



New Ray Medicine International Holding Limited
新銳醫藥國際控股有限公司

(Incorporated in Bermuda with limited liability)

Stock Code: 6108

ANNUAL REPORT 2018



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CORPORATE INFORMATION

Board of Directors

Executive Directors

Mr. Liu Yang (*Chairman*) (appointed on 27 June 2018)

Mr. Huo Zhihong (*Chief Executive Officer*)
(appointed on 27 June 2018)

Ms. Wang Qiuqin (appointed on 27 June 2018)

Mr. Zhou Ling (retired on 27 June 2018)

Ms. Yang Fang (retired on 27 June 2018)

Independent Non-executive Directors

Mr. Leung Chi Kin

Ms. Li Sin Ming, Ivy

Mr. Sy Lai Yin, Sunny (appointed on 24 September 2018)

Mr. Ho Hau Cheung, *SBS, MH* (retired on 27 June 2018)

Board Committees

Audit Committee

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

Mr. Leung Chi Kin

Mr. Sy Lai Yin, Sunny (appointed on 24 September 2018)

Mr. Ho Hau Cheung, *SBS, MH* (retired on 27 June 2018)

Remuneration Committee

Mr. Leung Chi Kin (*Chairman*)

Mr. Liu Yang (appointed on 27 June 2018)

Ms. Li Sin Ming, Ivy

Mr. Sy Lai Yin, Sunny (appointed on 24 September 2018)

Mr. Ho Hau Cheung, *SBS, MH* (retired on 27 June 2018)

Nomination Committee

Mr. Leung Chi Kin (*Chairman*)

Mr. Liu Yang (appointed on 27 June 2018)

Ms. Li Sin Ming, Ivy

Mr. Sy Lai Yin, Sunny (appointed on 24 September 2018)

Mr. Ho Hau Cheung, *SBS, MH* (retired on 27 June 2018)

Corporate Governance Committee

Mr. Liu Yang (*Chairman*) (appointed on 27 June 2018)

Mr. Huo Zhihong (appointed on 27 June 2018)

Ms. Wang Qiuqin (appointed on 27 June 2018)

Mr. Sy Lai Yin, Sunny (appointed on 24 September 2018)

Mr. Zhou Ling (retired on 27 June 2018)

Ms. Yang Fang (retired on 27 June 2018)

Company Secretary

Mr. Lai Kwok Wa, *HKICPA*

Auditor

Moore Stephens CPA Limited

Certified Public Accountants

Stock Code

6108

Registered Office

Clarendon House

2 Church Street

Hamilton HM 11

Bermuda

Headquarters

B–C, 37/F

Dikai International Center

19 Dangui Road

Hangzhou, the People's Republic of China ("PRC")

Principal Place of Business in Hong Kong

Room 911B, 9th Floor

Tower 1, Silvercord

No. 30 Canton Road

Kowloon, Hong Kong

Principal Banker

Agricultural Bank of China

Hangzhou Fu Rong Sub-branch

No. 21 Cai He Road

Jiangan District

Hangzhou City

Zhejiang Province, the PRC

Principal Share Registrar and Transfer Office

Conyers Corporate Services (Bermuda) Limited

Clarendon House

2 Church Street

Hamilton HM 11

Bermuda

Hong Kong Branch Share Registrar and Transfer Office

Tricor Investor Services Limited

Level 22

Hopewell Centre

183 Queen's Road East

Hong Kong

Website

www.newraymedicine.com

FINANCIAL SUMMARY

2018 Financial Highlights

- The Group recorded a revenue of approximately HK\$372.4 million for the year ended 31 December 2018 (2017: approximately HK\$235.2 million), representing an increase of approximately 58.3% as compared to 2017.
- The Group's gross profit for the year ended 31 December 2018 was approximately HK\$47.4 million (2017: approximately HK\$47.3 million), representing an increase of approximately 0.2% as compared to 2017.
- Net profit attributable to owners of the Company for the year ended 31 December 2018 was approximately HK\$33.2 million while the net loss attributable to owners of the Company for the year ended 31 December 2017 was approximately HK\$105.0 million.
- The Board does not recommend the payment of a final dividend for the year ended 31 December 2018.
- The Group had a gearing ratio (defined as total bank and other borrowings divided by total equity) of zero as at 31 December 2018 (2017: zero).

FINANCIAL SUMMARY

	2014 HK\$'000	2015 HK\$'000	2016 HK\$'000	2017 HK\$'000	2018 HK\$'000
Operating results					
Revenue	206,928	252,985	225,388	235,248	372,441
Gross profit	61,177	65,626	34,401	47,325	47,403
Profit/(loss) before tax	43,858	30,063	(13,708)	(94,389)	39,197
Profit/(loss) for the year	29,681	14,804	(20,458)	(105,012)	33,204
Profitability					
Gross profit margin	29.6%	25.9%	15.3%	20.1%	12.7%
Net profit margin	14.3%	5.9%	N/A	N/A	8.9%
Assets and liabilities					
Total assets	329,734	516,572	534,736	830,384	768,072
Equity attributable to owners of the Company	303,191	477,663	471,687	726,825	725,384
Total liabilities	26,543	38,909	63,049	103,559	42,688
Bank balances and cash	150,942	56,795	71,599	90,195	146,101
Quick ratio (times)	13.0	7.4	4.5	3.5	10.0
Current ratio (times)	13.7	7.6	4.8	4.9	12.0

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 2018 (the "Year"). The Year was full of challenges. 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 "4+7 centralised purchase policy" (4+7城市藥品集中採購文件), which promotes price cut for drugs, and the "Two-Invoice" System (兩票制) which aims to reduce and simplify the chain and layers of drug circulation, and thereby leading to more transparency on price of pharmaceutical products and lower margins on pharmaceutical product distribution. On the other hand, the "4+7 centralised purchase policy" (4+7城市藥品集中採購文件) has been implemented in 11 pilot cities in the PRC since 2018. Under the effect of the "4+7 centralised purchase policy" (4+7城市藥品集中採購文件), the average new bidding prices of selected drugs were dropped by approximately 50% as compared to the average original bidding prices. The aforesaid policies put the pharmaceutical distribution and trading 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 suppliers and end customers (e.g. hospitals), in order to improve its sales and marketing capabilities and make effort to expand its distribution network in the PRC so as to minimise the impact of unfavourable external factors on the Group.

