenses for the Year were approximately HK$10.6 million, representing an increase of approximately 55.9% from approximately HK$6.8 million in 2016. Such increase was primarily due to the increase in taxable profit and the increase in non-deductible expenses for tax purposes which was primarily attributable to the increase in impairment loss on the Group's available-for-sale investments during the Year.

### Loss for the Year

Loss for the Year was approximately HK$105.0 million while the net loss attributable to owners of the Company was approximately HK$20.5 million for the year ended 31 December 2016. The increase in loss for the Year was primarily due to (i) the impairment losses on the Group's available-for-sale investments of approximately HK$131.8 million for the Year (2016: HK$15.4 million), which was mostly related to the investment of the Group in the shares of Town Health; (ii) the increase in selling and distribution expenses of the Group by approximately HK$1.4 million for the Year as compared to 2016; and (iii) the income tax expenses of approximately HK$10.6 million for the Year mainly due to the increase in taxable profit and the increase in non-deductible expenses for tax purpose, despite that the loss was partially offset by (a) the increase in gross profit due to the increased sales of products such as Cefamandole Nafate for injection (注射用頭孢孟多酯鈉); (b) the increase in share of profit of associates by approximately HK$7.1 million as compared to 2016, which was mainly contributed by Saike International and WinHealth International, the associate companies owned as to 50% and 15% by the Group, respectively; and (c) the realised gain on disposal of the Group's available-for-sale investments of approximately HK$12.9 million during the Year.

## Financial Review *(Continued)*

### Available-for-sale investments

The Group's available-for-sale investments include (i) equity securities listed in Hong Kong as stated at fair value which have been determined based on the quoted market prices available on the Stock Exchange, 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.

***Equity securities listed in Hong Kong***

As at 31 December 2017, the Group's securities investment in the shares of Town Health (a company whose shares are listed on the Main Board of the Stock Exchange with stock code: 3886) with a total carrying amount of HK$16.9 million, accounted for approximately 84% of the total carrying amount of the Group's listed available-for-sale investments. On 27 November 2017, the Securities and Futures Commission ("SFC") has, pursuant to Section 8(1) of the Securities and Futures (Stock Market Listing) Rules (Cap. 571V, the Laws of Hong Kong), directed the Stock Exchange to suspend trading in the shares of Town Health ("TH Shares") with effect from 9:00 a.m. on 27 November 2017 as it appeared to the SFC that, among other things, Town Health's interim report for the six months ended 30 June 2016 published on 7 September 2016 and Town Health's annual report for the year ended 31 December 2016 published on 27 April 2017 included materially false, incomplete or misleading information. As at the date of this report, the trading of the shares of Town Health remained suspended. After considering the fact that the trading in the shares of Town Health on the Stock Exchange has been suspended by the SFC and the time when it can resume trading in its shares remains uncertain, the Group recognised an impairment loss on its investments in Town Health of approximately HK$127.5 million for the Year based on the valuation on the fair value of the Group's investment in the shares of Town Health as at 31 December 2017 prepared by an independent valuer, in which the fair value of the Group's investment in the shares of Town Health as at 31 December 2017 was estimated under the market approach method by reference to Price/Sales multiple and Enterprise value/EBITDA multiple of companies in similar industry. As at 31 December 2017 and the date of this report, the Group held 120,000,000 shares of Town Health, representing approximately 1.59% of the then total issued share capital of Town Health. During the Year, the Group received dividend income of approximately HK$246,000 from this investment. Based on the 2017 interim report of Town Health, Town Health strives to maintain its leading position in the healthcare service industry in Hong Kong and introduce its people-oriented healthcare service concepts, processes, international service standards and community-based healthcare systems to the PRC market.

During the Year, the Group disposed of certain equity securities listed in Hong Kong. As a result, the realised gain on disposal of the Group's available-for-sale investments of approximately HK$12.9 million 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$131.8 million (inclusive of the impairment loss on the Group's investments in Town Health of approximately HK$127.5 million) have been recognised during the Year which were reclassified from the investment revaluation reserve. The Group will continue to monitor its investments cautiously in view of recent uncertain market conditions.

***Investments in unlisted equity securities***

As at 31 December 2017, the Group held approximately 14% of HCMPS Healthcare Holdings Limited ("HCMPS") (formerly known as C&C International Healthcare Group Limited) with an investment amount of approximately HK$69,188,000. HCMPS and its subsidiaries are principally engaged in the provision of contracted medical schemes and medical services. Based on the latest unaudited combined financial information of HCMPS for the year ended 31 December 2017, it recorded an unaudited combined profit of approximately HK$30 million. The Group is optimistic about the prospects of HCMPS because the Group believes that the aging population and the increasing demand for corporate medical solutions services in Hong Kong are favourable to the continuing development of HCMPS' business in the long term.

## Financial Review *(Continued)*

### 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 the income generated from its core business operations, bank borrowings and the net proceeds from the Rights Issue conducted by the Company, 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 zero as at 31 December 2017 (2016: 3.5%).

The Group had net cash (total cash and cash equivalents less other borrowings) of approximately HK$90.2 million as at 31 December 2017 (2016: approximately HK$54.8 million). The Group's cash and cash equivalents amounted to approximately HK$90.2 million in total as at 31 December 2017 (2016: approximately HK$71.6 million), among which approximately 15% (2016: 12%) were denominated in Hong Kong dollars and 85% (2016: 88%) were denominated in Renminbi ("RMB"). The Group did not have any bank loan as at 31 December 2017 (2016: approximately HK$16.8 million).

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 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 on the profit or loss of the Group due to the exchange rate fluctuations was immaterial.

### Employee Information

As at 31 December 2017, the Group had 50 employees (2016: 53). Staff costs for the Year, including Directors' remuneration, amounted to approximately HK$21.7 million (2016: HK$21.5 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 include salaries, overtime allowances, bonuses and/or 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.

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 (Chapter 485, the Laws of Hong Kong), 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 2017, the Group did not have any significant contingent liabilities.

## Financial Review *(Continued)*

### Material Acquisitions or Disposals and Significant Investments

***Acquisition of HCMPS***

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 respectively with JFA Capital, an independent third party, for the acquisition of an aggregate of 26% of the issued share capital of HCMPS in two tranches. The first tranche acquisition involved the acquisition of 9% of the issued share capital of HCMPS 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 HCMPS by the Group at a consideration of HK$82,521,400 in cash. Completion of the first tranche acquisition of 9% of the issued share capital of HCMPS took place on 31 October 2016. On 13 March 2017, Major Bright, the Company and JFA Capital entered into a deed of termination pursuant to which the parties agreed not to proceed with the second tranche acquisition of 17% of the issued share capital of HCMPS from JFA Capital since it was unlikely for the Company to obtain its shareholders' 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 HCMPS 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 HCMPS, standing alone; and (ii) the acquisition of 5% interest in HCMPS and the first tranche acquisition of 9% interest in HCMPS by the Group in October 2016, in aggregate, constituted a discloseable transaction of the Company and was therefore subject to the notification and announcement requirements under Chapter 14 of the Rules Governing the Listing of Securities on the Stock Exchange ("Listing Rules").

The Group held 14% of the issued share capital of HCMPS as at 31 December 2017 and the date of this report. Such investment in HCMPS was accounted for as an available-for-sale investment 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 and Disposal of China Biotech***

On 2 December 2016, China New Rich Medicine Holding Co. Limited (中國新銳醫藥控股有限公司) ("China New Rich"), a wholly-owned subsidiary of the Company, entered into a sale and purchase agreement with China Wah Yan Healthcare Limited ("China Wah Yan"), the 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 Rui Kang Pharmaceutical Group Investments Limited (now known as China Biotech Services Holdings Limited) ("China Biotech"), a company whose shares are listed on GEM of the Stock Exchange (stock code: 8037) in two tranches. China Biotech and its subsidiaries were then 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 China Biotech 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 China Biotech 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 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. Completion of the first tranche acquisition took place in January 2017.

## Financial Review *(Continued)*

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

#### ***Acquisition and Disposal of China Biotech*** *(Continued)*

The Group and China Wah Yan 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 shares of China Biotech since it was unlikely for the Company and China Wah Yan 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. For further details, please refer to the announcements of the Company dated 2 December 2016 and 27 March 2017.

Immediately after completion of the first tranche acquisition, the Group held approximately 11% of the issued shares of China Biotech. Such investment in China Biotech was accounted for as an available-for-sale investment of the Group in its financial statements.

On 24 August 2017, China New Rich accepted the unconditional mandatory general cash offer ("Offer") made by Guoyuan Capital (Hong Kong) Limited and Zhaobangji International Capital Limited for and on behalf of Genius Lead Limited ("Offeror"), an independent third party, pursuant to which China New Rich tendered to the Offeror all the 86,700,000 shares of China Biotech held by it, at the price of HK$0.51 per share of China Biotech, for a total consideration of HK$44,217,000. The disposal of 86,700,000 shares of China Biotech by the Group by way of acceptance of the Offer constituted a discloseable transaction of the Company and was subject to the notification and announcement requirements under Chapter 14 of the Listing Rules. Completion of the disposal took place on 28 August 2017. After the completion of such disposal, the Group ceased to have any interest in China Biotech. For further details of the disposal, please refer to the announcement of the Company dated 24 August 2017.

#### ***Acquisition of WinHealth International***

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 WinHealth International (formerly known as Eternal Charm International Limited) at a consideration of RMB47.25 million (equivalent to approximately HK$53.4 million) in cash (subject to downward adjustments after completion). 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 WinHealth International after taxation for the year ending 31 December 2017 ("WinHealth International 2017 Audited Profit") is less than RMB35.0 million ("WinHealth International 2017 Target Profit"), Mr. Wang shall pay to the Group a sum in cash equal to 15% of the difference between the WinHealth International 2017 Target Profit and the WinHealth International 2017 Audited Profit;

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

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

## Financial Review *(Continued)*

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

***Acquisition of WinHealth International*** *(Continued)*

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

Completion of the acquisition of 15% of the issued share capital of WinHealth International took place on 17 March 2017. WinHealth International 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.

The Group held 15% of the issued share capital of WinHealth International as at 31 December 2017 and the date of this report. Such investment in WinHealth International was 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.

Based on the audited consolidated financial statements of WinHealth International for the year ended 31 December 2017, the WinHealth International 2017 Audited Profit was approximately RMB36.4 million. Therefore, no adjustment would be made for the Year.

***Acquisition of shares in Town Health***

On 10 April 2017, the Group acquired an aggregate of 120,000,000 shares of Town Health, representing approximately 1.55% of the then total issued share capital of Town Health, for an aggregate consideration of HK$144.4 million (excluding stamp duty and related expenses) at an average price of HK$1.2 per TH Share in the open market ("TH Shares Acquisition"). Town Health is a company incorporated in the Cayman Islands and continued in Bermuda with limited liability, the shares of which are listed on the Main Board of the Stock Exchange (Stock Code: 3886). Town Health and its subsidiaries (collectively, the "TH Group") are principally engaged in healthcare business in Hong Kong, which comprises managed care, medical and dental clinics operation and provision of beauty and cosmetic medical services. The other major business segment of the TH Group is healthcare businesses in the PRC, which include the provision of hospital and clinic management services. The TH Group is also involved in investment businesses including direct investment in the healthcare sector and investment in securities and properties. Immediately before the TH Shares Acquisition, the Company did not hold any TH Shares. The TH Shares Acquisition constituted a disclosable transaction of the Company and was therefore subject to the notification and announcement requirements under Chapter 14 of the Listing Rules. For further details, please refer to the announcement of the Company dated 10 April 2017.

As at 31 December 2017 and the date of this report, the Group held 120,000,000 TH Shares, representing approximately 1.59% of the then total issued share capital of Town Health. Such investment in Town Health is accounted for as an available-for-sale investment of the Group in its financial statements.

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

## Financial Review *(Continued)*

### Investment in Saike International

In March 2015, the Group entered into a sale and purchase agreement with Ms. Zhao Lei ("Ms. Zhao"), an independent third party, for the acquisition of 50% equity interest in Saike International ("Saike Sale Shares") at a consideration of RMB95 million in cash (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 ending 31 December 2015 ("Saike 2015 Audited Profits") are less than RMB19 million ("Saike 2015 Target Profits"), Ms. Zhao shall pay to the Group a sum in cash equal to the difference between the Saike 2015 Target Profits and the Saike 2015 Audited Profits;

(ii) in the event that the audited consolidated net profits of Saike International after taxation for the year ending 31 December 2016 ("Saike 2016 Audited Profits") are less than RMB22 million ("Saike 2016 Target Profits"), Ms. Zhao shall pay to the Group a sum in cash equal to the difference between the Saike 2016 Target Profits and the Saike 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 ("Saike 2017 Audited Profits") are less than RMB25 million ("Saike 2017 Target Profits"), Ms. Zhao shall pay to the Group a sum in cash equal to the difference between the Saike 2017 Target Profits and the Saike 2017 Audited Profits.

Based on the audited consolidated financial statements of Saike International for the years ended 31 December 2015, 2016 and 2017, the Saike 2015 Audited Profits, the Saike 2016 Audited Profits and the Saike 2017 Audited Profit were approximately RMB19.3 million, RMB21.5 million and RMB26.7 million. Therefore, no adjustment would be made for 2015 and 2017. For 2016, the Group received a sum in cash equalling the difference between the Saike 2016 Target Profits and the Saike 2016 Audited Profit for the failure of Saike International to meet the Saike 2016 Target Profits, which was approximately RMB0.5 million.

Saike International and its subsidiaries are principally engaged in the trading of medical devices and equipment in the PRC. As at 31 December 2017 and the date of this report, the Group held 50% equity interest in Saike International. Such investment in Saike International was accounted for as an associate of the Group in its financial statements.

### Capital Structure

The capital of the Company comprises only ordinary shares. As at 31 December 2017, the Group had shareholders' equity of approximately HK$726.8 million (2016: HK$471.7 million).

### Increase in authorised share capital

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)*

### Increase in authorised share capital *(Continued)*

***Rights Issue***

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

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

The actual use of the net proceeds from the Rights Issue as at 31 December 2017 was as follows:

| Intended use of proceeds | Actual use of proceeds as at 31 December 2017 |
|---|---|
| Net proceeds from the Rights Issue of approximately HK$330.0 million were intended to be used in the following manner: | |
| (1) approximately HK$143.2 million for the possible acquisition of interest in HCMPS and/or other potential acquisitions of medical and healthcare related business when opportunities arise (Notes a & b) | approximately HK$25.5 million has been utilised for the acquisition of 5% of the issued share capital of HCMPS at a consideration of HK$25.5 million in cash<br><br>approximately HK$117.7 million has been utilised for the partial settlement of the consideration for the acquisition of approximately 1.55% of the then total issued share capital of Town Health, the issued shares of which are listed on the Main Board of the Stock Exchange (Stock Code: 3886) at a total consideration of HK$144 million (excluding stamp duty and related expenses) in the open market in April 2017 |
| (2) approximately HK$28.8 million for the acquisition of 11% of the issued share capital of China Biotech (Note b) | approximately HK$28.8 million has been utilised for the partial settlement of the consideration for the acquisition of approximately 11% of the issued share capital of China Biotech, the issued shares of which are listed on GEM of the Stock Exchange (Stock Code: 8037) at a total consideration of approximately HK$33.4 million in cash |

## Financial Review *(Continued)*

**Increase in authorised share capital** *(Continued)*

***Rights Issue*** *(Continued)*

| Intended use of proceeds | Actual use of proceeds as at 31 December 2017 |
|---|---|
| (3) approximately HK$43.0 million for the acquisition of 12% of the issued share capital of WinHealth International | approximately HK$53.4 million (of which HK$10.4 million was from the Relevant Proceeds) has been utilised for the acquisition of 15% of the issued share capital of WinHealth International at a consideration of RMB47.25 million (equivalent to approximately HK$53.4 million) in cash |
| (4) approximately HK$17.0 million for the repayment of the Group's bank borrowings in the PRC | approximately HK$17.0 million has been utilised for the repayment of the bank borrowing of a subsidiary of the Company in the PRC |
| (5) approximately HK$40.0 million for expanding the product range of imported prescription drugs | approximately HK$40.0 million has been utilised for the payment of the distribution right of an imported prescription tablet drug in the PRC |
| (6) approximately HK$8.0 million for improving marketing, sales and promotional capabilities | approximately HK$4.4 million has been utilised for the improving marketing, sales and promotional capabilities |
| (7) approximately HK$50.0 million for the acquisition of the equity interests (in part or in full) of pharmaceutical companies which are principally engaged in overseas pharmaceutical business in the PRC apart from the acquisition of 12% of the issued share capital of WinHealth International ("Relevant Proceeds") | approximately HK$10.4 million has been utilised for the partial settlement of the consideration for the acquisition of 15% of the issued share capital of WinHealth International as described above |
| | Total unutilised net proceeds of approximately HK$43.2 million remained deposited in the bank accounts of the Group |

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

## Financial Review *(Continued)*

### Increase in authorised share capital *(Continued)*

#### ***Rights Issue*** *(Continued)*

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

### Pledge of assets

As at 31 December 2017, the Group pledged the buildings and prepaid lease payments with the aggregate carrying value of approximately HK$26.8 million to secure general banking facilities granted to the Group (2016: HK$26.9 million).