For the Year, the total revenue of the Group was approximately HK\$372.4 million, representing an increase of approximately 58.3% as compared to 2017. The increase in revenue was primarily attributable to the increased average selling prices of the Group's injection products as the Group had adjusted its distribution channels due to the "Two-Invoice" System (兩票制) implemented in most of the provinces in the PRC since 2017. However, the increase in revenue was partially offset by the decrease in revenue from the decline in sales volume of the Group's major product Cefamandole Nafate for Injection (注射用頭孢孟多酯鈉) as a result of the reduction of the drug inventory level of customers under the implementation of the "Two-Invoice" System (兩票制) in most of the provinces in the PRC during the Year. Due to the higher proportion of contribution from the sale of pharmaceutical products which had a lower profit margin, the Group's gross profit margin for the Year was approximately 12.7%, which has decreased by 7.4 percentage points when compared to 2017.

The pharmaceutical distributors in the PRC are pessimistic about the prospects of the market. The "Two-Invoice" System (兩票制), which aims to reduce the drug circulation chain and layers between drug manufacturers and end user medical institutions and control usage of drugs by public medical institutions, had been implemented in most of the provinces in the PRC since 2017. In addition, in view of the announcement of the "4+7 centralised purchase policy" (4+7城市藥品集中採購文件) in the PRC during the Year, the Group expects that the drug pricing pressure and loss of market share will continue, which may result in further loss of sales and drop in the average profit margin of the Group's products. 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 pharmaceutical enterprises, in particular the small and medium-sized ones, which will accelerate the consolidation and concentration of the market players in the industry. The Group will closely monitor the guidelines of the national policy and adapt to the market changes. The Group will endeavour to maximise return for shareholders by focusing on proprietary drugs with promising marketing and sales performance and looking 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 of the Group over its competitors in the PRC, the Group will continue to enhance its local distribution network and sales and marketing capabilities in the future. In addition, the Group has been exploring different opportunities to enhance its distribution capabilities. Besides, the Group will continue to seek potential merger and acquisition opportunities in medical-related industries to diversify its business and create synergy for its future development.

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.

Liu Yang

Chairman and Executive Director

Hong Kong
27 March 2019

MANAGEMENT DISCUSSION AND ANALYSIS

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

Business Review

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

The table below sets out the revenue and gross profit margin of the Group (by segment) for the years ended 31 December 2018 and 31 December 2017 respectively.

	Revenue contributed from each business segment				Gross profit margin	
	2017		2018		2017	2018
	HK\$'000	%	HK\$'000	%	%	%
(1) Distribution and trading of pharmaceutical products	231,979	98.6	364,533	97.9	19.1	11.0
(2) Provision of marketing and promotion services	3,269	1.4	7,908	2.1	N/A	N/A
Total	235,248	100.0	372,441	100.0		

(1) Distribution and trading of pharmaceutical products

This segment generated a revenue of approximately HK\$364.5 million for the Year (2017: approximately HK\$232.0 million), representing an increase of approximately 57.1% as compared to 2017. The increase in revenue was primarily attributable to the increased average selling prices of the Group's injection products as the Group had adjusted its distribution channels due to the "Two-Invoice" System (兩票制) implemented in most of the provinces in the PRC since 2017. However, the increase in revenue from this segment was partially offset by the decrease in revenue due to the decline in sales volume of the Group's major products Cefamandole Nafate for Injection (注射用頭孢孟多酯鈉) as a result of the reduction of the drug inventory level of customers under the implementation of the "Two-Invoice" System (兩票制) in most of the provinces in the PRC during the Year.

(2) Provision of marketing and promotion services

The Group's marketing and promotion services involve formulating marketing and promotion strategies and conducting academic promotion programs of the Group's products in return for service income from the suppliers. This segment generated a revenue of approximately HK\$7.9 million for the Year (2017: approximately HK\$3.3 million), representing an increase of approximately 139.4% as compared to 2017. The "Two-Invoice" System (兩票制) was officially released in 2017. The "Two-Invoice" System (兩票制) is a mechanism where only up to two invoices are issued along the chain of pharmaceutical product procurement and serves to eliminate multiple layers of distributors and streamline the procurement process. Under the implementation of the "Two-Invoice" System (兩票制) in the PRC since 2017, the Group started to develop its business of the provision of marketing and promotion services in respect of pharmaceutical products in the PRC. The increase in the revenue from this segment was primarily because the impact of the transformation of the Group's business model from distribution agent model to marketing and promotion service provider model on certain products of the Group under the implementation of "Two-Invoice" System (兩票制).