### Future plans for material investments

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

### Suspension of trading in shares

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

# BIOGRAPHICAL DETAILS OF THE DIRECTORS AND SENIOR MANAGEMENT

## Executive Directors

**Mr. Zhou Ling** ("Mr. Zhou"), aged 41, is the Chairman of the Board and an executive Director, and one of the founding members of the Group. Mr. Zhou joined the Group in 2001. He is also the chairman of the Corporate Governance Committee of the Board. He has over 18 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 were collectively interested in 112,728,000 shares of the Company as at 31 December 2017 and the date of this report.

**Ms. Yang Fang** ("Ms. Yang"), aged 41, 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 19 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 of the Board and an executive Director. Ms. Yang and Mr. Zhou were collectively interested in 112,728,000 shares of the Company as at 31 December 2017 and the date of this report.

# BIOGRAPHICAL DETAILS OF THE DIRECTORS AND SENIOR MANAGEMENT

## Independent Non-executive Directors

**Mr. Ho Hau Cheung,** *SBS, MH*, ("Mr. Ho"), aged 65, 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, the Bronze Bauhinia Star and the Silver Bauhinia Star by the Government of Hong Kong in 2006, 2011 and 2017 respectively. Mr. Ho has been working in the education field in Hong Kong for more than 30 years. He obtained a Bachelor's Degree in Education in 1991 from Wolverhampton Polytechnic (currently known as University of Wolverhampton), the United Kingdom.

**Mr. Leung Chi Kin** ("Mr. Leung"), aged 68, 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 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.

**Ms. Li Sin Ming Ivy** ("Ms. Li"), aged 42, has been an independent non-executive Director since 20 June 2017. She is also the chairman of the Audit Committee and a member of the Nomination Committee and Remuneration Committee of the Board. She holds a Bachelor's Degree of Business Administration (Honours) in Accounting from the Hong Kong Baptist University. Ms. Li is a Certified Public Accountant of the Hong Kong Institute of Certified Public Accountants and a fellow of the Association of Chartered Certified Accountants. Ms. Li has over 20 years of accounting and auditing experience. Ms. Li worked in various audit firms and the finance department of several companies. Ms. Li has not held any directorships in any public companies the securities of which are listed on any securities market in Hong Kong or overseas in the last three years.

## Senior Management

**Mr. He Linxing** ("Mr. He"), aged 43, 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 20 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 33, joined the Group in June 2012, and is the company secretary and the financial controller of the Company. Mr. Lai has over 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's Degree of Business Administration in Accounting in 2007 from The City University of Hong Kong. He is a Certified Public Accountant of the Hong Kong Institute of Certified Public Accountants.

# REPORT OF THE DIRECTORS

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

## Principal Activities

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

## Principal Subsidiaries, Associates and Jointly Controlled Entities

Details of the principal subsidiaries, associates and jointly controlled entities as at 31 December 2017 are set out in notes 42, 20 and 21 to the consolidated financial statements respectively.

## Results and Appropriations

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

## Dividend

The Board does not recommend the payment of any dividend for the Year (2016: Nil).

## Donations

Charitable donations made by the Group during the Year amounted to approximately HK$58,000 (2016: 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 14 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 30 to the consolidated financial statements, the sub-section headed "Financial Review – Rights Issue" in the section headed "Management Discussion and Analysis" of this report and the section headed "Share Option Scheme" in this report of the Directors.

## Pre-emptive Rights

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

## Reserves and Distributable Reserves

Details of movements in the reserves of the Group during the Year are set out on page 60 of this report. As at 31 December 2017, the reserves available for distribution to the Company's shareholders were approximately HK$445,131,000. Further details are set out in note 31 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 32 to the consolidated financial statements. In addition, discussions on the Group's relationships with its key stakeholders, the Group's environmental policies and performance and the Group's compliance with laws and regulations are also provided in the sub-sections headed "Relationships with Stakeholders", "Environmental Policies and Performance" and "Compliance with the Applicable Laws and Regulations which have a Significant Impact on the Group" in the section headed "Management Discussion and Analysis" of this report respectively. These discussions form part of this report of the Directors.

## Directors

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

**Executive Directors:**

Mr. Zhou Ling *(Chairman)*
Ms. Yang Fang *(Chief Executive Officer)*
Mr. Lee Chik Yuet (retired on 20 June 2017)

**Independent Non-executive Directors:**

Mr. Ho Hau Cheung, *SBS, MH*
Mr. Leung Chi Kin
Ms. Li Sin Ming Ivy (appointed on 20 June 2017)
Mr. Sung Hak Keung Andy (retired on 20 June 2017)

## Directors' Services Contracts

Each of the executive Directors has entered into a service contract with the Company for a term of two years commencing on 25 October 2016. Each of Mr. Ho Hau Cheung, *SBS, MH* and Mr. Leung Chi Kin has entered into a letter of re-appointment with the Company for a term of two years commencing on 1 October 2017. Ms. Li Sin Ming Ivy has entered into a letter of appointment with the Company for a term of two years commencing on 20 June 2017. They are all subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the Bye-laws.

Pursuant to Bye-law 84(1) of the Bye-laws of the Company, at each annual general meeting one-third of the Directors for the time being (or, if their number is not a multiple of three, the number nearest to but not less than one-third) shall retire from office by rotation provided that every Director shall be subject to retirement at least once every three years. As such, Mr. Zhou Ling, Ms. Yang Fang and Mr. Ho Hau Cheung, *SBS, MH* will retire from office by rotation at the forthcoming annual general meeting of the Company. Mr. Zhou Ling and Ms. Yang Fang are eligible and offer themselves for re-election.

## Directors' Services Contracts *(Continued)*

Pursuant to Bye-law 83(2) of the Bye-laws of the Company, the Directors shall have the power from time to time and at any time to appoint any person as a Director either to fill a casual vacancy on the Board or, subject to authorisation by the members in general meeting, as an addition to the existing Board but so that the number of Directors so appointed shall not exceed any maximum number determined from time to time by the members in general meeting. Any Director appointed by the Board to fill a casual vacancy shall hold office until the first general meeting of members after his/her appointment and be subject to re-election at such meeting and any Director appointed by the Board as an addition to the existing Board shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election. Ms. Li Sin Ming Ivy, who was appointed by the Board, shall retire at the forthcoming annual general meeting of the Company and, being eligible, will offer herself for re-election at the meeting.

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

## Independent Non-executive Directors

The Company has received from each of the existing independent non-executive Directors an annual confirmation of his/her independence pursuant to Rule 3.13 of the Listing Rules. The Company 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 2017, 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 | Position | Approximate % of the total issued shares (Note 1) |
|---|---|---|---|---|
| Mr. Zhou Ling | Beneficial owner and interest of spouse | 112,728,000 | Long | 6.74% (Note 2) |
| Ms. Yang Fang | Beneficial owner and interest of spouse | 112,728,000 | Long | 6.74% (Note 2) |

Notes:

1. The percentage of shareholding is calculated based on the issued share capital of the Company as at 31 December 2017 comprising 1,671,846,657 shares of the Company.

2. Mr. Zhou Ling, an executive Director and the Chairman of the Board, beneficially owns 83,516,952 shares. Ms. Yang Fang, an executive Director and the chief executive officer of the Company, beneficially owns 29,211,048 shares. Mr. Zhou Ling is the spouse of Ms. Yang Fang. Accordingly, Mr. Zhou Ling was deemed to be interested in all the 29,211,048 shares held by Ms. Yang Fang by virtue of the SFO and Ms. Yang Fang was deemed to be interested in all the 83,516,952 shares held by Mr. Zhou Ling by virtue of the SFO.

## Directors' and Chief Executive's Interests and Short Positions In Shares, Underlying Shares and Debentures *(Continued)*

Save as disclosed above, as at 31 December 2017, 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 Section 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 2017, 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.

### Interest in shares and underlying shares of the Company

| Name of Shareholder | Capacity | Number of ordinary shares (Note 1) | Approximate % of the total issued shares (Note 2) |
|---|---|---|---|
| U Man Iong | Beneficial owner | 205,256,000 (L) | 12.28% |
| Qian Shenglei | Beneficial owner | 146,000,000 (L) | 8.73% |
| China Wah Yan (Note 3) | Interest of a controlled corporation | 137,427,840 (L) | 8.22% |

Notes:

1. The letter (L) above denotes long position.

2. The percentage of shareholding is calculated based on the issued share capital of the Company as at 31 December 2017 comprising 1,671,846,657 shares of the Company.

3. Based on the corporate substantial shareholder notice dated 10 March 2017 filed by China Wah Yan, a company whose shares are listed on the Main Board of the Stock Exchange (Stock Code: 648), these 137,427,840 shares were held by Classic Estate Investments Limited, which was wholly owned by China Wah Yan. Accordingly, China Wah Yan was deemed to be interested in all the 137,427,840 shares held by Classic Estate Investments Limited by virtue of the SFO.

Save as disclosed above, as at 31 December 2017, no other person, other than a Director or chief executive of the Company, had any interests or short positions in the shares or underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO.

## Major Customers and Suppliers

For the Year, the percentage of the turnover attributable to the Group's five largest customers was approximately 50.3% of the Group's total turnover and the percentage of the turnover attributable to the Group's largest customer was approximately 18.2% of the Group's total turnover. For the year, the Group's five largest suppliers accounted for approximately 92.6% of the Group's total purchases and the Group's largest supplier accounted for approximately 62.7% of the Group's total purchases.

## Major Customers and Suppliers *(Continued)*

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

During the Year, Mr. Zhou Ling and Ms. Yang Fang, the executive Directors, participated in the Rights Issue whereby Mr. Zhou Ling and Ms. Yang Fang subscribed for 62,637,714 Rights Shares and 25,658,286 Rights Shares respectively at the subscription price of HK$0.275 per Right Share. Further details of the Rights Issue are disclosed in the sub-section headed "Financial Review – Rights Issue" in the section headed "Management Discussion and Analysis" of this report. Save as disclosed above and 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 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.

## Share Option Scheme *(Continued)*

As at 31 December 2017 and the date of this report, the maximum number of ordinary shares of the Company which could be issued upon exercise of all options that may be granted under the existing Scheme limit is 166,579,200 ordinary shares of HK$0.05 each, representing approximately 9.96% of the issued share capital of the Company.

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

There were no share options outstanding under the Scheme as at 31 December 2017 and no share options were granted by the Company under the Scheme during the Year.

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

| Category of participants | Outstanding at 1 January 2017 | Adjusted for the Rights Issue during the Year | Exercised during the Year | Forfeited/ cancelled/ lapsed during the Year | Outstanding at 31 December 2017 |
|---|---|---|---|---|---|
| Directors: | | | | | |
| Mr. Zhou Ling | 3,464,000 | 275,893 | – | (3,739,893) | – |
| Ms. Yang Fang | 3,464,000 | 275,893 | – | (3,739,893) | – |
| Former Director: | | | | | |
| Mr. Lee Chik Yuet | 3,464,000 | 275,893 | (3,739,893) | – | – |
| Employees | 5,608,000 | 446,657 | (2,314,764) | (3,739,893) | – |
| | 16,000,000 | 1,274,336 | (6,054,657) | (11,219,679) | – |
| Exercisable at the end of the year | | | | | – |
| Weighted average exercise price (HK$) | 0.402 | 0.372 | 0.372 | 0.372 | N/A |

During the Year, the Company has received aggregate subscription money of approximately HK$2,252,000 and issued 6,054,657 ordinary shares of HK$0.05 each, pursuant to the exercise of the options by the grantees under the Scheme. The aggregate nominal value of the ordinary shares issued pursuant to the exercise of share options during the Year was approximately HK$302,733. The exercise price of each share was HK$0.372. The net proceeds from the exercise of share options during the Year was approximately HK$2,252,000, and on this basis, the net issue price of each share was approximately HK$0.372. The net proceeds from the exercise of the share options were intended to be used as general working capital of the Group. The weighted average closing price of the Company's shares immediately before the dates on which the options were exercised was HK$0.55.

Particulars of the Scheme are set out in note 34 to the consolidated financial statements.

## Share Option Scheme *(Continued)*

**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 11 to the consolidated financial statements.

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

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

## Corporate Governance

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

## Related Party Transactions

During the Year, the related party transactions in relation to compensation of key management personnel who are Directors or Chief Executive of the Company in 2017 as disclosed in note 41(iii) to the consolidated financial statements fell 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 35 to the consolidated financial statements.

## Shares Issue During the Year

Details of the shares issued by the Company during the Year are set out in note 30 to the consolidated financial statements and the sub-section headed "Financial Review – Rights Issue" in the section headed "Management Discussion and Analysis" of this report and the section headed "Share Option Scheme" in this report of the Directors. The disclosure in the above note to the consolidated financial statements and the section headed "Management Discussion and Analysis" form part of this report of the Directors.

## Equity-linked Agreements

Other than the Scheme as disclosed under the section headed "Share Option Scheme" in this report of the Directors and note 34 to the consolidated financial statements, no equity-linked agreements were entered into by the Company during the Year or subsisted at the end of the Year. The disclosure in the above note to the consolidated financial statements 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/she may sustain or incur in the execution of his/her 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 officer's liability insurance are currently in force and were in force throughout the Year.

## Sufficiency of Public Float

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

## Auditors

Deloitte Touche Tohmatsu ("Deloitte"), who was the auditor of the Group during the year ended 31 December 2013 to 2016, has resigned as the auditor of the Group with effect from 30 January 2018. Deloitte, in their letter of resignation, confirmed that there were no matters in connection with their resignation that needed to be brought to the attention of holders of securities or creditors of the Company. The Board also confirmed that there was no disagreement or unresolved matter between the Company and Deloitte, and that they were not aware of any matters in relation to the resignation of Deloitte as auditor of the Group that needed to be brought to the attention of holders of securities of the Company.

The Company has appointed Moore Stephens CPA Limited as the auditors of the Company for the Year with effect from 30 January 2018. Moore Stephens CPA Limited will retire and, being eligible, offer itself for re-appointment at the forthcoming annual general meeting. A resolution to re-appoint Moore Stephens CPA Limited and to authorise the Directors to fix its remuneration will be proposed at the forthcoming annual general meeting.

# REPORT OF THE DIRECTORS

## 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. Zhou Ling**
*Chairman & Executive Director*

29 March 2018

# 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 five members, two of which are executive Directors, namely Mr. Zhou Ling who is the Chairman of the Board and Ms. Yang Fang who is the chief executive officer of the Company. Three other members are independent non-executive Directors, namely Mr. Ho Hau Cheung, *SBS, MH*, Mr. Leung Chi Kin and Ms. Li Sin Ming Ivy. 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 pages 23 and 24 of this report.

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

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

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

## Attendance of Directors at Meetings

The 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 | Nomination Committee meetings | Remuneration Committee meetings | Corporate Governance Committee meeting |
| Zhou Ling *(Chairman)* | 2/2 | 12/12 | N/A | N/A | N/A | 1/1 |
| Yang Fang *(Chief Executive Officer)* | 1/2 | 12/12 | N/A | N/A | N/A | 1/1 |
| Lee Chik Yuet (retired on 20 June 2017) | 1/2 | 7/7 | N/A | N/A | N/A | 1/1 |
| Ho Hau Cheung, *SBS, MH* | 2/2 | 11/12 | 3/3 | 2/2 | 3/3 | N/A |
| Leung Chi Kin | 2/2 | 12/12 | 3/3 | 2/2 | 3/3 | N/A |
| Li Sing Ming Ivy (appointed on 20 June 2017) | N/A | 4/4 | 2/2 | 1/1 | 2/2 | N/A |
| Sung Hak Keung, Andy (retired on 20 June 2017) | 1/2 | 7/7 | 1/1 | 1/1 | 1/1 | 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. They have segregated and clearly defined roles. The Chairman of the Board provides leadership to 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.

Each of Mr. Ho Hau Cheung, *SBS, MH* and Mr. Leung Chi Kin has entered into a letter of re-appointment with the Company for a term of two years commencing on 1 October 2017. Ms. Li Sin Ming Ivy has entered into a letter of appointment with the Company for a term of two years commencing on 20 June 2017.

## 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.

As at the date of this report, the Remuneration Committee comprised three independent non-executive Directors, namely Mr. Ho Hau Cheung, *SBS, MH* as the chairman of the Remuneration Committee, Ms. Li Sin Ming Ivy and Mr. Leung Chi Kin. Mr. Sung Hak Keung Andy, a former independent non-executive Director, was a member of the Remuneration Committee until his retirement as an independent non-executive Director with effect from 20 June 2017. Ms. Li Sin Ming Ivy, the new independent non-executive Director, was then appointed as a member of the Remuneration Committee in place of Mr. Sung Hak Keung Andy on 20 June 2017.

During the Year, three 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 during their respective terms of office.

## 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.

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, Ms. Li Sin Ming Ivy and Mr. Ho Hau Cheung, *SBS, MH*. Mr. Sung Hak Keung Andy, a former independent non-executive Director, was a member of the Nomination Committee until his retirement as an independent non-executive Director with effect from 20 June 2017. Ms. Li Sin Ming Ivy, the new independent non-executive Director, was then appointed as a member of the Nomination Committee in place of Mr. Sung Hak Keung Andy on 20 June 2017.

## Nomination Committee *(Continued)*

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 of the Company, any Director appointed by the Board to fill a casual vacancy shall hold office until the first general meeting of the Company after his/her 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 meetings of the Nomination Committee were held to review the structure and composition of the Board and nominate new candidate for directorship appointment and make recommendations to the Board. All members of the Nomination Committee attended the meetings during their respective terms of office.

## 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.

As at the date of this report, the Audit Committee comprised three independent non-executive Directors, namely Ms. Li Sin Ming Ivy as the chairman of the Audit Committee, Mr. Ho Hau Cheung, *SBS, MH* and Mr. Leung Chi Kin. Mr. Sung Hak Keung Andy, a former independent non-executive Director, was the chairman of the Audit Committee until his retirement as an independent non-executive Director with effect from 20 June 2017. Ms. Li Sin Ming Ivy, the new independent non-executive Director, was then appointed as the chairman of the Audit Committee in place of Mr. Sung Hak Keung Andy on 20 June 2017.

The Audit Committee held three meetings during the Year to review the financial results of the Group for the year ended 31 December 2016 and the six months ended 30 June 2017, 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 meetings during their respective terms of office.

## 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.

As at the date of this report, the Corporate Governance Committee comprised two executive Directors, namely Mr. Zhou Ling as the chairman of the Corporate Governance Committee, and Ms. Yang Fang. Mr. Lee Chik Yuet, a former executive Director, was the chairman of the Corporate Governance Committee until his retirement as an executive Director with effect from 20 June 2017. Mr. Zhou Ling, an executive Director and a member of the Corporate Governance Committee, was then appointed as the chairman of the Corporate Governance Committee in place of Mr. Lee Chik Yuet on 20 June 2017.

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 and the Company's policies which provide a guidance to the Directors, senior management and relevant employees in handling confidential information and monitoring information disclosure. All members of the Corporate Governance Committee attended the meeting during their respective terms of office.

## 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, Moore Stephens CPA Limited, regarding their reporting responsibilities is set out in the section headed "Independent Auditor's Report" on pages 51 to 57 of this report.

## Internal Controls and Risk Management

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 operational environment that may impact the business of the Group; (2) evaluates the impacts of those significant risks identified and the likelihood of the significant risks occurrence; (3) determines the risk management strategies and internal control processes to mitigate the risks; (4) performs on-going monitor and review of the effectiveness of the risk management strategies and internal control processes; and (5) reports to the Board on all findings regularly. The Board (1) determines the Group's risks 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 ensure that inside information is handled and disseminated properly and in accordance with the applicable laws and regulatory requirements, the Group adopts and implements an inside information policy and procedures. Certain reasonable measures have been taken from time to time to ensure that proper safeguards exist to prevent a breach of a disclosure requirement in relation to the Group, which include:

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

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

The Board has engaged an independent auditor to review the effectiveness of the internal control systems of the Group, covering all material financial, operational and compliance controls for the year ended 31 December 2017. Such review is conducted annually. The scope of the review has been previously determined and approved by the Board and the Audit Committee. The independent auditor has reported major findings and areas of improvement to the Board. All the recommendations have been properly followed up by the Group to ensure that they will be implemented within a reasonable period of time. The Board is of the view that the Group's current risk management and internal control systems are adequate and effective throughout the Year. The Board, through the Audit Committee, reviewed the adequacy of resources, staff qualifications and experience, training programmes, and budget of the Group's accounting and financial reporting functions during the Year, and considered that such systems are effective and adequate.

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

## Auditors' Remuneration

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

Fees paid or payable by the Group for statutory audit services provided to the Group for the Year amounted to approximately HK$1,500,000 (2016: HK$1,880,000).

## 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 of the Company as amended from time to time, shareholders may convene a general meeting or put forward proposals in accordance with the following provisions:

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

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

3. The request will be verified 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.

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

**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, and Hong Kong.

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

   The Company does not normally deal with verbal or anonymous enquiries. Shareholders 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 Environmental, Social and Governance ("ESG") report of the Group aims to highlight its ESG performance during the Year 2017.

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

This report covers the Group's overall performance in two subject areas, namely, Environmental and Social aspects of its operations in the PRC, from 1 January 2017 to 31 December 2017, unless otherwise stated. The reporting scope of this report focuses on the pharmaceutical products distribution and trading business of the Group in the PRC, which are operated by the following subsidiaries of the Company including: China New Rich and Zhejiang Xin Rui Pharmaceutical Co. Ltd.. The Group's operation in Hong Kong is excluded from the scope as it is identified to be insignificant to the overall Group's operation. This report should be read in conjunction with the Corporate Governance Report on pages 34 to 41 of this annual report in order to have a full understanding on the Group's relevant performances.

## Reporting Standards

This report is prepared in accordance with the Environmental, Social and Governance (ESG) Reporting Guide set out in Appendix 27 to the Listing Rules ("HKEx ESG Reporting Guide"). The Company has complied with the "comply or explain" provisions set out in the HKEx ESG Reporting Guide for the year ended 31 December 2017. The Group's management approaches, strategies, priorities and targets of environmental and social aspects are disclosed in this report.

## Stakeholder Engagement and Materiality

In order to identify the most significant aspects of the Group for this report, key stakeholders including employees, suppliers, distributors and customers have been involved in regular engagement meetings to discuss and review areas of attention which will help the Group 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 with us via email at info@newraymedicine.com.

## The Company's Sustainability Vision

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

## Environmental and Natural Resources

Our Group recognises the importance of environmental protection and the potential impacts that may cause to the natural environment from our operation, and thus strive to minimise our impacts. While we aim to generate revenue for our shareholders, provide the best products and services to our clients, our senior management is also cautious about our environmental impacts brought by our business activities, and ensures our compliance with applicable laws and regulatory requirements in the mainland China. We are cautious about identifying our attributable environmental impacts and managing environmental impacts brought by our business of pharmaceutical products distribution and trading in the PRC, and minimising these attributable impacts if possible.

## Environmental and Natural Resources *(Continued)*

Environmental policy with emphasis on best managing our operational impacts towards the local environment, along with the promotion of awareness programme are implemented internally. The same has been encouraged to our clients with the aim to improve all together. Further details and examples of our environmental programme and activities can be found in later sections.

### Air Emissions

The Group took the initiative to examine the issue of air emissions when conducting business activities and the result indicated no significant impact could be reported. Due to our business nature, our business operation does not involve any combustion process or industrial activities that could lead to direct emissions to the atmosphere, and our Group doesn't operate any energy generation unit (e.g. diesel generator). Thus, we posed no major impact in the air emissions aspect.

Our company vehicles generated minor emissions from petroleum consumption. A total of 369t of carbon monoxide, 49t of non-methane volatile organic compounds, 2t of methane, 23t of nitrogen oxides and 0.04t of nitrous oxide were produced by vehicle emissions in this reporting year. We will continue to monitor our operation and ensure our air emissions will be maintained at a reasonable level.

### Carbon Emissions

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

As a summary, and based on our electricity consumption and unleaded petroleum consumption, the carbon footprint of our Group in this reporting year was 124.5t$CO_2$e.

### Waste Management

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

For non-hazardous waste, the Group has been promoting waste reduction to our staff. Measures such as recycling waste paper and the appropriate use of recycled paper are encouraged in our workplaces. In addition, we take the initiative further by driving for a paper-less working environment. Our staff are encouraged to work and communicate through emails and e-format documents instead of hard copies. The method for handling other non-hazardous waste is to first collect and categorise them, then sell the recyclable non-hazardous waste, including waste plastic materials, to the recycling station.

### Use of Resources

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

## Environmental and Natural Resources *(Continued)*

### Use of Resources *(Continued)*

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

### Resources Conservation

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

***Electricity***

The Group understands energy generation is a heavy fossil fuel burning process which poses a significant impact on our environment as pollutants should be directly emitted into the atmosphere. We are cautious about our electricity consumption and trying our best to minimise our impacts. Our electricity consumption is mainly incurred during its business processes to provide services to customers and in its general administration. In order to minimise its consumption of electricity during its business processes, all employees are reminded to switch off light and air-conditioners before leaving work or meeting rooms. The Group is constantly encouraging employees to reduce its carbon footprints through efficient use of electricity.

***Water***

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

***Unleaded Petrol***

The Group consumes unleaded petroleum in the transportation activities during the delivery of goods and in its general administration. Air pollutants emitted by the Group through consumption on unleaded petroleum by vehicles are not material, and all employees are reminded to avoid unnecessary travelling to reduce consumption.

***Non-hazardous Waste***

Non-hazardous waste from the Group's operation is mainly paper waste in its general administration. Our employees are constantly reminded with the "Efficient Usage" concept to minimise paper wastage. For example, notices are posted in different office area, reminding our staff on paper recycling, while continuing other paper saving practices among employees (such as e-documentation).

As a summary, and after a careful data consolidation and analysis, our Group reported that a total of 116,427kWh of electricity, 1,650$m^3$ of water, 15kg of packaging lock, 150 of packaging roll, 0.22t of paper, 17,842L of petroleum, and 44,000 pieces of paper consumption were incurred in this reporting year.

During the reporting year, the Group has complied in all material respects with the applicable laws and regulatory requirements on environmental protection, greenhouse gas emissions, discharges into water and land, and generation of hazardous and non-hazardous waste that have a significant impact on the Group in the PRC.

## Social

### Employment and Labour Practices

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

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

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

During the Year, the Group has complied in all material respects with all applicable employment and labour related laws and regulations that have a significant impact on our Group including Labour Law of the PRC (中華人民共和國勞動法) and Labour Contract Law of the PRC (中華人民共和國勞動合同法).

### Employee Health and Safety

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

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

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

During this reporting year, our Group had no material non-compliance with relevant laws and regulations in relation to employee safety, working hours and rest periods that have a significant impact on our Group. No major accidents were encountered during the Group's business operation and no material injury at workplace was recorded during the Year.

## Social *(Continued)*

### Development and Training

The Group believes that our employees are crucial to the sustainable development of the business. Training is an important path to improve the overall quality and to provide comprehensive development for the employees.

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

In this reporting year, 32 of our employees had participated in trainings with 1,340 training hours in total.

### Labour Standards

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

### Equal Opportunity

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

At the end of 2017, the total headcount was 50. The breakdown of the number of the Group's employees by gender and by age is shown in the table below:

| Workforce by Gender | Female | Male |
|---|---|---|
| As at 31 December 2017 | 28 | 22 |

| Workforce by Age Group | <30 | 30–50 | >50 |
|---|---|---|---|
| As at 31 December 2017 | 17 | 30 | 3 |

## Operating Practices

### Supplier Management

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

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

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

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

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

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

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

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

***Supply Chain Management***

The Group sourced the best products for our customers. During the reporting year, 30-40% of our products were sourced from overseas while the rest were sourced from the mainland China. Our prolonged and extensive product sourcing process ensures the quality of our products sourced at the highest compliance standard, and continuous assessments will be performed on existing suppliers on a regular basis and on potential suppliers prior to obtaining new distribution rights of products. In addition, the management will assess the potential suppliers with reference to operation scale, reputation, manufacturing capacity and capabilities, quality of the products, financial performance and historical quality control records. As an extra pre-cautionary measure, the Group appoints an independent search agency to conduct a background search on potential suppliers. The Group also conducts an annual appraisal of the existing suppliers in order to review the performance of our suppliers and the financial performance of our suppliers.

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

## Operating Practices *(Continued)*

**Supplier Management** *(Continued)*

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

*(i) Product Responsibility*

The Group partners with about 142 distributors serving customers of over 800 hospitals, clinic offices and pharmacies. Product quality is a key element of sustainability of the Group's business.

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

Quality Inspectors are required to follow standards and contractual agreements to carry out quality assessment for pharmaceutical products. They must verify suppliers, product name, specifications, formulations, quantity, batch number, manufacturing date, expiry date, origin, product certificates, 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 a sample 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 practices, ensuring no illegal engagement is involved and protecting the customers in terms of product quality in accordance with national laws and regulations such as Pharmaceutical Administration Law of the PRC (《中華人民共和國藥品管理法》) and the Good Supply Practices, etc.

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

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

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

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

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

## Operating Practices *(Continued)*

**Supplier Management** *(Continued)*

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

*(i) Product Responsibility (Continued)*

There were no products sold or shipped subject to recalls and no product or service related complaints received in 2017.

For our pharmaceutical products distribution and other related businesses, during the reporting year, no material non-compliance was noted by the Group in relation to the relevant laws and regulations of the PRC, including but not limited to the Pharmaceutical Administration Law of the PRC (《中華人民共和國藥品管理法》), the Pharmaceutical Administration Law Implementation Regulations of the PRC (《中華人民共和國藥品管理法實施條例》), the Pharmaceutical Licensing Management Methods (《藥品經營許可管理辦法》), the Good Supply Practices for Medicine Distribution Quality (《藥品經營質量管制規範》), the Administrative Measures for the Import of Drugs (《藥品進口管理辦法》) which have a material impact on the business of the Group.

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

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

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

*(iii) Anti-corruption*

The Group adopted a whistleblowing policy (舉報政策) on 15 October 2012, as revised on 18 March 2013 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)*

### Supplier Management *(Continued)*

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

*(iii) Anti-corruption (Continued)*

- Breaches against 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.

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. Zhou Ling. No reports or related complaints were received from employees in 2017.

During the reporting year, our Group complied with the Law of the PRC on Anti-money Laundering (《中華人民共和國反洗錢法》) and relevant laws and regulations regarding health and pharmaceutical products, including but not limited to the Anti-Unfair Competition Law of the PRC (《中華人民共和國反不正當競爭法》) which have a material impact on the business of the Group in all material respects.

## Community

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

### Community Investment

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

MOORE STEPHENS

Moore Stephens CPA Limited
801-806 Silvercord, Tower 1,
30 Canton Road, Tsimshatsui,
Kowloon, Hong Kong

T +852 2375 3180
F +852 2375 3828

www.moorestephens.com.hk

大華馬施雲
會計師事務所有限公司

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

## Qualified Opinion

We have audited the consolidated financial statements of New Ray Medicine International Holding Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 58 to 130, which comprise the consolidated statement of financial position as at 31 December 2017, 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, except for the possible effects of the matter described in the Basis for Qualified Opinion section of our report, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2017, 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.