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review *(Continued)*

Regarding the Group's distribution network, as of 31 December 2018, the Group procured pharmaceutical products throughout the PRC from 4 suppliers and sold pharmaceutical products and provided marketing and promotion services through a network of 146 customers spreading over 17 regions in the PRC, including Zhejiang province, Shanxi province, Hubei province, Hebei province and Guangdong province. 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 "Two-Invoice" System (兩票制), which only allows a single layer of distributors between the sale of drugs from the manufacturers to the end customers (e.g. hospitals) for the purpose of reducing the drug circulation chain and layers between drug manufacturers and end user medical institutions, has been implemented in most of the provinces in the PRC since 2017. It substantially increases industry concentration, and as a result, the Group is in the unfavoured situation to compete with the national leading pharmaceutical distribution companies. In addition, in view of the announcement of the "4+7 centralised purchase policy" (4+7城市藥品集中採購文件) in the PRC during the Year, the Group expects that the drug pricing pressure and loss of market share will continue, which may result in further loss of sales and drop in the average profit margin of the Group's products.

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

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 2018 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.

MANAGEMENT DISCUSSION AND ANALYSIS

Future Prospects *(Continued)*

(ii) Growth Strategies

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

During the Year, the Group acquired the exclusive national distribution right of a prescription tablet drug, namely Pentazocine Naloxone Tablet (噴他佐辛納洛酮片) in the PRC. The manufacturer is currently applying for an approval to manufacture this tablet drug in the PRC. The Group will seek to acquire distribution rights of new products to enhance its product portfolio. Looking ahead to 2019, the Group will continue to enhance its product portfolio, distribution channels and marketing and promotion strategy in order to achieve a better and sustainable long-term development of the Group.

(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 the PRC, the Group will continue to enhance its local distribution network and sales and marketing capabilities in the future. In addition, the Group has been exploring different opportunities to enhance its distribution capabilities.

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

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 encourages 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 Environmental, Social and Governance ("ESG") report of the Group in this report.

Relationships with Stakeholders

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

The Group cooperates with suppliers and customers in order to improve its effectiveness and efficiency in the supply chain and to reduce the relevant costs by capitalising on the distributors' functions including formulating marketing and promotion strategies tailored for local markets; speeding up 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.

MANAGEMENT DISCUSSION AND ANALYSIS

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

The pharmaceutical industry in the PRC is highly regulated by the PRC government. The Law 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 significant impact on the Group’s business and operations was noted by the Group.

MANAGEMENT DISCUSSION AND ANALYSIS

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 pharmaceutical products provided by its suppliers which are in turn distributed through the distributor customers of the Group to ultimate customers such as hospitals and medical institutions in the PRC. However, the Group does not have long-term commitments with these suppliers and distributor customers. In order to minimise the risk, the Group will continue to diversify the existing product portfolio and expand the distribution networks; and
- the government policies of the pharmaceutical industry in the PRC – the pharmaceutical industry in the PRC is highly regulated, a substantial amount of the pharmaceutical products distributed by the Group are subject to the government price controls or other price 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 and create synergy for its future development.

Financial Review

Revenue

The total revenue for the Year was approximately HK\$372.4 million, representing an increase of approximately 58.3% from approximately HK\$235.2 million for the year ended 31 December 2017. The increase in revenue was primarily attributable to the increased average selling prices of the Group's injection products as the Group had adjusted its distribution channels due to the "Two-Invoice" System (兩票制) implemented in most of the provinces in the PRC since 2017. However, the increase in revenue was partially offset by the decrease in revenue due to the decline in sales volume of the Group's major product Cefamandole Nafate for Injection (注射用頭孢孟多酯鈉) as a result of the reduction of the drug inventory level of customers under the implementation of the "Two-Invoice" System (兩票制) in most of the provinces in the PRC during the Year.

Cost of Sales

The cost of sales for the Year was approximately HK\$325.0 million, representing an increase of approximately 73.0% from approximately HK\$187.9 million for the year ended 31 December 2017. The percentage of the increase in cost of sales was higher than that for the increase in revenue for the Year mainly due to the decrease in gross profit margin of the Group's major product Cefamandole Nafate for Injection (注射用頭孢孟多酯鈉) during the Year.

Gross Profit and Gross Profit Margin

Gross profit remained relatively stable at approximately HK\$47.4 million (2017: approximately HK\$47.3 million) for the Year. The slight increase in gross profit of the Group for the Year was mainly attributable to the increase in service income from the provision of marketing and promotion services during the Year which was partially offset by the decrease in gross profit from the distribution and trading of pharmaceutical products mainly due to the decrease in sales volume and decrease in gross profit margin of the Group major product Cefamandole Nafate for Injection (注射用頭孢孟多酯鈉) during the Year. Due to the higher proportion of contribution from the sale of pharmaceutical products which had a lower profit margin, the Group's gross profit margin for the Year was approximately 12.7%, which has decreased by 7.4 percentage points when compared to 2017.

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Review *(Continued)*

Other Income, Gains and Losses

The net other gains for the Year were approximately HK\$18.4 million (2017: net other losses of approximately HK\$117.7 million). Such turnaround from a loss to a profit was primarily attributable to net gain on deemed disposals of interest in WinHealth International Company Limited ("WinHealth International"), an associate of the Group until October 2018, of approximately HK\$20.7 million (2017: nil) and the absence of impairment losses on the Group's available-for-sale investments (currently reclassified as equity instruments at fair value through other comprehensive income ("FVTOCI")) (2017: impairment loss on the Group's available-for-sale investments of approximately HK\$131.8 million) recognised during the Year.

Selling and Distribution Expenses

Selling and distribution expenses for the Year were approximately HK\$24.0 million, representing an increase of approximately HK\$0.8 million from approximately HK\$23.2 million for the year ended 31 December 2017. 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 participating in various marketing activities on Group's products more frequently, especially those for promotion of the Group's major product, Cefamandole Nafate for Injection (注射用頭孢孟多酯鈉).