## Other Matter

The consolidated financial statements of the Group for the year ended 31 December 2016 were audited by another auditor who expressed an unmodified opinion on those statements on 30 March 2017.

## Basis for Qualified Opinion

As disclosed in note 1 to the consolidated financial statements, the Company made an announcement that the Securities and Futures Commission ("SFC") has on 6 October 2017 issued a direction to suspend trading in the shares of the Company with effect from 6 October 2017 (the "Suspension") as it appears to the SFC that, *inter alia*, the Company's announcements in relation to the acquisition of 50% interest in Saike International Medical Group Limited ("Saike International") and the Company's announcements in relation to the acquisition of 15% interest in Eternal Charm International Limited (now known as WinHealth International Company Limited) ("WinHealth International") (the "Acquisitions") may have contained materially false, incomplete or misleading information.

## Basis for Qualified Opinion *(Continued)*

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

(i) conduct an independent investigation into the issues relating to the Acquisitions and to obtain external legal or other independent professional advice if required; and

(ii) deal with the issues and matters in relation to the Suspension.

Up to the date of our audit report, the Company has not made further announcement to provide update on the progress of the investigation conducted by the IBC as the investigation has not been completed. The investigation into the issues relating to the Acquisitions, which is still on-going, did not result in conclusive finding nor conclusion.

As disclosed in note 20 to the consolidated financial statements, the Acquisitions relate to sale and purchase agreements which the Group entered into with purportedly independent third parties to acquire two associates, Saike International and WinHealth International, which were completed in 2015 and 2017 respectively and the cost of acquisition amounted to RMB 95,000,000 and RMB47,250,000, respectively. As at 31 December 2017, the carrying amount of the Group's interest in Saike International is HK$149,379,000 (31 December 2016: HK$125,958,000) and the carrying amount of the Group's interest in WinHealth International is HK$55,595,000.

As the investigation into the issues relating to the Acquisitions, which is still on-going, did not result in conclusive finding nor conclusion, we have not been able to obtain sufficient appropriate audit evidence to satisfy ourselves as to the matters which are the subject matters of the investigation, including whether the Acquisitions were in fact related party transactions.

The scope limitations described above also impact on our ability to determine the reliability of the management representations received by us concerning the completeness of disclosures of related party transactions and balances in the consolidated financial statements. These representations were relied upon by us for our audit tests performed on these disclosures.

In view of the above, we were unable to determine whether any adjustments to the disclosures provided in the consolidated financial statements concerning related party transactions and balances were necessary in order for the disclosures to comply with the disclosure requirements set out in HKAS 24 "Related Party Disclosures", including whether the Acquisitions as well as the transactions as disclosed in note 19 to the consolidated financial statements, were in fact related party transactions.

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

## Key Audit Matters

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

| Key audit matters | How our audit addressed the key audit matters |
| --- | --- |
| *Impairment assessment of interests in associates* | |
| We identified the impairment assessment of interests in associates 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 20 to the consolidated financial statements, the carrying amount of the interests in associates is HK$204,974,000 (2016: HK$125,958,000).<br><br>In determining the recoverable amounts of associates, estimation of the value in use is required and the valuation is carried out by external independent valuers (the “Valuers”) engaged by the Group. 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 are no impairment in respect of the interests in associates as at 31 December 2017. | Our procedures in relation to the impairment assessment of interests in associates included:<br><br>• Discussed with management and the Valuers how the Group estimated the recoverable amounts of associates, including the valuation model adopted, key assumptions used;<br><br>• Assessed the competence, capabilities and objectivity of the Valuers performing the valuation; and<br><br>• Evaluated the reasonableness of the valuation methodology and key assumptions used. |

# INDEPENDENT AUDITOR'S REPORT

## Key Audit Matters *(Continued)*

| Key audit matters | How our audit addressed the key audit matters |
|---|---|
| *Recoverability of deposits paid to suppliers*<br><br>As at 31 December 2017, the aggregate carrying amount of deposits paid to suppliers was HK$83,741,000 (2016: HK$105,428,000).<br><br>We identified the recoverability of deposits paid to suppliers as a key audit matter due to the fact that the amounts involved are significant and involvement of management judgment in assessing its recoverability.<br><br>As set out in notes 4 and 25 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 performed 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 and concluded that no impairment should be made on the deposits. | Our procedures in relation to the recoverability of deposits paid to suppliers included:<br><br>• Discussed with management how it performed the recoverability assessment of the deposits paid to suppliers;<br><br>• Discussed with management the basis of estimation of the purchase amounts from the suppliers under the committed minimum purchase arrangement and assessed the reasonableness of such estimation with reference to the Group's historical pattern, current business plan and market condition; and<br><br>• Checked, on a sample basis, for subsequent refund of the deposits paid to suppliers following the 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. As described in the Basis for Qualified Opinion section above, we were unable to obtain sufficient appropriate evidence in identifying the related party relationships with the Group. Accordingly, we are unable to conclude whether or not the other information in the directors' report is materially misstated with respect to this matter.

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

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

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

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

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

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

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

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

*(Continued)*

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

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

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

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

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

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

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

## 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.

**Moore Stephens CPA Limited**
*Certified Public Accountants*

**Chan King Keung**
Practising Certificate Number : P06057

Hong Kong, 29 March 2018

# CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2017

| | NOTES | 2017<br>HK$'000 | 2016<br>HK$'000 |
|---|---|---|---|
| Revenue | 5 | **235,248** | 225,388 |
| Cost of sales | | **(187,923)** | (190,987) |
| | | **47,325** | 34,401 |
| Other income, gains and losses | 7 | **(117,714)** | (19,055) |
| Selling and distribution expenses | | **(23,220)** | (21,779) |
| Administrative expenses | | **(20,118)** | (19,606) |
| Finance costs | 8 | **(162)** | (110) |
| Share of profit of associates | 20 | **19,500** | 12,441 |
| Loss before tax | | **(94,389)** | (13,708) |
| Income tax expense | 9 | **(10,623)** | (6,750) |
| Loss for the year | 10 | **(105,012)** | (20,458) |
| **Other comprehensive income (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 | | **25,362** | (27,545) |
| Share of exchange difference of associates | | **2,588** | (1,449) |
| | | **27,950** | (28,994) |
| *Items that may be subsequently reclassified to profit or loss:* | | | |
| Fair value loss on available-for-sale investments | | **(118,886)** | (24,313) |
| Reclassification adjustment upon impairment on available-for-sale investments | | **131,799** | 15,366 |
| Released on disposal of available-for-sale investments | | **(12,913)** | 6,018 |
| | | **–** | (2,929) |
| Other comprehensive income (expense) for the year | | **27,950** | (31,923) |
| **Total comprehensive expense for the year** | | **(77,062)** | (52,381) |
| Loss for the year attributable to owners of the Company | | **(105,012)** | (20,458) |
| Total comprehensive expense for the year attributable to owners of the Company | | **(77,062)** | (52,381) |
| | | | (Restated) |
| Loss per share | 13 | | |
| Basic (HK cents) | | **(7.22)** | (5.45) |
| Diluted (HK cents) | | **(7.22)** | (5.45) |

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2017

| | NOTES | 2017 HK$'000 | 2016 HK$'000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Property, plant and equipment | 14 | **10,712** | 11,860 |
| Prepaid lease payments | 15 | **20,059** | 19,220 |
| Prepayment for a distribution right | 16 | **26,797** | 28,619 |
| Intangible asset | 17 | **14,515** | 15,353 |
| Club debenture | 18 | **598** | 559 |
| Available-for-sale investments | 19 | **89,373** | 67,226 |
| Financial asset at fair value through profit or loss | 20 | **3,066** | – |
| Interests in associates | 20 | **204,974** | 125,958 |
| Interest in a joint venture | 21 | **–** | – |
| Amount due from a joint venture | 21 | **–** | – |
| | | **370,094** | 268,795 |
| **Current assets** | | | |
| Inventories | 22 | **130,551** | 11,291 |
| Trade and other receivables | 23 | **235,208** | 178,999 |
| Prepaid lease payments | 15 | **508** | 475 |
| Prepayment for a distribution right | 16 | **3,828** | 3,577 |
| Bank balances and cash | 26 | **90,195** | 71,599 |
| | | **460,290** | 265,941 |
| **Current liabilities** | | | |
| Trade and other payables | 27 | **92,709** | 38,685 |
| Tax payable | | **1,121** | 473 |
| Bank borrowings | 28 | **–** | 16,769 |
| | | **93,830** | 55,927 |
| **Net current assets** | | **366,460** | 210,014 |
| **Total assets less current liabilities** | | **736,554** | 478,809 |
| **Non-current liability** | | | |
| Deferred tax liabilities | 29 | **9,729** | 7,122 |
| | | **726,825** | 471,687 |
| **Capital and reserves** | | | |
| Share capital | 30 | **83,592** | 20,822 |
| Share premium and reserves | | **643,233** | 450,865 |
| Equity attributable to owners of the Company | | **726,825** | 471,687 |

The consolidated financial statements on pages 58 to 130 were approved and authorised for issue by the Board of Directors on 29 March 2018 and are signed on its behalf by:

| | |
|---|---|
| **ZHOU LING** | **YANG FANG** |
| *DIRECTOR* | *DIRECTOR* |

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2017

| | 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 2016 | 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 30) | 6,362 | 40,372 | – | – | – | – | – | – | 46,734 |
| Transaction cost attributable to issue of shares | – | (2,079) | – | – | – | – | – | – | (2,079) |
| Recognition of equity-settled share-based payments (note 34) | – | – | – | – | – | 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 |
| Loss for the year | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **(105,012)** | **(105,012)** |
| Other comprehensive income for the year | **–** | **–** | **–** | **–** | **–** | **–** | **27,950** | **–** | **27,950** |
| Total comprehensive expense for the year | **–** | **–** | **–** | **–** | **–** | **–** | **27,950** | **(105,012)** | **(77,062)** |
| Issue of rights shares (note 30) | **62,467** | **281,102** | **–** | **–** | **–** | **–** | **–** | **–** | **343,569** |
| Transaction costs attributable to issue of rights shares | **–** | **(13,622)** | **–** | **–** | **–** | **–** | **–** | **–** | **(13,622)** |
| Issue upon exercise of share options (note 34) | **303** | **2,563** | **–** | **–** | **–** | **(613)** | **–** | **–** | **2,253** |
| Lapse of share options (note 34) | **–** | **–** | **–** | **–** | **–** | **(1,137)** | **–** | **1,137** | **–** |
| Transfer | **–** | **–** | **–** | **2,066** | **–** | **–** | **–** | **(2,066)** | **–** |
| At 31 December 2017 | **83,592** | **607,614** | **50,167** | **21,930** | **–** | **–** | **(1,727)** | **(34,751)** | **726,825** |

Note: For the Company's subsidiaries, Zhejiang Xin Rui Pharmaceutical Co. Ltd. ("Zhejiang Xin Rui") 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 2017

| | NOTES | 2017<br>HK$'000 | 2016<br>HK$'000 |
|---|---|---|---|
| **OPERATING ACTIVITIES** | | | |
| Loss before tax | | **(94,389)** | (13,708) |
| Adjustments for: | | | |
| Impairment loss on available-for-sale investments | 7 | **131,799** | 15,366 |
| Realised (gain) loss on disposal of available-for-sale investments | 7 | **(12,913)** | 6,018 |
| Fair value change on financial asset at fair value through profit or loss | 7 | **2,271** | – |
| Amortisation of prepayment for a distribution right | | **3,698** | 3,695 |
| Depreciation of property, plant and equipment | 14 | **1,989** | 2,085 |
| Amortisation of an intangible asset | 17 | **1,849** | 1,848 |
| Equity-settled share-based payment expenses | | **–** | 1,750 |
| Amortisation of prepaid lease payment | 15 | **491** | 282 |
| Interest expenses | 8 | **162** | 110 |
| Loss on disposal of property, plant and equipment | 7 | **1** | 2 |
| Interest income | 7 | **(699)** | (376) |
| Compensation from Targeted Profit Requirement | 20 | **–** | (522) |
| Dividend income from available-for-sale investments | 7 | **(740)** | (583) |
| Share of profit of associates | | **(19,500)** | (12,441) |
| Operating cash flows before movements in working capital | | **14,019** | 3,526 |
| Increase in inventories | | **(114,457)** | (5,742) |
| Increase in trade and other receivables | | **(49,219)** | (22,090) |
| Increase in trade and other payables | | **49,575** | 11,316 |
| Cash used in operations | | **(100,082)** | (12,990) |
| Income tax paid | | **(7,992)** | (8,021) |
| **NET CASH USED IN OPERATING ACTIVITIES** | | **(108,074)** | (21,011) |
| **INVESTING ACTIVITIES** | | | |
| Proceeds on disposal of available-for-sale investments | | **97,125** | 30,201 |
| Receipts on advance to an associate | | **–** | 12,601 |
| Dividend received from available-for-sale investments | | **740** | 583 |
| Interest received | | **699** | 376 |
| Purchases of available-for-sale investments listed in Hong Kong | | **(212,658)** | (4,596) |
| Purchases of property, plant and equipment | 14 | **(78)** | (5,214) |
| Purchase of prepaid lease payment | 15 | **–** | (13,064) |
| Purchase of unlisted available-for-sale investments | | **(25,500)** | (43,688) |
| Acquisition of investments in associates | | **(53,336)** | – |
| **NET CASH USED IN INVESTING ACTIVITIES** | | **(193,008)** | (22,801) |

# CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2017

| | NOTES | 2017<br>HK$'000 | 2016<br>HK$'000 |
|---|---|---|---|
| **FINANCING ACTIVITIES** | | | |
| Proceeds from placing of shares | | **–** | 46,734 |
| Proceeds from issue of rights shares | | **343,569** | – |
| Proceeds from exercised share option | | **2,253** | – |
| New bank loans raised | | **–** | 17,321 |
| Repayment of bank loans | 39 | **(16,904)** | – |
| Interest paid | | **(162)** | (110) |
| Payment of transaction costs attributable to issue of new shares | | **(13,622)** | (2,079) |
| **NET CASH FROM FINANCING ACTIVITIES** | | **315,134** | 61,866 |
| **NET INCREASE IN CASH AND CASH EQUIVALENTS** | | **14,052** | 18,054 |
| **CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR** | | **71,599** | 56,795 |
| **EFFECT OF FOREIGN EXCHANGE RATE CHANGES** | | **4,544** | (3,250) |
| **CASH AND CASH EQUIVALENTS AT END OF THE YEAR,** represented by bank balances and cash | | **90,195** | 71,599 |

## 1. GENERAL

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

The shares of the Company were listed on 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 distribution and trading of pharmaceutical products and the provision of marketing and promotion services in the PRC.

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

As stated in the announcement of the Company dated 6 October 2017, the Securities and Futures Commission ("SFC") has on 6 October 2017 issued a direction to suspend trading in the shares of the Company with effect from 6 October 2017 (the "Suspension") as it appears to the SFC that, *inter alia*, the Company's announcements in relation to the acquisition of 50% interest in Saike International Medical Group Limited ("Saike International") and the Company's announcements in relation to the acquisition of 15% interest in Eternal Charm International Limited ("WinHealth International") (the "Acquisitions") may have contained materially false, incomplete or misleading information.

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

(i) conduct an independent investigation into the issues relating to the Acquisitions and to obtain external legal or other independent professional advice if required; and

(ii) deal with the issues and matters in relation to the Suspension.

Up to the date of this auditor's report, the Company has not made further announcement to provide update on the progress of the investigation conducted by the IBC as the investigation has not been completed. The investigation into the issues relating to the Acquisitions, which is still on-going, did not result in conclusive finding nor conclusion.

The Acquisitions relate to sale and purchase agreements which the Group entered into with purportedly independent third parties to acquire two associates, Saike International and WinHealth International (see Note 20), which were completed in 2015 and 2017 respectively and the cost of acquisition amounted to RMB95,000,000 and RMB47,250,000 respectively. As at 31 December 2017, the carrying amount of the Group's interest in Saike International is HK$149,379,000 (31 December 2016: HK$125,958,000) and the carrying amount of the Group's interest in WinHealth International is HK$55,595,000.