Administrative Expenses

Administrative expenses for the Year were approximately HK\$22.9 million, representing an increase of approximately 13.9% from approximately HK\$20.1 million for the year ended 31 December 2017. Such increase was mainly due to the increase in legal and professional fees incurred for conducting an independent investigation into the issues relating to the Group's acquisitions of Saike International Medical Group Limited ("Saike International") and WinHealth International during the Year.

Share of Profit of Associates

Share of profit of associates was approximately HK\$20.2 million for the Year, representing an increase of approximately 3.6% from approximately HK\$19.5 million for the year ended 31 December 2017. During the Year, the Group shared the profits of Saike International and WinHealth International. The increase in the share of profit of associates by the Group for the Year was mainly because of the remarkable improvement in the financial performance of WinHealth International. During the Year, the Group shared the profit of WinHealth International as its associate up to 10 October 2018. The Group ceased to recognise its interest in WinHealth International as investment in an associate since 11 October 2018 upon the deemed disposals of WinHealth International through its allotment and issue of new shares to other parties in April 2018 and subsequently in October 2018.

Income Tax Expenses

Income tax expenses for the Year were approximately HK\$6.0 million, representing a decrease of approximately 43.4% from approximately HK\$10.6 million in 2017. Such decrease was primarily due to the decrease in non-deductible expenses and deferred tax expenses during the Year.

Profit for the Year

Profit for the Year was approximately HK\$33.2 million while the net loss attributable to owners of the Company was approximately HK\$105.0 million for the year ended 31 December 2017. Such turnaround from a loss to a profit was primarily due to a significant decrease in the fair value loss on the Group's equity instruments at FVTOCI (including the listed securities in Hong Kong, the trading of which had been suspended as directed by the Securities and Futures Commission ("SFC")) of approximately HK\$14.4 million which was recognised in other comprehensive income for the Year as compared to the fair value loss and impairment loss on the Group's available-for-sale investments (now reclassified as equity instruments at FVTOCI) of approximately HK\$131.8 million for 2017; and (ii) a significant increase in net other gain arising from the deemed disposals of interest in WinHealth International as a result of the allotment and issue of new shares of WinHealth International at a premium to third parties during 2018 of approximately HK\$20.7 million (2017: nil).

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Review *(Continued)*

Equity Instruments at FVTOCI

The Group's equity instruments at FVTOCI (formerly classified as 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, except the Group's listed securities investment in Town Health International Medical Group Limited ("Town Health"); and (ii) investments in unlisted equity securities issued by private entities incorporated in the Cayman Islands and the British Virgin Islands with limited liability. Investments in unlisted equity securities are stated at fair value based on valuations prepared by independent valuers.

Equity Securities Listed in Hong Kong

As at 31 December 2018, the Group's securities investment in the shares of Town Health ("TH Shares") (a company whose shares are listed on the Main Board of the Stock Exchange with stock code: 3886) with a fair value amounted to approximately HK\$14.0 million, accounted for approximately 87.4% of the total fair value of the Group's listed securities investments classified as equity instruments at FVTOCI. On 27 November 2017, the 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 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 TH Shares remained suspended. The Group engaged an independent valuer to conduct a valuation on the fair value of the Group's investment in the TH Shares as at 31 December 2018. The valuation was conducted based on market approach method by reference to Price/Sales multiple, Enterprise value/EBITDA multiple of companies in similar industry and discount of lack of marketability. As at 31 December 2018 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. The Group recognised a fair value loss on its investment in the TH Shares of approximately HK\$2.9 million for the Year. Based on the 2018 interim report of Town Health, Town Health strives to introduce high quality and more efficient Hong Kong-style healthcare service and operation models to the PRC market and become the leading player in the healthcare industry.

During the Year, the Group did not dispose of any equity securities listed in Hong Kong. Besides, due to a decline in the fair value of certain listed securities investments, a fair value loss of approximately HK\$4.1 million (inclusive of the fair value loss on the Group's listed securities investment in Town Health of approximately HK\$2.9 million) were recognised under the FVTOCI (non-recycling reserve) during the Year. The Group will continue to monitor its investments cautiously in view of recent uncertain market conditions.

Investments in Unlisted Equity Securities

HCMPHS Healthcare Holdings Limited ("HCMPHS")

As at 31 December 2018, the Group held approximately 14.0% of HCMPHS (formerly known as C&C International Healthcare Group Limited) with an investment amount of approximately HK\$69,188,000 and a fair value of approximately HK\$61,040,000.

HCMPHS and its subsidiaries are principally engaged in the provision of contracted medical schemes and medical services. Based on the latest unaudited consolidated financial statements of HCMPHS for the year ended 31 December 2018, it recorded an unaudited consolidated profit of approximately HK\$25.8 million. The Group is optimistic about the prospects of HCMPHS 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 HCMPHS' business in the long term.

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Review *(Continued)*

Equity Instruments at FVTOCI *(Continued)*

Investments in Unlisted Equity Securities *(Continued)*

WinHealth International

As at 31 December 2018, the Group held approximately 9.63% of WinHealth International with a fair value of approximately HK\$79.5 million.

WinHealth International and its subsidiaries are principally engaged in the distribution of pharmaceutical products in the PRC and have an extensive distribution network through possessing distribution rights of various imported prescription drugs in the PRC. Based on the latest unaudited consolidated financial statements of WinHealth International for the year ended 31 December 2018, it recorded an unaudited consolidated profit of approximately RMB51,707,000. In view of the remarkable improvement in the financial performance of WinHealth International, the Group is optimistic about the prospects 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 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.

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.

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Review *(Continued)*

Equity Instruments at FVTOCI *(Continued)*

Investments in Unlisted Equity Securities *(Continued)*

WinHealth International (Continued)

Completion of the acquisition of 15% of the issued share capital of WinHealth International took place on 17 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 was made for the year 2017.

As at the date of this report, the audited consolidated financial statements of WinHealth International for the year ended 31 December 2018 have not yet been made available to the Group. Based on the audited consolidated financial statements of WinHealth International for the period from 1 January 2018 to 10 October 2018, the audited consolidated profit of WinHealth International for that period was approximately RMB51,601,000. Based on the unaudited consolidated financial statements of WinHealth International for the year ended 31 December 2018, the unaudited consolidated profit of WinHealth International was approximately RMB51,707,000. On this basis, it is expected that no adjustment will be made for the year 2018.

The Group's interest in WinHealth International was diluted from 15% to approximately 13.49% and subsequently to approximately 9.63% upon the allotment and issue of new shares of WinHealth International to other parties on 10 April 2018 and 11 October 2018 respectively. The Group ceased to have significant influence over WinHealth International since then. As a result, the Group's investment in WinHealth International has been reclassified from investment in an associate to equity instruments at FVTOCI since 11 October 2018.

Liquidity, Financial Resources and Capital Structure

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

During the Year, the long-term funding and working capital required by the Group were primarily derived from the income generated from its core business operations and the net proceeds from the Rights Issue (as defined below). 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 2018 (2017: zero).

The Group's cash and cash equivalents amounted to approximately HK\$146.1 million in total as at 31 December 2018 (2017: approximately HK\$90.2 million), among which approximately 49% (2017: approximately 15%) were denominated in Hong Kong dollars ("HK\$") and 51% (2017: approximately 85%) were denominated in Renminbi ("RMB"). The Group did not have any bank loan as at 31 December 2018 (2017: nil).

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

Foreign Currency Risk

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

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Review *(Continued)*

Employee Information

As at 31 December 2018, the Group had 48 employees (2017: 50). Staff costs for the Year, including Directors' remuneration, amounted to approximately HK\$17.9 million (2017: approximately HK\$21.7 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 also provides other employee benefits including a provident fund scheme for its employees in Hong Kong, as required under the Mandatory Provident Fund Schemes Ordinance (Chapter 485, the Laws of Hong Kong), and participates in employee pension schemes organised and governed by the relevant local governments for its employees in the PRC.

Contingent Liabilities

As at 31 December 2018, the Group did not have any significant contingent liabilities.

Material Acquisitions or Disposals and Significant Investments

Other than the deemed disposals of WinHealth International through its allotment and issue of new shares to other parties in April 2018 and October 2018 upon which the Group ceased to recognise its interest in WinHealth International as an investment in an associate since 11 October 2018 as disclosed in "Financial Review – Share of Profit of Associates" and "Financial Review – Equity Instruments at FVTOCI – Investments in Unlisted Equity Securities – WinHealth International" above, the Group had no material acquisition or disposal during the Year.

Investment in Saike International

As at 31 December 2018, 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 consolidated financial statements. The share of profit of Saike International for the Year was approximately HK\$12.0 million (2017: approximately HK\$15.4 million).

Saike International and its subsidiaries are principally engaged in the trading of medical devices and equipment in the PRC. The Group is optimistic about the prospects and the future performance of Saike International because Saike International continues to seek different opportunities to enhance its product portfolio in the PRC.

Capital Structure

The capital of the Company comprises only ordinary shares. As at 31 December 2018, the Group had shareholders' equity of approximately HK\$725.4 million (2017: approximately HK\$726.8 million).

Rights Issue

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

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Review *(Continued)*

Rights Issue *(Continued)*

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 2018 was as follows:

Intended use of proceeds

Actual use of proceeds as at 31 December 2018

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 |
| (2) approximately HK\$28.8 million for the acquisition of 11% of the issued share capital of China Biotech Services Holdings Limited ("China Biotech") (Note b) | approximately HK\$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 |
| (3) approximately HK\$43.0 million for the acquisition of 12% of the issued share capital of WinHealth International | 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 |
| | approximately HK\$53.4 million (of which HK\$10.4 million was from the Relevant Proceeds (as defined below)) has been utilised for the acquisition of 15% of the issued share capital of WinHealth International at a consideration of RMB47.25 million (equivalent to approximately HK\$53.4 million) in cash |

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Review *(Continued)*

Rights Issue *(Continued)*

Intended use of proceeds	Actual use of proceeds as at 31 December 2018
(4) approximately HK\$17.0 million for the repayment of the Group's bank borrowings in the PRC	approximately HK\$17.0 million has been utilised for the repayment of the bank borrowing of a subsidiary of the Company in the PRC
(5) approximately HK\$40.0 million for expanding the product range of imported prescription drugs	approximately HK\$40.0 million has been utilised for the payment of the distribution right of an imported prescription tablet drug in the PRC
(6) approximately HK\$8.0 million for improving marketing, sales and promotional capabilities	approximately HK\$8.0 million has been utilised for improving marketing, sales and promotional capabilities
(7) approximately HK\$50.0 million for the acquisition of the equity interests (in part or in full) of pharmaceutical companies which are principally engaged in overseas pharmaceutical business in the PRC apart from the acquisition of 12% of the issued share capital of WinHealth International ("Relevant Proceeds")	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

As at 31 December 2018, the total unutilised net proceeds was approximately HK\$39.6 million. As at the date of this report, the Company has not identified other suitable business or investment opportunities. The Company will continue to use its best endeavours to identify appropriate business opportunities for investment. The remaining unutilised proceeds from the Rights Issue will be used as intended. Currently, the Company placed such unutilised proceeds as short term interest-bearing deposits in a licensed bank in Hong Kong.