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

## 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 7 | Disclosure Initiative |
| Amendments to HKAS 12 | Recognition of Deferred Tax Assets for Unrealised Losses |
| Amendments to HKFRS 12 | As part of the Annual Improvements to HKFRSs 2014–2016 Cycle |

Except as described below, 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.

**Amendments to HKAS 7 Disclosure Initiative**

The Group has applied these amendments for the first time in the current year. The amendments require an entity to provide disclosures that enable users of consolidated financial statements to evaluate changes in liabilities arising from financing activities, including both cash and non-cash changes. In addition, the amendments also require disclosures on changes in financial assets if cash flows from those financial assets were, or future cash flows will be, included in cash flows from financing activities.

Specifically, the amendments require the following to be disclosed: (i) changes from financing cash flows; (ii) changes arising from obtaining or losing control of subsidiaries or other businesses; (iii) the effect of changes in foreign exchange rates; (iv) changes in fair values; and (v) other changes.

A reconciliation between the opening and closing balances of these items is provided in note 39. Consistent with the transition provisions of the amendments, the Group has not disclosed comparative information for the prior year. Apart from the additional disclosure in note 39, the application of these amendments has had no impact on the Group's 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 revised 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] |
| HKFRS 17 | Insurance Contracts[4] |
| HK(IFRIC) – Int 22 | Foreign Currency Transactions and Advance Consideration[1] |
| HK(IFRIC) – Int 23 | Uncertainty over Income Tax Treatments[2] |
| 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 Contract[1] |
| Amendments to HKFRS 9 | Prepayment Features with Negative compensation[2] |
| Amendments to HKFRS 10 and HKAS 28 | Sale or Contribution of Assets between an Investor and its Associate or Joint Venure[3] |
| Amendments to HKAS 28 | Long-term Interests in Associates and Joint Ventures[2] |
| Amendments to HKAS 40 | Transfers of Investment Property[1] |
| Amendments to HKAS 28 | As part of the Annual Improvements to HKFRSs 2014–2016 Cycle[1] |
| Amendments to HKFRSs | Annual Improvements to HKFRSs 2015–2017[2] |

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 2021

**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 2017, the directors of the Company anticipate the following potential impact on initial application of HKFRS 9:

***Classification and measurement:***

- Listed equity securities classified as available-for-sale ("AFS") investments carried at fair value as disclosed in note 19: these securities qualified for designation as measured at FVTOCI under HKFRS 9, however, under HKFRS 9, the fair value gains or losses accumulated in the investments revaluation reserve will no longer be subsequently reclassified to profit or loss upon impairment or disposal of the investment, which is different from the current treatment. This will affect the amounts recognised in the Group's profit or loss and other comprehensive income but will not affect total comprehensive income. Upon initial application of HKFRS 9, investments revaluation reserve related to these AFS investments will be transferred to retained profits as at 1 January 2018;

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

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

***Classification and measurement:*** *(Continued)*

- Equity securities classified as AFS investments carried at cost less impairment as disclosed in note 19: these securities qualified for designation as measured at FVTOCI under HKFRS 9 and the Group will measure these securities at fair value at the end of subsequent reporting periods with fair value gains or losses to be recognised as other comprehensive income and accumulated in the investments revaluation reserve. Upon initial application of HKFRS 9, the fair value relating to these securities would be adjusted to investments revaluation reserve as at 1 January 2018. Upon initial application of HKFRS 9, fair value related to these securities, representing the differences between cost less impairment and fair value would be adjusted to retained profits as at 1 January 2018;

- All other financial assets and financial liabilities will continue to be measured on the same bases as are currently measured under HKAS 39.

**Impairment**

In general, the directors of the Company anticipate that the application of the expected credit loss model of HKFRS 9 will result in earlier provision of credit losses which are not yet incurred in relation to the Group's financial assets measured at amortised costs and other items that are subject to the impairment provisions upon application of HKFRS 9 by the Group.

Based on the assessment by the directors of the Company, if the expected credit loss model were to be applied by the Group, the accumulated amount of impairment loss to be recognised by Group as at 1 January 2018 would be significantly increased as compared to the accumulated amount recognised under HKAS 39 mainly attributable to expected credit losses provision on trade receivables and deposits paid to suppliers. Such further impairment recognised under expected credit loss model would reduce the opening retained profits and increase the deferred tax assets as at 1 January 2018.

## 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 result in more disclosures, however, the directors of the Company do not anticipate that the application of HKFRS 15 will have a material impact on the timing and amounts of revenue recognised in the respective reporting periods.

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

**HKFRS 16 Leases**

HKFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. HKFRS 16 will supersede HKAS 17 "Leases" and the related interpretations when it becomes effective.

HKFRS 16 distinguishes lease and service contracts on the basis of whether an identified asset is controlled by a customer. Distinctions of operating leases and finance leases are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees, except for short-term leases and leases of low value assets.

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

Under HKAS 17, the Group has already recognised an asset and a related finance lease liability for finance lease arrangement and prepaid lease payments for leasehold lands where the Group is a lessee. The application of HKFRS 16 may result in potential changes in classification of these assets depending on whether the Group presents right-of-use assets separately or within the same line item at which the corresponding underlying assets would be presented if they were owned.

In contrast to lessee accounting, HKFRS 16 substantially carries forward the lessor accounting requirements in HKAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease.

Furthermore, extensive disclosures are required by HKFRS 16.

As at 31 December 2017, the Group has non-cancellable operating lease commitments of approximately HK$944,000 as disclosed in note 37.

Furthermore, the application of new requirements may result in changes in measurement, presentation and disclosure as indicated above.

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 ("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.

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.

When the consideration transferred by the Group in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with the corresponding adjustments made against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the "measurement period" (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for the contingent consideration that does not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as an asset or a liability is remeasured to fair value at subsequent reporting dates, with the corresponding gain or loss being recognised in profit or loss.

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

**Investments in associates and a joint venture** *(Continued)*

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.

**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.

Marketing and promotion service income is recognised when the related services are rendered.

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.

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

**Intangible assets**

***Intangible assets acquired separately***

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

**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 relevant 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 asset individually, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset 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.

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

**Leasing** *(Continued)*

***Leasehold land and building***

When the Group makes payments for a property interest which includes both leasehold land and building elements, the Group assesses the classification of each element 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 entire consideration (including any lump-sum upfront payments) is allocated between the leasehold land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element at initial recognition.

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.

**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.

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

**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.

**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 34.

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.

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

**Taxation**

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

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit 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.

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.

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

**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.

**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 into the following specific categories: financial assets at fair value through profit or loss ("FVTPL"), 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.

*Financial assets at FVTPL*

Financial assets are classified as at FVTPL when the financial asset is contingent consideration that may be paid by an acquirer as part of a business combination to which HKFRS 3 applies.

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss excludes any dividend or interest earned on the financial assets and is included in the "other gains and losses" line item.

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

**Financial instruments** *(Continued)*

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

*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 are measured at fair value at the end of each reporting period except for unquoted equity investments whose fair value cannot be reliably measured. 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 are measured at cost less any identified impairment losses at the end of each reporting period.

*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 and bank balances and cash) are carried at amortised cost using the effective interest method, less any identified impairment losses.

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.

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

**Financial instruments** *(Continued)*

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

*Impairment of financial assets (Continued)*

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. Change in the carrying amount of the allowance account are recognised in profit or loss. 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.

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.

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

**Financial instruments** *(Continued)*

***Financial liabilities and equity instruments*** *(Continued)*

*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.

***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.

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

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

Determining whether interest in Saike International, an associate of the Group, is impaired requires an estimation of the value in use. In determining the value in use, management's estimates are based on the Group's share of the present value of the estimated future cash flows expected to be generated by Saike International. Where the actual future cash flows of Saike International are less than expected, or change in facts and circumstances which results in downward revision of future cash, impairment loss may arise. As at 31 December 2017, the carrying amount of interest in Saike International is HK$149,379,000 (2016: HK$125,958,000).

**Valuation of interest in WinHealth International Company Limited ("WinHealth International") (formerly known as Eternal Charm International Limited)**

Determining whether interest in WinHealth International, an associate of the Group, is impaired requires an estimation of the value in use. In determining the value in use, management's estimates are based on the Group's share of the present value of the estimated future cash flows expected to be generated by WinHealth International. Where the actual future cash flows of WinHealth International are less than expected, or change in facts and circumstances which results in downward revision of future cash, impairment loss may arise. As at 31 December 2017, the carrying amount of interest in WinHealth International is HK$55,595,000 (2016: nil).

**Estimated allowances on 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 level of forfeitures of the deposits paid to suppliers.

Allowances are applied to deposits paid to the suppliers where events or changes in circumstances indicate that the balances may not be recoverable. The estimation of allowances on 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 2017, the carrying amount of deposits paid to suppliers is HK$83,741,000 (2016: HK$105,428,000) as disclosed in note 25 to the consolidated financial statements.

**Valuation of available-for-sale investments**

In determining the fair value of the Group's investments in equity securities of Town Health International Medical Group Limited ("Town Health"), a listed entity details of which are included in note 19 to the consolidated financial statements, management used appropriate assumptions to estimate the fair value based on the market approach with reference to comparable companies engaged in similar business as the investee. Significant assumptions on parameters, such as EV/EBITDA, P/Sales multiple and lack of marketability discount, are required to be made in applying the valuation. Where those assumptions are different from expected, impairment may arise.

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

**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 2017, the carrying amount of trade receivables is HK$49,280,000 (2016: HK$51,927,000).

**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 2017, the carrying amount of inventories is HK$130,551,000 (2016: HK$11,291,000).

## 5. REVENUE

Revenue represents the aggregate of the net amounts received and receivable for the year. An analysis of the Group's revenue for the year is as follows:

| | **2017**<br>**HK$'000** | 2016<br>HK$'000 |
|---|---|---|
| Trading of pharmaceutical products | **231,979** | 225,388 |
| Provision of marketing and promotion services | **3,269** | – |
| | **235,248** | 225,388 |

## 6. SEGMENT INFORMATION

The Group is principally engaged in the distribution and trading of pharmaceutical products and the provision of marketing and promotion services in the PRC. 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) Marketing and promotion services – provision of marketing and promotion services of drugs

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

In prior year, there were 4 reportable and operating segments, namely injection drugs, capsule and granule drugs, tablet drugs and others. During the year, the CODM reassessed the current business units of the Group.

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

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

## 6. SEGMENT INFORMATION *(Continued)*

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.

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

**Year ended 31 December 2017**

| | Injection drugs HK$'000 | Capsule and granule drugs HK$'000 | Tablet drugs HK$'000 | Marketing and promotion services HK$'000 | Others HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|
| REVENUE | | | | | | |
| External sales and segment revenue | 227,335 | 1,525 | 3,119 | 3,269 | – | 235,248 |
| RESULT | | | | | | |
| Segment profit | 43,718 | 244 | 344 | 3,019 | – | 47,325 |
| Other income, gains and losses | | | | | | (117,714) |
| Selling and distribution expenses | | | | | | (23,220) |
| Administrative expenses | | | | | | (20,118) |
| Share of profit of associates | | | | | | 19,500 |
| Finance costs | | | | | | (162) |
| Loss before tax | | | | | | (94,389) |

## 6. SEGMENT INFORMATION *(Continued)*

Year ended 31 December 2016

| | Injection drugs HK$'000 | Capsule and granule drugs HK$'000 | Tablet drugs HK$'000 | Marketing and promotion services HK$'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) |

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 (i.e. the PRC).

## 6. SEGMENT INFORMATION *(Continued)*

**Information about major customers**

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

| | **2017 HK$'000** | 2016 HK$'000 |
|---|---|---|
| Customer A[1] | **42,819** | 66,035 |
| Customer B[1] | **27,188** | N/A[2] |
| Customer C[1] | **N/A[2]** | 37,757 |
| Customer D[1] | **N/A[2]** | 24,165 |

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

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

## 7. OTHER INCOME, GAINS AND LOSSES

| | **2017 HK$'000** | 2016 HK$'000 |
|---|---|---|
| Incentives received from government grants (note) | **138** | 836 |
| Dividend income from AFS investments | **740** | 583 |
| Compensation from Targeted Profit Requirement (as defined in note 20) | **–** | 522 |
| Bank interest income | **526** | 376 |
| Other interest income | **173** | – |
| Sundry income | **532** | 14 |
| Impairment loss on AFS investments | **(131,799)** | (15,366) |
| Realised gain (loss) on disposal of AFS investments | **12,913** | (6,018) |
| Fair value change on financial asset at fair value through profit or loss (note 20) | **(2,271)** | – |
| Exchange gain | **1,335** | – |
| Loss on disposal of property, plant and equipment | **(1)** | (2) |
| | **(117,714)** | (19,055) |

Note: During the year ended 31 December 2017, the Group was granted incentives of RMB120,000 (equivalent to approximately HK$138,000) (2016: 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.

## 8. FINANCE COSTS

| | 2017 HK$'000 | 2016 HK$'000 |
|---|---|---|
| Interest on bank borrowings | **162** | 110 |

## 9. INCOME TAX EXPENSE

| | 2017 HK$'000 | 2016 HK$'000 |
|---|---|---|
| Current tax: | | |
| PRC Enterprise Income Tax ("EIT") | **8,336** | 5,859 |
| Underprovision in prior year: | | |
| PRC EIT | **251** | 32 |
| Deferred tax (note 29) | **2,036** | 859 |
| | **10,623** | 6,750 |

Under the Laws of the People's Republic of China on Enterprise Income Tax (the "EIT Laws") and Implementation Regulations of the EIT Laws, the tax rate of the PRC subsidiaries was 25% for the years ended 31 December 2017 and 2016.

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 before tax per the consolidated statement of profit or loss and other comprehensive income as follows:

| | 2017 HK$'000 | 2016 HK$'000 |
|---|---|---|
| Loss before tax | **(94,389)** | (13,708) |
| Tax at the domestic income tax rate of 25% (2016: 25%) (note) | **(23,597)** | (3,427) |
| Tax effect of share of profit of associates | **(4,875)** | (3,110) |
| Tax effect of income not taxable for tax purpose | **(3,443)** | (283) |
| Tax effect of expenses and losses not deductible for tax purposes | **40,133** | 11,302 |
| Underprovision in prior year | **251** | 32 |
| Tax effect of tax losses not recognised | **118** | 1,377 |
| Deferred tax on undistributed earnings of PRC subsidiaries and associates | **2,036** | 859 |
| Income tax expense for the year | **10,623** | 6,750 |

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

## 10. LOSS FOR THE YEAR

| | **2017** | 2016 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Loss 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 11(a)) | **10,079** | 10,290 |
| Other staff's salaries, bonus and other benefits | **10,982** | 10,044 |
| Contributions to retirement benefits scheme, excluding directors | **675** | 586 |
| Equity-settled share-based payment expenses, excluding directors | **–** | 613 |
| Total staff costs | **21,736** | 21,533 |
| Depreciation of property, plant and equipment | **1,989** | 2,085 |
| Amortisation of prepaid lease payment | **491** | 282 |
| Amortisation of prepayment for a distribution right (included in cost of sales) | **3,698** | 3,695 |
| Amortisation of intangible assets (included in cost of sales) | **1,849** | 1,848 |
| Minimum lease payment under operating leases in respect of rented premises | **655** | 894 |
| Auditor's remuneration | **1,500** | 1,880 |
| Legal and professional fees (included in administrative expenses) | **7,152** | 5,488 |
| Donations | **58** | 140 |
| Loss on disposal of property, plant and equipment | **1** | 2 |
| Cost of inventories recognised as an expense | **182,376** | 185,444 |

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

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

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

| | Year ended 31 December 2017 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Executive directors | | | Independent non-executive directors | | | | |
| | Zhou Ling ("Mr. Zhou") HK$'000 | Yang Fang ("Ms. Yang") HK$'000 | Lee Chik Yuet ("Mr. Lee") HK$'000 (Note (i)) | Ho Hau Cheung SBS, MH HK$'000 | Leung Chi Kin HK$'000 | Li Sin Ming, Ivy HK$'000 (Note (ii)) | Sung Hak Keung, Andy HK$'000 (Note (i)) | Total HK$'000 |
| Fees | – | – | 60 | 84 | 84 | 51 | 36 | 315 |
| Salaries and other benefits | 6,841 | 2,818 | – | – | – | – | – | 9,659 |
| Contributions to retirement benefits scheme | 51 | 51 | 3 | – | – | – | – | 105 |
| Total emoluments | 6,892 | 2,869 | 63 | 84 | 84 | 51 | 36 | 10,079 |

| | Year ended 31 December 2016 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Executive directors | | | Independent non-executive directors | | | |
| | Mr. Zhou HK$'000 | Ms. Yang HK$'000 | Mr. Lee HK$'000 (Note (i)) | Ho Hau Cheung SBS, MH HK$'000 | Leung Chi Kin HK$'000 | Sung Hak Keung, Andy HK$'000 (Note (i)) | 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 |

Notes:

(i) Retired on 20 June 2017.

(ii) Appointed on 20 June 2017.

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.

## 11. 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 and their emoluments disclosed above include those for services rendered by them in such roles.

For both 2017 and 2016, 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 2017 and 2016.

### (b) Five highest paid employees

Of the five individuals with the highest emoluments in the Group, two (2016: three) were directors and the Chief Executive Officer of the Company whose emoluments are included in the disclosures above. The emoluments of the remaining three (2016: two) individuals were as follows:

| | **2017 HK$'000** | 2016 HK$'000 |
|---|---|---|
| Salaries and other allowances | **5,565** | 4,927 |
| Contributions to retirement benefits scheme | **114** | 70 |
| Equity-settled share-based payment expenses | **–** | 613 |
| | **5,679** | 5,610 |

Their emoluments were within the following band:

| | **Number of employees** | |
|---|---|---|
| | **2017** | 2016 |
| Nil to HK$1,000,000 | **2** | 1 |
| HK$4,000,001 to HK$4,500,000 | **1** | – |
| HK$4,500,001 to HK$5,000,000 | **–** | 1 |
| | **3** | 2 |

During the year ended 31 December 2017, no share option was granted.

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 34.

## 12. DIVIDENDS

No dividend was paid or proposed by the Company during the years ended 31 December 2017 and 2016, nor has any dividend been proposed since the end of the reporting period.

## 13. LOSS PER SHARE

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

| | 2017<br>HK$'000 | 2016<br>HK$'000 |
|---|---|---|
| Loss for the year attributable to owners of the Company for the purposes of basic and diluted loss per share | **(105,012)** | (20,458) |

| | Number of ordinary shares | |
|---|---|---|
| | **2017**<br>**'000** | 2016<br>'000<br>(Restated) |
| **Number of shares** | | |
| Weighted average number of ordinary shares for the purposes of basic and diluted loss per share | **1,454,383** | 375,210 |

The weighted average number of ordinary shares for the purpose of basic loss per share for the years ended 31 December 2017 and 2016 has been adjusted for the rights issue of 1,249,344,000 ordinary shares ("Rights Shares") on the basis of three 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 ("Rights Issue"), completion of which took place on 6 March 2017.

The weighted average number of ordinary shares for the purpose of basic loss per share for the year ended 31 December 2016 was adjusted for the consolidation of shares of the Company effective on 15 March 2016 as disclosed in note 30(a).

The computation of diluted loss per share for the years ended 31 December 2017 and 2016 did not assume the exercise of the Company's outstanding share options since their assumed exercise would result in a decrease in loss per share.

## 14. PROPERTY, PLANT AND EQUIPMENT

| | Buildings HK$'000 | Furniture, fixtures and equipment HK$'000 | Plant and machinery HK$'000 | Motor vehicles HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|
| COST | | | | | |
| At 1 January 2016 | 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 |
| Additions | **–** | **54** | **24** | **–** | **78** |
| Disposals | **–** | **(23)** | **–** | **–** | **(23)** |
| Exchange realignment | **553** | **122** | **38** | **736** | **1,449** |
| At 31 December 2017 | **8,448** | **1,865** | **592** | **11,238** | **22,143** |
| ACCUMULATED DEPRECIATION | | | | | |
| At 1 January 2016 | 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 |
| Provided for the year | **222** | **197** | **25** | **1,545** | **1,989** |
| Disposals | **–** | **(22)** | **–** | **–** | **(22)** |
| Exchange realignment | **54** | **87** | **32** | **512** | **685** |
| At 31 December 2017 | **931** | **1,418** | **495** | **8,587** | **11,431** |
| CARRYING VALUES | | | | | |
| At 31 December 2017 | **7,517** | **447** | **97** | **2,651** | **10,712** |
| At 31 December 2016 | 7,240 | 556 | 92 | 3,972 | 11,860 |

## 14. 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 shorter of term of land lease or 5% |
| Furniture, fixtures and equipment | 20% to 33% |
| Plant and machinery | 10% to 33% |
| Motor vehicles | 10% to 20% |

The Group pledged buildings with aggregate carrying amounts of approximately HK$6,262,000 (2016: HK$7,240,000) as at 31 December 2017 to secure general banking facilities granted to the Group.

## 15. PREPAID LEASE PAYMENTS

| | **2017** **HK$'000** | 2016 HK$'000 |
|---|---|---|
| Carrying value: | | |
| At 1 January | **19,695** | 7,818 |
| Addition | **–** | 13,064 |
| Charged to profit or loss during the year | **(491)** | (282) |
| Exchange realignment | **1,363** | (905) |
| At 31 December | **20,567** | 19,695 |
| Analysed for reporting purposes as: | | |
| Current asset | **508** | 475 |
| Non-current asset | **20,059** | 19,220 |
| | **20,567** | 19,695 |

The Group has pledged prepaid lease payments with aggregate carrying amounts of approximately HK$20,567,000 (2016: HK$19,695,000) as at 31 December 2017 to secure general banking facilities granted to the Group.

## 16. PREPAYMENT FOR A DISTRIBUTION RIGHT

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

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

## 17. INTANGIBLE ASSET

| | HK$'000 |
|---|---|
| COST | |
| At 1 January 2016 | 19,104 |
| Exchange realignment | (1,217) |
| At 31 December 2016 | 17,887 |
| Exchange realignment | **1,254** |
| At 31 December 2017 | **19,141** |
| ACCUMULATED AMORTISATION | |
| At 1 January 2016 | 796 |
| Provided for the year | 1,848 |
| Exchange realignment | (110) |
| At 31 December 2016 | 2,534 |
| Provided for the year | **1,849** |
| Exchange realignment | **243** |
| At 31 December 2017 | **4,626** |
| CARRYING VALUE | |
| At 31 December 2017 | **14,515** |
| At 31 December 2016 | 15,353 |

## 17. INTANGIBLE ASSET *(Continued)*

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

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

## 18. CLUB DEBENTURE

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

## 19. AVAILABLE-FOR-SALE INVESTMENTS

AFS investments comprise:

| | **2017** **HK$'000** | 2016 HK$'000 |
|---|---|---|
| Listed investments: | | |
| – Equity securities listed in Hong Kong (note i) | **20,185** | 23,538 |
| Unlisted investments: | | |
| – Equity securities (note ii) | **69,188** | 43,688 |
| Total | **89,373** | 67,226 |
| Analysed for reporting purposes as: | | |
| Non-current assets | **89,373** | 67,226 |

Notes:

(i) On 2 December 2016, China New Rich Medical Holding Co. Limited ("China New Rich"), a wholly owned subsidiary of the Company, entered into a sale and purchase agreement with China Wah Yan Healthcare Limited ("China Wah Yan") (stock code: 648) to acquire an aggregate of approximately 29% of the then issued shares of China Biotech Services Holdings Limited ("China Biotech") (stock code: 8037) (formerly known as "Rui Kang Pharmaceutical Group Investments Limited"), a company whose shares are listed on GEM of the Stock Exchange, at a consideration of HK$87,973,000 in cash in two tranches.

The first tranche acquisition has been completed on 13 January 2017. China New Rich has acquired 86,700,000 shares, representing approximately 11% of the then issued shares of China Biotech from China Wah Yan at a consideration of HK$33,362,000. The second tranche acquisition, which was conditional upon, among other matters, approval of shareholders of the Company, has been terminated on 27 March 2017 when the condition was yet to be fulfilled.

On 24 August 2017, China New Rich disposed of all the 86,700,000 shares of China Biotech by way of acceptance of the unconditional mandatory general offer made by Guoyuan Capital (Hong Kong) Limited and Zhaobangji International Capital Limited for and on behalf of Genius Lead Limited, a company incorporated in Samoa with limited liability, at an offer price of HK$0.51 per share for a total consideration of HK$44,217,000. Gain on disposal of HK$10,809,000 was recognised in the consolidated profit or loss.

Balance is mainly comprised of the Group's investment in the equity securities listed on the Stock Exchange and is detailed as follows:

As at 31 December 2017, the Group's investment in China Demeter Financial Investments Limited ("China Demeter") (stock code: 8120) amounted to HK$440,000 (2016: HK$460,000) which represented 0.4% (2016: 0.4%) of the issued share capital of China Demeter. During the year ended 31 December 2017, due to a significant decline in the fair value of China Demeter below its cost, impairment loss of HK$20,000 (2016: HK$420,000) have been recognised in the consolidated statements of profit or loss for the year ended 31 December 2017, which were reclassified from the investment revaluation reserve.

## 19. AVAILABLE-FOR-SALE INVESTMENTS *(Continued)*

Notes: *(Continued)*

(i) *(Continued)*

As at 31 December 2017, the Group's investment in Golden Throat Holdings Group Company Limited ("Golden Throat") (stock code: 6896) amounted to HK$2,813,000 (2016: HK$20,347,000) which represented 0.2% (2016: 0.92%) of the issued share capital of Golden Throat. During the year ended 31 December 2017, the Group disposed of shares representing 0.72% of the issued share capital of Golden Throat. Gain on disposal of HK$605,000 (2016: nil) was recognised in consolidated profit or loss. In addition, due to a significant decline in the fair value of Golden Throat below its cost, impairment loss of HK$1,537,000 has been recognised in the consolidated profit or loss for the year ended 31 December 2017, which was reclassified from the investment revaluation reserve.

As at 31 December 2017, the Group's investment in China Wah Yan amounted to carrying amount of nil (2016: HK$2,731,000). On 24 November 2017, the SFC issued a direction to suspend trading in the shares of China Wah Yan in both the original counter (code: 648) and the temporary counter (code: 2906) with effect from 27 November 2017. Subsequent to the date of suspension, the directors assessed the fair value of the listed securities as at 31 December 2017 to be insignificant in amount. As a result, an impairment loss of HK$2,731,000 has been recognised in the consolidated profit or loss for the year ended 31 December 2017, which was reclassified from the investment revaluation reserve.

As at 31 December 2017, the Group's investment in Town Health amounted to carrying amount of HK$16,932,000 (2016: nil) which represented 1.59% (2016: nil) of the issued share capital of Town Health. During the year ended 31 December 2017, the Group purchased 120,000,000 shares, representing approximately 1.55% of the then issued share capital of Town Health at a consideration of HK$144,443,000. On 27 November 2017, the SFC issued a direction to suspend trading in the shares of Town Health on the Stock Exchange with effect from 27 November 2017. Subsequent to the date of suspension, the directors assessed the fair value of the listed securities as at 31 December 2017 to be HK$16,932,000 and have adopted the market approach with reference to comparable companies engaged in the similar businesses as Town Health in arriving the fair value. Significant assumptions on parameters used in the valuation, such as EV/EBITDA, P/S multiple and discount for lack of marketability, are required to be made in applying the valuation. Due to the occurrence of a significant decline in the fair value of Town Health as at 31 December 2017 below its cost, total impairment loss of HK$127,511,000 has been recognised in the consolidated profit or loss for the year ended 31 December 2017, which was reclassified from the investment revaluation reserve.

As at 31 December 2017, the listed securities of China Wah Yan and Town Health were still under suspension and the resumption of trading has not been clarified. The directors are of the opinion that neither China Wah Yan nor Town Health is a related party of the Group.

During the year ended 31 December 2017, the Group purchased and disposed of certain securities listed on the Stock Exchange amounted to HK$34,853,000 and HK$36,352,000 respectively. Gain on disposals of these listed securities of HK$1,499,000 was recognised in the consolidated profit or loss.

(ii) The above unlisted equity investments represent investments in unlisted equity securities issued by HCMPS Healthcare Holdings Limited ("HCMPS") (formerly knowns as C&C International Healthcare Group Limited), a private entity incorporated in the Cayman Islands with limited liability. On 16 March 2017, the Group entered into a sale and purchase agreement with Eagle Network Company Limited, an independent third party, to acquire additional 5% unlisted equity securities issued by HCMPS, at a cash consideration of HK$25,500,000. The acquisition was completed on 16 March 2017. The Group holds 14% (2016: 9%) of the issued share capital of HCMPS as at 31 December 2017. HCMPS and its subsidiaries are principally engaged in the provision of contracted medical schemes for integrated medical and healthcare check-up services in Hong Kong. The 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 2017, 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.

Management of the Group performed impairment review on its investments in unlisted equity securities of HCMPS based on value in use calculation of the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. The calculations used cash flow forecasts based on financial budget covering a period of 5 years, which was prepared by using the most recent financial results with projection approved by the management of HCMPS, and a discount rate of 14.57%. Cash flows beyond the five-year period have been extrapolated using an estimated growth rate of 3.08% which does not exceed the average growth rate for the relevant market. Other key assumptions for the value in use calculations were in relation to the estimation of future cash inflows/outflows which included budgeted sales, gross margin and other related expenses. Such estimations were based on historical performance and future plans of HCMPS. Based on the value in use calculations, the management of the Group determined that there was no impairment for the investment in HCMPS during the year ended 31 December 2017.

## 20. INTERESTS IN ASSOCIATES

| | 2017 HK$'000 | 2016 HK$'000 |
|---|---|---|
| Cost of unlisted investments in associates | **166,868** | 118,631 |
| Share of post-acquisition profit and other comprehensive income | **41,986** | 19,898 |
| Exchange difference arising on translation | **(3,880)** | (12,571) |
| | **204,974** | 125,958 |

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, 50.0% equity interest in Saike International, a company incorporated in the BVI in July 2014, and 15.0% equity interest in WinHealth International, a company incorporated in the BVI in March 2015. The Group is able to exercise significant influence over Sea Star, Saike International and WinHealth International as the Group has the power to participate in the financial and operating policy decisions of the investees but does not have control or joint control over those policies. Accordingly, Sea Star, Saike International and WinHealth International are regarded as associates of the Group.

Details of the Group's associates at 31 December 2017 and 2016 are as follows:

| Name | Place of incorporation | Proportion of ownership and voting rights held by the Group 2017 | 2016 | 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 |
| WinHealth International (note c) | BVI | **15.0%** | – | Trading of pharmaceutical products in the PRC |

Notes:

a. On 11 December 2014, Brilliant Dream Holding Limited ("Brilliant Dream"), an indirect wholly-owned subsidiary of the Company and Sharp Shine International Limited ("Sharp Shine"), an indirect wholly-owned subsidiary of Town Health, 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 2017, the carrying amount of Sea Star is HK$2 (2016: HK$2). As at 31 December 2016 and 31 December 2017, there was no Shareholders' loan made to the investee.

## 20. INTERESTS IN ASSOCIATES *(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, 2016 and 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 Sale 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 was RMB21,548,000 (equivalent to approximately HK$24,882,000), which was 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 was recognised in profit or loss and included in the trade and other receivables. The amount had been fully settled during the year ended 31 December 2017.

For the year ended 31 December 2017, the Audited Profits of Saike Group is RMB26,712,000 (equivalent to HK$30,873,000), which was above the Targeted Profit Requirement and no shortfall of profit is required to be recognised in profit or loss.

The Put Option is exercisable by Major Bright commencing on the date of Completion and ended 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. The Put Option lapsed during the year ended 31 December 2017.

Included in the cost of interests in associates is goodwill of HK$104,282,000 (2016: HK$98,747,000) 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 was fully repaid during the year ended 31 December 2016.