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 Holdings Limited ("Major Bright"), a subsidiary of the Company, the Company and JFA Capital. As at 13 March 2017, as it was unlikely for the Company to obtain the shareholders' approval on or before the long stop date of 31 March 2017 for the second tranche acquisition and the parties could not come to a consensus as to the extension of the long stop date, the parties agreed not to proceed with the second tranche acquisition and the Board decided to apply the said HK\$83.5 million to the possible acquisition of interest in HCMPS and/or other potential acquisitions of medical and healthcare related business when opportunities arose. Details of the change of use of proceeds are disclosed in the Company's announcement dated 13 March 2017.

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

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Review *(Continued)*

Pledge of Assets

As at 31 December 2018, the Group pledged the buildings and prepaid lease payments with an aggregate carrying value of approximately HK\$9.6 million to secure general banking facilities granted to the Group (2017: approximately HK\$26.8 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 suspended with effect from 9:00 a.m. on 6 October 2017. The Company received a letter from the SFC dated 6 October 2017 in relation to a direction under Section 8(1) of the Securities and Futures (Stock Market Listing) Rules (Chapter 571V, the laws of Hong Kong), pursuant to which the SFC directed the Stock Exchange to suspend trading in the securities of the Company as it appeared to the SFC that the Company's announcements dated 14 February 2015, 20 March 2015, 26 June 2015 and 16 July 2015 in relation to the acquisition of 50% interest in Saike International and the Company's announcements dated 5 December 2016 and 14 March 2017 in relation to the acquisition of the then 15% interest in WinHealth International may have contained materially false, incomplete or misleading information. In view of the suspension, on 12 January 2018, the Board has established an independent board committee ("IBC") comprising two independent non-executive Directors, namely Ms. Li Sin Ming, Ivy and Mr. Leung Chi Kin with Ms. Li Sin Ming, Ivy being appointed as the chairman of the IBC. The principal duties of the IBC include (i) to conduct an independent investigation into the issues relating to the above acquisitions and to obtain external legal or other independent professional advice, if required; and (ii) to deal with the issues and matters in relation to the suspension. Mr. Sy Lai Yin, Sunny, an independent non-executive Director appointed on 24 September 2018, was also appointed as a member of the IBC on the same day. As at the date of this report, the IBC's investigation into the affairs of the two acquisitions is still under progress. Grant Thornton Advisory Services Limited ("Independent Investigator") was appointed as an independent investigator to the IBC to assist in the investigation. The Independent Investigator is in the progress of preparing its draft independent investigation report.

As at the date of this report, the trading of shares of the Company continues to be suspended and will remain suspended until further notice. Pursuant to the delisting framework under the Listing Rules which has come into effect on 1 August 2018 ("Effective Date"), as the shares of the Company have been suspended from trading on the Stock Exchange for less than 12 months as at the Effective Date, under Rule 6.01A(2)(b)(i) of the Listing Rules, the Stock Exchange may cancel the Company's listing if trading in the shares of the Company has remained suspended for 18 continuous months from the Effective Date. The 18-month period expires on 31 January 2020. If the Company fails to resume trading in its shares by 31 January 2020, the Listing Department of the Stock Exchange will recommend the Listing Committee of the Stock Exchange to proceed with the cancellation of the Company's listing. This is subject to the Stock Exchange's right to impose a shorter specific remedial period under Rule 6.10 of the Listing Rules if appropriate. The Company is seeking and will continue to seek legal advice with a view to resuming trading of its shares as soon as practicable. For further details, please refer to the announcements of the Company dated 6 October 2017, 12 January 2018, 25 May 2018, 4 June 2018, 30 July 2018, 1 August 2018, 1 November 2018 and 1 February 2019. The Company will keep the shareholders of the Company and potential investors informed of any material developments by way of further announcement(s) as and when appropriate.

BIOGRAPHICAL DETAILS OF THE DIRECTORS AND SENIOR MANAGEMENT

Executive Directors

Mr. Liu Yang (“Mr. Liu”), aged 38, is the Chairman of the Board and an executive Director. He is also the chairman of the corporate governance committee (“Corporate Governance Committee”) of the Board, a member of the remuneration committee (“Remuneration Committee”) and the nomination committee (“Nomination Committee”) of the Board and an authorised representative of the Company for the purpose of the Listing Rules. Mr. Liu graduated from Zhejiang University (浙江大學) with a Bachelor’s Degree in industrial automation in 2003. Mr. Liu has over six years of experience in pharmaceutical industry in the PRC. Mr. Liu was a vice president of Qingdao Song Shan Pharmaceutical Sales Co., Ltd. (青島松山醫藥銷售有限公司) from 2013 to 2015 and has been a vice chairman of the board of Jiangsu Bai Chang Pharmaceutical Co., Ltd. (江蘇百暢醫藥有限公司) since 2015. 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. Mr. Liu would serve as an executive Director for a term of two years commencing on 27 June 2018 and is subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the Bye-laws.