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

## 20. INTERESTS IN ASSOCIATES *(Continued)*

Notes: *(Continued)*

c. On 5 December 2016 and 14 March 2017, the Group entered into a sale and purchase agreement and a supplemental agreement (collectively, the "WinHealth S&P Agreement") with Mr. Wang Wei ("Mr. Wang") for the acquisition of 15% of the issued share capital of WinHealth International at a consideration of RMB47,250,000 (equivalent to HK$53,336,000) in cash. WinHealth International and its subsidiaries (the "WinHealth Group") are principally engaged in the distribution of pharmaceutical products in the PRC and it has exclusive distribution rights of imported prescription drugs in the PRC.

Pursuant to the WinHealth S&P 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 WinHealth International after taxation for the year ending 31 December 2017 ("WinHealth International 2017 Audited Profit") is less than RMB35.0 million ("WinHealth International 2017 Target Profit"), Mr. Wang shall pay to the Group a sum in cash equal to 15% of the difference between the WinHealth International 2017 Target Profit and the WinHealth International 2017 Audited Profit;

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

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

On 17 March 2017, all the conditions precedent to the WinHealth S&P Agreement have been fulfilled and the completion of WinHealth S&P Agreement took place on the same day. Details of the acquisition of 15% of the issued share capital of WinHealth International are set out in the Company's announcements dated 5 December 2016 and 14 March 2017.

The management of the Group has performed a review of the Audited Profits 1 of WinHealth Group for the year ended 31 December 2017. The Audited Profits 1 for 2017 was RMB 36,439,000 (equivalent to approximately HK$42,116,000), which was above the Targeted Profit Requirement 1. For the year ended 31 December 2017, no shortfall of profit is recognised in profit or loss.

As at the date of acquisition, the fair value of the Targeted Profit Requirement 1 is RMB4,517,000 (equivalent to approximately HK$5,099,000), which was presented as financial asset through profit or loss in the consolidated statement of financial position.

As at 31 December 2017, the directors of the Company took into consideration of the discounted cash flow calculation of WinHealth Group and the fair value of the Targeted Profit Requirement 1 was RMB2,563,000 (equivalent to HK$3,066,000). The management expert adopted Monte-Carlo simulation analysis to derive the fair value of the Targeted Profit Requirement 1. The key inputs and assumptions used by the management expert included the net operating profits of WinHealth International, time to maturity, risk-free rate, volatility and Targeted Profit Requirement 1 for the years ended 31 December 2018 to 2019.

Included in the cost of interests in associates is goodwill of HK$44,575,000 and intangible assets, net of tax of HK$4,533,000 arising on acquisition of WinHealth International.

The Group is entitled to appointed one out of three directors to the board of directors of WinHealth International as at 31 December 2017. Therefore, in the opinion of the directors of the Company, the Group has significant influence over WinHealth International.

## 20. INTERESTS IN ASSOCIATES *(Continued)*

During the years ended 31 December 2017 and 31 December 2016, the directors of the Company reviewed the carrying values of the Group's associates. The entire carrying amounts of the interests in each of the associates (including goodwill and the intangible assets) were tested for impairment in accordance with HKAS 36 "Impairment of assets" as a single asset by comparing their recoverable amounts with their respective carrying amounts. Since the recoverable amounts were higher when compared with their carrying amounts, no impairment loss was recognised during the years ended 31 December 2017 and 31 December 2016.

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.

**Saike International**

| | **2017**<br>**HK$'000** | 2016<br>HK$'000 |
|---|---|---|
| Current assets | **117,252** | 95,221 |
| Non-current assets | **1,531** | 1,933 |
| Current liabilities | **(28,590)** | (42,731) |
| Net assets attributable to owners of Saike International | **90,193** | 54,423 |
| Revenue for the year | **117,392** | 142,163 |
| Profit for the year | **30,873** | 24,882 |
| Other comprehensive income (loss) for the year | **4,897** | (2,898) |
| Total comprehensive income for the year | **35,770** | 21,984 |
| Group's share of profit of Saike International | **15,436** | 12,441 |
| Dividends received from Saike International during the year | **–** | – |

## 20. INTERESTS IN ASSOCIATES *(Continued)*

**Saike International** *(Continued)*

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

| | 2017<br>HK$'000 | 2016<br>HK$'000 |
|---|---|---|
| Net assets of Saike International | 90,193 | 54,423 |
| Proportion of the Group's ownership interest in Saike International | 50% | 50% |
| | 45,097 | 27,211 |
| Goodwill | 104,282 | 98,747 |
| Carrying amounts of the Group's interest in Saike International | 149,379 | 125,958 |

**WinHealth International**

| | 2017<br>HK$'000 |
|---|---|
| Current assets | 184,652 |
| Non-current assets | 159,821 |
| Current liabilities | (268,149) |
| Non-current liabilities | (47,852) |
| Net assets attributable to owners of WinHealth International | 28,472 |
| Revenue for the period from the date of completion to 31 December 2017 (the "period") | 334,653 |
| Profit for the period | 31,757 |
| Other comprehensive income for the period | 931 |
| Total comprehensive income for the period | 32,688 |
| Group's share of profit of WinHealth International | 4,764 |
| Dividend received from WinHealth International during the period | – |

## 20. INTERESTS IN ASSOCIATES *(Continued)*

**WinHealth International** *(Continued)*

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

| | 2017<br>HK$'000 |
|---|---|
| Net assets of WinHealth International | 28,472 |
| Proportion of the Group's ownership interest in WinHealth International | 15% |
| | 4,271 |
| Goodwill | 47,241 |
| Effects of fair value adjustments on intangible assets | 4,083 |
| Carrying amounts of the Group's interest in WinHealth International | 55,595 |

**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.

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

| | 2017<br>HK$'000 | 2016<br>HK$'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

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

*(Continued)*

Details of the Group's joint venture at 31 December 2017 and 2016 are as follows:

| Name | Place of incorporation/ Operation | Proportion of ownership and voting rights held by the Group | | Principal activity |
|---|---|---|---|---|
| | | **2017** | 2016 | |
| Haikou Xin Lang | PRC | **50.1%** | 50.1% | Inactive |

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.

| | **2017 HK$'000** | 2016 HK$'000 |
|---|---|---|
| Current assets | **1,202** | 1,125 |
| Non-current assets | **–** | – |
| Current liabilities | **(1,226)** | (1,146) |
| 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 | **–** | – |

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

*(Continued)*

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

| | **2017** **HK$'000** | 2016 HK$'000 |
|---|---|---|
| Net liabilities of the joint venture | **(24)** | (21) |
| 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 | **–** | – |

**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.

## 22. INVENTORIES

| | **2017** **HK$'000** | 2016 HK$'000 |
|---|---|---|
| Finished goods | **130,551** | 11,291 |

## 23. TRADE AND OTHER RECEIVABLES

| | **2017** **HK$'000** | 2016 HK$'000 |
|---|---|---|
| Trade receivables | **49,280** | 51,927 |
| Compensation from Targeted Profit Requirement (note 20) | **–** | 522 |
| Services income receivable from an associate (note 24 (a)) | **1,787** | – |
| Other prepayments | **1,434** | 718 |
| Other deposits | **1,196** | – |
| Prepayments to suppliers | **359** | 20,163 |
| Deposits paid to an associate (note 24(b)) | **79,302** | – |
| Deposits paid to suppliers (note 25) | **83,741** | 105,428 |
| Value-added tax recoverable | **17,790** | – |
| Others | **319** | 241 |
| | **235,208** | 178,999 |

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

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.

| | **2017 HK$'000** | 2016 HK$'000 |
|---|---|---|
| Trade receivables: | | |
| 0–30 days | **28,007** | 23,202 |
| 31–60 days | **7,726** | 22,093 |
| 61–90 days | **550** | 4,269 |
| 91–180 days | **4,170** | 2,363 |
| 181–365 days | **8,439** | – |
| Over 365 days | **388** | – |
| | **49,280** | 51,927 |

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 2017 is 79 days (2016: 76 days).

Included in the Group's trade receivable balance are debtors with aggregate carrying amount of approximately HK$12,997,000 (2016: HK$2,363,000) which are past due but not impaired as at 31 December 2017. 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 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:

| | **2017 HK$'000** | 2016 HK$'000 |
|---|---|---|
| 91–180 days | **4,170** | 2,363 |
| 181–365 days | **8,439** | – |
| Over 365 days | **388** | – |
| | **12,997** | 2,363 |

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

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 according to the terms of supplier contracts entered into with different suppliers, which is mainly 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.

## 24. AMOUNT DUE FROM AN ASSOCIATE

(a) The balance of amount due from an associate includes an amount of HK$1,787,000 which represented services income receivable due from 浙江醫學科技開發有限公司 ("Zhejiang Medical"), a subsidiary of WinHealth International. The amount is unsecured, interest-free and has credit period of 90 days.

(b) Included in trade and other receivables as at 31 December 2017 is an amount due from an associate which arose from a guarantee deposit of HK$66,000,000 paid to Zhejiang Medical which holds the exclusive distribution rights in the PRC for the distribution of certain pharmaceutical products. Zhejiang Medical shall continue to carry out the distribution of the certain pharmaceutical products from a drug supplier in the PRC. Pursuant to a distribution agreement entered into between Zhejiang Xin Rui, a subsidiary of the Company, and Zhejiang Xin Rui shall charge Zhejiang Medical on each product sold based on pre-determined services fee for the provision of marketing and promotion services of drugs. The guarantee deposit is secured by guarantee provided by Mr. Wang and repayable upon the completion of contract period in 2018.

## 25. 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 back from suppliers at the end of the distribution agreement. Except for purchase agreements with several major suppliers as 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 several major 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 detailed assessment on these contracts and no impairment losses nor provision were considered necessary for both years.

## 25. DEPOSITS PAID TO SUPPLIERS *(Continued)*

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

| | **2017** **HK$'000** | 2016 HK$'000 |
|---|---|---|
| At 1 January | **105,428** | 66,788 |
| Deposits paid | **75,705** | 55,110 |
| Deposits refunded | **(103,745)** | (12,390) |
| Deposits utilised for purchases | **(52)** | – |
| Exchange realignment | **6,405** | (4,080) |
| At 31 December | **83,741** | 105,428 |
| Classified as: | | |
| Current assets (included in trade and other receivables) | **83,741** | 105,428 |

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:

| | **2017** **HK$'000** | 2016 HK$'000 |
|---|---|---|
| HK$ | **–** | 36,105 |

## 26. 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 0.3% (2016: 0.01% to 3.80%) per annum, for the year ended 31 December 2017.

As at 31 December 2017, deposits of HK$52,000 (2016: HK$7,840,000) 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:

| | **2017** **HK$'000** | 2016 HK$'000 |
|---|---|---|
| HK$ | **1,379** | 5,550 |

## 27. TRADE AND OTHER PAYABLES

| | 2017<br>HK$'000 | 2016<br>HK$'000 |
|---|---|---|
| Trade payables | **82,054** | 25,671 |
| Deposits received | **3,813** | 2,786 |
| Receipts in advance | **3,231** | 3,659 |
| Value-added tax payables | **–** | 1,366 |
| Other tax payables | **285** | 354 |
| Accruals | **3,326** | 4,849 |
| | **92,709** | 38,685 |

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

| | 2017<br>HK$'000 | 2016<br>HK$'000 |
|---|---|---|
| 0–30 days | **–** | 16,704 |
| 31–60 days | **19,588** | 180 |
| 61–90 days | **33,428** | 3,794 |
| Over 90 days | **29,038** | 4,993 |
| | **82,054** | 25,671 |

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 23 and 25.

## 28. BANK BORROWINGS

| | **2017 HK$'000** | 2016 HK$'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 |

For the year ended 31 December 2016, the bank borrowings carried fixed interest rates which ranged from 5.00% to 7.10% per annum. The borrowings of RMB14,600,000 (equivalent to approximately HK$16,322,000) were secured by buildings and prepaid lease payments with aggregate carrying amounts of HK$26,935,000 as at 31 December 2016. The amount was fully repaid during the year ended 31 December 2017.

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

## 29. DEFERRED TAX LIABILITIES

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

| | **Withholding tax on undistributed earnings of the PRC subsidiaries and associates** HK$'000 |
|---|---|
| At 1 January 2016 | 6,718 |
| Charge to profit or loss | 859 |
| Exchange realignment | (455) |
| At 31 December 2016 | 7,122 |
| Charge to profit or loss | **2,036** |
| Exchange realignment | **571** |
| At 31 December 2017 | **9,729** |

## 29. 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$4,452,000 (2016: HK$3,980,000) as at 31 December 2017, 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 2017 are losses of HK$403,000, HK$418,000, HK$265,000, HK$440,000 and HK$472,000 that will expire in 2018, 2019, 2020, 2021 and 2022, respectively.

## 30. SHARE CAPITAL OF THE COMPANY

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

| | **Number of shares** '000 | **Amount** HK$'000 |
|---|---|---|
| Ordinary shares | | |
| Authorised: | | |
| At 1 January 2016 | 2,000,000 | 20,000 |
| Share consolidation (note a) | (1,600,000) | – |
| Increased on 15 June 2016 (note b) | 400,000 | 20,000 |
| At 31 December 2016 | 800,000 | 40,000 |
| Increased on 26 January 2017 (note c) | **2,200,000** | **110,000** |
| At 31 December 2017 | **3,000,000** | **150,000** |
| Issued and fully paid: | | |
| At 1 January 2016 | 1,446,000 | 14,460 |
| Share consolidation (note a) | (1,156,800) | – |
| Issue of shares (notes d & e) | 127,248 | 6,362 |
| At 31 December 2016 | 416,448 | 20,822 |
| Rights issue of shares (note f) | **1,249,344** | **62,467** |
| Issue of shares upon exercise of share options (note g) | **6,055** | **303** |
| At 31 December 2017 | **1,671,847** | **83,592** |

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

Notes:

(a) 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.

(b) On 15 June 2016, the authorised share capital of the Company was increased from HK$20,000,000 to HK$40,000,000 divided into 800,000,000 shares by the creation of additional 400,000,000 new ordinary shares of par value of HK$0.05 each.

(c) On 26 January 2017, the authorised share capital of the Company was increased from HK$40,000,000 to HK$150,000,000 divided into 3,000,000,000 shares by the creation of additional 2,200,000,000 new ordinary shares of par value of HK$0.05 each.

(d) On 28 April 2016, the Company issued 57,840,000 new ordinary 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.

(e) On 22 September 2016, the Company issued 69,408,000 new ordinary 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.

(f) On 6 March 2017, the Company allotted 1,249,344,000 Rights Shares of par value of HK$0.05 each at a subscription price of HK$0.275 per Rights Share on the basis of three Rights Shares for every one then existing ordinary share held. The Company raised approximately HK$329,947,000 (net of expenses) which was used to acquired 5% of the issued share capital of HCMPS, to acquire 1.55% of the issued share capital of Town Health, to acquire 11% of the issued share capital of China Biotech, to acquire 15% of the issued share capital of WinHealth International, for the repayment of bank loans, for the payment of the distribution right of an imported prescription tablet drug in the PRC, to improve marketing, sales and promotional capabilities and as general working capital.

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, the prospectus of the Company dated 10 February 2017 and the section headed "Rights Issue" in the prospectus.

(g) During the year ended 31 December 2017, a former director and an employee of the Company exercised share options which entitled them to subscribe for an aggregate of 6,054,657 ordinary shares, at an exercise price of HK$0.372 per share (after adjustment for the Rights Issue).

All ordinary shares issued during the year ended 31 December 2017 rank *pari passu* with the then existing ordinary shares in all respects.