Mr. Huo Zhihong (“Mr. Huo”), aged 40, is an executive Director, the chief executive officer of the Company and a member of the Corporate Governance Committee. Mr. Huo graduated from Heilongjiang Bing Qi Gong Ye Zhi Gong University (黑龍江兵器工業職工大學) majoring in mechanical engineering in 2001. Mr. Huo has over 18 years of experience in the pharmaceutical distribution industry in the PRC. Mr. Huo was the sales representative of Heilongjiang Hong Ning Pharmaceutical Co., Ltd. (黑龍江鴻寧醫藥有限公司) from 2001 to 2004, the sales supervisor of Beijing Qi Huang Pharmaceutical Co., Ltd. (北京岐黃製藥有限公司) from 2004 to 2006, the head of Commercial Department of South China District of Zhejiang Otsuka Pharmaceutical Co., Ltd. (浙江大塚製藥有限公司) from 2006 to 2008, the deputy general manager of Guangzhou Shimalong Pharmaceutical Co., Ltd. (廣州獅馬龍藥業有限公司) from 2008 to 2014, the deputy general manager of Guangzhou Kang Ying Xin Medical Equipment Co., Ltd. (廣州康滢鑫醫療器械有限公司) from 2014 to 2017 and has been the general manager of Cheng Mai Yi Jia Technology Advisory Co., Ltd. (澄邁壹佳技術諮詢有限公司) since June 2017. He is responsible for the operation of the Group’s business and the overall sales and marketing strategies of the Group. Mr. Huo would serve as an executive Director for a term of two years commencing on 27 June 2018 and is subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the Bye-laws.

Ms. Wang Qiuqin (“Ms. Wang”), aged 41, an executive Director and a member of the Corporate Governance Committee. Ms. Wang graduated from Zhejiang University (浙江大學) majoring in Chinese language and literature in 1999 and China Medical University (中國醫科大學) majoring in pharmacy in 2016 through a distance learning program. Ms. Wang has over 13 years of experience in the pharmaceutical distribution industry in the PRC. Ms. Wang was the merchandising assistant of Zhejiang Xin Rui Pharmaceutical Co., Ltd. (浙江新銳醫藥有限公司) (“Zhejiang Xin Rui”), a wholly-owned subsidiary of the Company, from April 2006 to April 2008 and has been the merchandising manager of Zhejiang Xin Rui since May 2008. She is responsible for the overall administrative and purchasing function of the Group. She is also a director of a number of subsidiaries of the Company. Ms. Wang would serve as an executive Director for a term of two years commencing on 27 June 2018 and is subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the Bye-laws.

BIOGRAPHICAL DETAILS OF THE DIRECTORS AND SENIOR MANAGEMENT

Independent Non-executive Directors

Mr. Leung Chi Kin (“Mr. Leung”), aged 69, has been an independent non-executive Director since 26 September 2013. He is also the chairman of the Remuneration Committee and the Nomination Committee and a member of the audit committee (“Audit Committee”) of the Board. Mr. Leung was an elected member of the Shatin District Council in Hong Kong from 1994 to 2011. Mr. Leung was also awarded a Medal of Honour by the Government of Hong Kong. Mr. Leung was an independent non-executive director of Hanergy Thin Film Power Group Limited (formerly known as Hanergy Solar Group Limited and Apollo Solar Energy Technology Holdings Limited) (stock code: 566) during the period from 1 May 2008 to 25 November 2009 and Silk Road Energy Services Group Limited (formerly known as China Natural Investment Company Limited) (stock code: 8250) during the period from 27 November 2009 to 26 November 2012, the issued shares of which are listed on the Main Board of the Stock Exchange and GEM, respectively. Mr. Leung would serve as an independent non-executive Director for a term of two years commencing on 1 October 2017 and is subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the Bye-laws.

Ms. Li Sin Ming, Ivy (“Ms. Li”), aged 43, has been an independent non-executive Director since 20 June 2017. She is also the chairman of the Audit Committee and a member of the Remuneration Committee and the Nomination Committee. She holds a Bachelor’s Degree of Business Administration (Honours) in Accounting from the Hong Kong Baptist University. Ms. Li is a Certified Public Accountant of the Hong Kong Institute of Certified Public Accountants and a fellow of the Association of Chartered Certified Accountants. Ms. Li has over 21 years of accounting and auditing experience. Ms. Li worked in various audit firms and the finance department of several companies. Ms. Li would serve as an independent non-executive Director for a term of two years commencing on 20 June 2017 and is subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the Bye-laws.

Mr. Sy Lai Yin, Sunny (“Mr. Sy”), aged 38, has been an independent non-executive Director since 24 September 2018. He is also a member of the Audit Committee, the Remuneration Committee, the Nomination Committee and the Corporate Governance Committee. He graduated from Washington University with a Bachelor’s Degree of Science in Business Administration. He was awarded a degree of Master of Science in Business Administration by Washington University in December 2001. He has over five years of experience in accounting and auditing with an international accountancy and professional services firm. Mr. Sy has also been a director of Bradbury Securities Limited, a corporation licensed to carry on Type 1 (dealing in securities) and Type 4 (advising on securities) regulated activities under the Securities and Futures Ordinance (“SFO”) (Chapter 571, the Laws of Hong Kong) since 2008. Mr. Sy would serve as an independent non-executive Director for a term of two years commencing on 24 September 2018 and is subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the Bye-laws.

Senior Management

Mr. Lai Kwok Wa (“Mr. Lai”), aged 34, joined the Group in June 2012, and is the company secretary and the financial controller of the Company. Mr. Lai has over 11 years of experience in auditing and accounting. Prior to joining the Group, Mr. Lai worked in the audit department of an international accounting firm in Hong Kong. Mr. Lai obtained a Bachelor’s Degree of Business Administration in Accounting in 2007 from The City University of Hong Kong. He is a Certified Public Accountant of the Hong Kong Institute of Certified Public Accountants.