## 31. 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:

| | **2017** | 2016 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| **Non-current assets** | | |
| Investments in subsidiaries | **75,367** | 75,367 |
| Amounts due from subsidiaries | **452,798** | 270,552 |
| | **528,165** | 345,919 |
| **Current assets** | | |
| Other receivables | **670** | 5 |
| Bank balances and cash | **1,388** | 5,550 |
| | **2,058** | 5,555 |
| **Current liabilities** | | |
| Other payables | **1,500** | 2,112 |
| **Net current assets** | **558** | 3,443 |
| **Total assets less current liabilities** | **528,723** | 349,362 |
| **Capital and reserves** | | |
| Share capital (note 30) | **83,592** | 20,822 |
| Reserves (note 31(a)) | **445,131** | 328,540 |
| **Equity attributable to owners of the Company** | **528,723** | 349,362 |

The financial statements were approved and authorised for issue by the Board of Directors on 29 March 2018 and are signed on its behalf by:

| | |
|---|---|
| **ZHOU LING** | **YANG FANG** |
| *DIRECTOR* | *DIRECTOR* |

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

*(Continued)*

Note:

(a) Movement in the Company's reserves

| | Share premium | Contributed surplus | Share options reserve | Translation reserve | Accumulated losses | Total |
|---|---|---|---|---|---|---|
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| At 1 January 2016 | 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 30) | 40,372 | – | – | – | – | 40,372 |
| Transaction costs attributable to issue of shares | (2,079) | – | – | – | – | (2,079) |
| Recognition of equity-settled share-based payments (note 34) | – | – | 1,750 | – | – | 1,750 |
| At 31 December 2016 | 337,571 | 50,167 | 1,750 | (2,882) | (58,066) | 328,540 |
| Total comprehensive expense for the year | **–** | **–** | **–** | **(295)** | **(152,544)** | **(152,839)** |
| Issue of rights shares (note 30) | **281,102** | **–** | **–** | **–** | **–** | **281,102** |
| Transaction costs attributable to issue of rights shares | **(13,622)** | **–** | **–** | **–** | **–** | **(13,622)** |
| Shares issued upon exercise of the share options (note 34) | **2,563** | **–** | **(613)** | **–** | **–** | **1,950** |
| Lapse of share options (note 34) | **–** | **–** | **(1,137)** | **–** | **1,137** | **–** |
| **At 31 December 2017** | **607,614** | **50,167** | **–** | **(3,177)** | **(209,473)** | **445,131** |

## 32. 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.

## 33. FINANCIAL INSTRUMENTS

### 33a. Categories of financial instruments

| | 2017 HK$'000 | 2016 HK$'000 |
|---|---|---|
| **Financial assets** | | |
| AFS investments | **89,373** | 67,226 |
| Loans and receivables (including cash and cash equivalents) | **304,305** | 229,476 |
| | **393,678** | 296,702 |
| **Financial liabilities** | | |
| Amortised cost | **85,380** | 45,226 |

### 33b. 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 | |
|---|---|---|
| | 2017 HK$'000 | 2016 HK$'000 |
| HK$ | **79,603** | 41,655 |

## 33. FINANCIAL INSTRUMENTS *(Continued)*

### 33b. 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% (2016: 3%) increase and decrease in the functional currency of each group entity against the above foreign currency. 3% (2016: 3%) is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rate. A positive number below indicates a decrease in loss after tax where the above foreign currency strengthens by 3% (2016: 3%) against the functional currency of the respective group entity. For a 3% (2016: 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.

| | **2017<br>HK$'000** | 2016<br>HK$'000 |
|---|---|---|
| Loss after tax | **1,791** | 937 |

*(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.

## 33. FINANCIAL INSTRUMENTS *(Continued)*

### 33b. 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.

The Group has concentration of equity price risk on its AFS investments listed in Hong Kong as 100% (2016: 100%) of its equity interests held by the Group are issued by four (2016: three) issuers. The management of the Group considers that the equity price risk on the AFS investments in the equity interests held is limited as they were issued by four (2016: three) companies whose shares are listed on the Stock Exchange.

The Group has concentration of equity price risk on its unlisted AFS investments as 100 % (2016: 100%) of its equity interests held by the Group are issued by one (2016: one) issuer. The management of the Group considers that the equity price 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.

Equity price sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to equity price risk, excluding the listed securities under suspension, at the end of the reporting period.

If the prices of the respective equity instruments had been 10% (2016: 10%) lower/higher:

- loss after tax for the year ended 31 December 2017 would increase/decrease by HK$325,000 (2016: loss after tax increase/decrease by HK$2,354,000) as a result of the changes in fair value of AFS investments which have been impaired; and

- investments revaluation reserve would increase by nil (2016: decrease/increase by HK$2,354,000) for the Group as a result of the changes in fair value of AFS investments.

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

## 33. FINANCIAL INSTRUMENTS *(Continued)*

### 33b. Financial risk management objectives and policies *(Continued)*

***Credit risk management***

As at 31 December 2017, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position.

The Group's credit risk arising from its financial assets is primarily attributable to its trade receivables and amounts due from an associate. In order to minimise the credit risk arising from its trade receivables, 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.

The Group has concentration of credit risk on bank balances as 74% (2016: 86%) of balances are placed with two (2016: three) banks of which one (2016: two) is located in the PRC and one (2016: one) is located in Hong Kong as at 31 December 2017.

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

The Group has concentration of credit risks on its outstanding trade receivables as 67% (2016: 83%) of its trade receivables were due from five (2016: four) customers in aggregate as at 31 December 2017. These five (2016: four) customers are distributors which are private enterprises engaged in trading and wholesaling of drugs in Zhejiang, Hebei and Hubei in the PRC, as at 31 December 2017 (2016: Zhejiang, Shanghai and Hainan in the PRC). In addition, the Group also has concentration of credit risks on its deposits paid to suppliers as 96% (2016: 46%) of its deposits paid to suppliers were paid to three (2016: four) suppliers in aggregate as at 31 December 2017. Such suppliers are also private enterprises principally engaged in pharmaceutical trading and distribution in the PRC. In the opinion of the directors of the Company, all of these customers and suppliers have good credit quality by taking into account 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.

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.

## 33. FINANCIAL INSTRUMENTS *(Continued)*

### 33b. 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 2017 | | | | | | |
| **Non-derivative financial liabilities** | | | | | | |
| Trade and other payables | **–** | **29,038** | **53,016** | **3,326** | **85,380** | **85,380** |
| 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 |

## 33. FINANCIAL INSTRUMENTS *(Continued)*

### 33b. 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 2017 | – | – | – | – | – |
| 31 December 2016 | 83 | 155 | 17,374 | 17,612 | 16,769 |

The Group did not have any bank borrowings as at 31 December 2017.

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.

## 33. FINANCIAL INSTRUMENTS *(Continued)*

### 33c. 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) | Significant unobservable input(s) | Range (weighted average) |
|---|---|---|---|---|---|---|
| | **31 December 2017 HK$'000** | 31 December 2016 HK$'000 | | | | |
| AFS investments listed in Hong Kong | **3,253** | 23,538 | Level 1 | Quoted bid prices in an active market | N/A | N/A |
| AFS investments listed in Hong Kong | **16,932** | – | Level 3 | Market approach | EV/EBITDA multiple | 12.44–18.40 (14.28) |
| | | | | | P/S multiple | 0.77–3.00 (2.03) |
| | | | | | Discount for lack of marketability | 48% |
| Financial assets at fair value through profit or loss | **3,066** | – | Level 3 | Monte-Carlo simulation | Net operating profit | RMB35,000,000 (equivalent to HK$41,871,000) |
| | | | | | Volatility | 49.56% |

The fair values of investments in Town Health, suspended listed equity securities, which have not resumed trading in a short period of time subsequent to year end, for which there is an absence of quoted prices, were estimated as at the end of the reporting period by the Group by using the market comparison approach, details of which are described in Note 19 to the consolidated financial statements.

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

## 33. FINANCIAL INSTRUMENTS *(Continued)*

### 33c. Fair value measurements of financial instruments *(Continued)*

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

There were transfers between level 1 and level 3 fair value measurement. The movements in fair value measurements in level 3 during the year ended 31 December 2017 are as follows:

| | 2017<br>HK$ |
|---|---|
| At 1 January | – |
| Sell | – |
| Transfer from level 1 to level 3 | 84,007 |
| Total fair value loss after date of transfer recognised in profit or loss as impairment loss | (67,075) |
| At 31 December | 16,932 |

As at 31 December 2017, the Group transferred a listed equity securities from level 1 to level 3 following the suspension of trading of the investments. Those financial assets are disclosed in Note 19.

Transfers into and out of level 3 of the fair value hierarchy are deemed to have occurred at the end of the reporting period. Transfers into level 3 of the fair value hierarchy are made at their carrying amounts as determined under level 1 (or level 2, as the case may be) of the fair value hierarchy immediately prior to the date of the event or change in circumstances that caused the transfer (i.e. the dates of suspension of the suspended listed equity securities).

There were no transfers between level 1 and level 2 of fair value measurement during the year ended 31 December 2017.

During the year ended 31 December 2016, there were no transfer between level 1 and level 2 and no transfer into or out of Level 3 fair value measurements.

#### 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.

## 34. 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 on the date of grant of the options and expiring on the date determined by the directors, but in any event such exercise period shall not exceed a period of ten years commencing on the date the relevant option is deemed to be granted.

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

Pursuant to the Scheme, the maximum number of shares in the Company in respect of which options may be granted when aggregated with any other share option scheme of the Company is not permitted to exceed 10% of the total number of shares in issue as at the date of adoption of the Scheme. Subject to the issue of a circular and the approval of the shareholders of the Company in general meeting and/or such other requirements prescribed under the Listing Rules from time to time, the board may refresh the limit at any time to 10% of the total number of shares in issue as at the date of approval by the shareholders of the Company in general meeting. As at 31 December 2017 and the date of this report, the maximum number of ordinary shares of the Company which could be issued upon exercise of all options that may be granted under the existing Scheme limit is 166,579,200 ordinary shares of HK$0.05 each, representing approximately 9.96% of the issued share capital of the Company. Notwithstanding the foregoing, the shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Scheme and any other share option schemes of the Company at any time shall not exceed 30% of the shares in issue from time to time.

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

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

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

There were no share options outstanding under the Scheme as at 31 December 2017 and no share options were granted by the Company under the Scheme during the year ended 31 December 2017.

The following table discloses the movements of the number of the Company's share options held by the grantees during the year ended 31 December 2017:

| Category of participants | Outstanding at 1.1.2017 | Adjustment for the Rights Issue (Note) | Granted during the year | Exercised during the year | Forfeited/ cancelled/ lapsed/ during the year | Outstanding at 31.12.2017 |
|---|---|---|---|---|---|---|
| Directors | 6,928,000 | **551,786** | **–** | **–** | **(7,479,786)** | **–** |
| Former Director | 3,464,000 | **275,893** | **–** | **(3,739,893)** | **–** | **–** |
| Employees | 5,608,000 | **446,657** | **–** | **(2,314,764)** | **(3,739,893)** | **–** |
| | 16,000,000 | **1,274,336** | **–** | **(6,054,657)** | **(11,219,679)** | **–** |
| Exercisable at the end of the year | | | | | | – |
| Weighted average exercise price (HK$) | 0.402 | 0.372 | 0.372 | 0.372 | 0.372 | N/A |

Note: The number of shares under the outstanding options and the exercise price have been adjusted upon the Rights Issue of shares on the basis of three new Rights Shares for every one existing ordinary share held, the completion of which took place in March 2017.

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 | Original exercise price | Adjusted exercise price (Note) |
|---|---|---|---|---|
| 14 September 2016 | 14 September 2016 | 14 September 2016 to 13 September 2017 | HK$0.402 | HK$0.372 |

Note: The number of shares under the outstanding options and the exercise price have been adjusted upon the Rights Issue of shares on the basis of three new Rights Shares for every one existing ordinary share held, the completion of which took place in March 2017.

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

The following tables discloses the movements of the number of the Company's share options held by grantees during the year ended 31 December 2016:

| Category of participants | Outstanding at 1.1.2016 | Granted during the year | Exercised during the year | Forfeited cancelled/ lapsed/ 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 was HK$1,750,000.

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.

## 35. 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$780,000 (2016: HK$696,000) for the year ended 31 December 2017 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.

## 36. PLEDGE OF ASSETS

As at 31 December 2017, the Group pledged the buildings and prepaid lease payments with aggregate carrying values of approximately HK$26,829,000 (2016: HK$26,935,000) to secure general banking facilities granted to the Group.

## 37. OPERATING LEASE

### The Group as lessee

Minimum lease payment paid under operating leases for premises during the year ended 31 December 2017 was HK$655,000 (2016: HK$894,000).

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

| | **2017**<br>**HK$'000** | 2016<br>HK$'000 |
|---|---|---|
| Within one year | **692** | 655 |
| In the second to fifth year inclusive | **252** | 920 |
| | **944** | 1,575 |

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 (2016: two to five years) and rentals are fixed over the lease terms.

The Group has operating lease commitments with a subsidiary of Town Health until December 2018, amounting to HK$198,000 as at 31 December 2017.

## 38. CAPITAL COMMITMENTS

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

| | 2017<br>HK$'000 | 2016<br>HK$'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 | 1,558 | 1,456 |

## 39. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

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

| | Bank borrowings (Note 28)<br>HK$'000 |
|---|---|
| At 1 January 2017 | 16,769 |
| Changes from financing cash flows: | |
| Repayment of bank loan | (16,904) |
| Bank loan interest paid | (162) |
| Total changes from financing cash flow | (17,066) |
| Exchange adjustments | 135 |
| Other changes: | |
| Interest expenses | 162 |
| At 31 December 2017 | – |

## 40. MAJOR NON-CASH TRANSACTION

During the year ended 31 December 2016, 7,000,000 shares of AFS investments in China Biotech (formerly known as "Rui Kang Pharmaceutical Group Investments Limited") (stock code: 8037), 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 AFS investments in China Wah Yan (stock code: 648), shares of which are listed on the Main Board of the Stock Exchange, with fair value based on quoted market price at date of exchange 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.

## 41. RELATED PARTY DISCLOSURES

### (i) Related party transactions

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

| Name of related parties | Relationship | Nature of transactions/ balances | 2017 HK$'000 | 2016 HK$'000 |
|---|---|---|---|---|
| Zhejiang Medical | An indirect wholly owned subsidiary of WinHealth International, an associate of the Group | Marketing and promotion services provided by the Group | **1,445** | – |
| | | Purchases of pharmaceutical products | **2,956** | – |
| Mr. Yang Qi and his Spouse | Family members of Ms. Yang | Rental expense (note) | **–** | 265 |
| | | 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, an associate of the Group | Purchases of medical equipment | **–** | 1,730 |

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

As disclosed in note 1 to the consolidated financial statements, the Company made an announcement that the SFC has on 6 October 2017 issued a direction to suspend trading in the shares of the Company as it appears to the SFC that, *inter alia*, the Company's announcements in relation to the acquisitions of 50% interest in Saike International and 15% interest in WinHealth International may have contained materially false, incomplete or misleading information. As at the date of this auditor's report, the Company has not made further announcement to provide update on the progress of the investigation conducted by the IBC as the investigation has not been completed. The investigation into the issues relating to the Acquisitions, which is still on-going, did not result in conclusive finding nor conclusion.

## 41. RELATED PARTY DISCLOSURES *(Continued)*

**(i) Related party transactions** *(continued)*

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

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

**(ii)** Details of the Group's outstanding balances with related parties are set out in notes 20, 21 and 24.

**(iii) Compensation of key management personnel**

| | **2017 HK$'000** | 2016 HK$'000 |
|---|---|---|
| Short term benefits | **9,974** | 9,043 |
| Equity-settled share-based payment expenses | **–** | 1,137 |
| Post employment benefits | **105** | 110 |
| | **10,079** | 10,290 |

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

## 42. 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 |
|---|---|---|---|---|---|
| | | **2017** | 2016 | | |
| **Direct** | | | | | |
| Max Goodrich International Limited (note i) | BVI 21 September 2007 | **100%** | 100% | HK$163,800 | Investment holding |
| Major Bright Holdings Limited (note i) | BVI 9 May 2014 | **100%** | 100% | HK$1 | Investment holding |
| **Indirect** | | | | | |
| Brilliant Dream Holding Limited (note i) | BVI 7 July 2014 | **100%** | 100% | HK$1 | Inactive |
| 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 | Trading of pharmaceutical products and investment holding |
| Hong Rui Bio-medical 泓銳(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 浙江新銳醫藥有限公司 (notes ii & iv) | PRC 26 April 2006 | **100%** | 100% | RMB65,000,000 | Trading of pharmaceutical products |
| Hong Rui Trading 浙江泓銳貿易有限公司 (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 established in the PRC with limited liability.

(iii) A wholly foreign owned enterprise established in the PRC 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 reporting period.