REPORT OF THE DIRECTORS

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

Principal Activities

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

Principal Subsidiaries, Associates and Jointly Controlled Entities

Details of the principal subsidiaries, associates and jointly controlled entities as at 31 December 2018 are set out in notes 41, 21 and 22 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 a final dividend for the Year (2017: nil).

Donations

Charitable donations made by the Group during the Year amounted to approximately HK\$119,000 (2017: approximately HK\$58,000).

Property, Plant and Equipment

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

Share Capital

There was no movement in the share capital of the Company during the Year. Details of the share capital of the Company during the Year are set out in note 30 to the consolidated financial statements and the section headed "Share Option Scheme" in this report of the Directors.

Pre-emptive Rights

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

Reserves and Distributable Reserves

Details of movements in the reserves of the Group during the Year are set out in the consolidated statement of changes in equity on page 60 of this report. As at 31 December 2018, the reserves available for distribution to the Company's shareholders were approximately HK\$440,027,000 (2017: 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. Liu Yang (*Chairman*) (appointed on 27 June 2018)
Mr. Huo Zhihong (*Chief Executive Officer*) (appointed on 27 June 2018)
Ms. Wang Qiuqin (appointed on 27 June 2018)
Mr. Zhou Ling (retired on 27 June 2018)
Ms. Yang Fang (retired on 27 June 2018)

Independent Non-executive Directors

Mr. Leung Chi Kin
Ms. Li Sin Ming, Ivy
Mr. Sy Lai Yin, Sunny (appointed on 24 September 2018)
Mr. Ho Hau Cheung, *SBS, MH* (retired on 27 June 2018)

Directors' Service Contracts

Each of the executive Directors entered into a service contract with the Company for a term of two years commencing on 27 June 2018. Mr. Leung Chi Kin 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 and Mr. Sy Lai Yin, Sunny entered into a letter of appointment with the Company for a term of two years commencing on 20 June 2017 and 24 September 2018 respectively. They are all subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the Bye-laws.

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

REPORT OF THE DIRECTORS

Directors' Service Contracts *(Continued)*

Pursuant to Bye-law 83(2) of the Bye-laws, 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 a 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 a 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. Mr. Sy Lai Yin, Sunny, who was appointed by the Board in September 2018, shall retire at the forthcoming annual general meeting of the Company and, being eligible, will offer himself for re-election at the forthcoming annual general meeting.

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

Independent Non-executive Directors

The Company has received from each of the existing independent non-executive Directors an annual confirmation of his/her independence pursuant to Rule 3.13 of the Listing Rules. The Company 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 2018, 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 for Securities Transactions by Directors of the Listed Issuers (the "Model Code").

REPORT OF THE DIRECTORS

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

As at 31 December 2018, the following persons (other than the Directors and the chief executive of the Company) had interests or short positions in the shares or underlying shares of the Company as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO.

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 long	Beneficial owner	268,696,000 (L)	16.07%
Qian Shenglei	Beneficial owner	193,704,000 (L)	11.59%
China Wah Yan Healthcare Limited ("China Wah Yan") (Note 3)	Beneficial owner and interest of a controlled corporation	137,427,840 (L)	8.22%
Yang Fang (Note 4)	Beneficial owner and interest of spouse	112,728,000 (L)	6.74%
Zhou Ling (Note 4)	Beneficial owner and interest of spouse	112,728,000 (L)	6.74%

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 2018 comprising 1,671,846,657 shares of the Company.
3. Based on the corporate substantial shareholder notice dated 19 April 2018 filed by China Wah Yan, a company whose shares are listed on the Main Board of the Stock Exchange (Stock Code: 648), 34,356,960 shares were held by China Wah Yan and 103,070,880 shares were held by Classic Estate Investments Limited, which was wholly owned by China Wah Yan. Accordingly, China Wah Yan was deemed to be interested in all the 103,070,880 shares held by Classic Estate Investments Limited by virtue of the SFO.
4. Mr. Zhou Ling beneficially owns 83,516,952 shares. Ms. Yang Fang beneficially owns 29,211,048 shares. Mr. Zhou Ling is the spouse of Ms. Yang Fang. Accordingly, Mr. Zhou Ling was deemed to be interested in all the 29,211,048 shares held by Ms. Yang Fang by virtue of the SFO and Ms. Yang Fang was deemed to be interested in all the 83,516,952 shares held by Mr. Zhou Ling by virtue of the SFO.

Save as disclosed above, as at 31 December 2018, no person (other than the Directors 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.

REPORT OF THE DIRECTORS

Major Customers and Suppliers

For the Year, the Group's five largest customers accounted for approximately 29.1% of the Group's total turnover and the Group's largest customer accounted for approximately 7.9% of the Group's total turnover. For the Year, the Group's four largest suppliers accounted for 100.0% of the Group's total purchases and the Group's largest supplier accounted for more than 90% of the Group's total purchases.

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

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

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.

REPORT OF THE DIRECTORS

Share Option Scheme *(Continued)*

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

As at 31 December 2018 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 1 January 2018 and 31 December 2018 and no share options were granted by the Company under the Scheme during the Year.

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

Senior Management 's Remuneration

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

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

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

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

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

Corporate Governance

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

REPORT OF THE DIRECTORS

Related Party Transactions

During the Year, the related party transactions in relation to the payment of consultancy fee to Mr. Zhou Ling, a former executive Director and chairman of the Board, and the payment of salaries to Ms. Yang Fang, a former executive Director and Chief Executive Officer of the Company, as disclosed in note 40(i) to the consolidated financial statements fell under the definition of “continuing connected transactions” under Chapter 14A of the Listing Rules. Such transactions were de minimis in nature and were exempt from the annual review, announcement and independent shareholders’ approval requirements under Chapter 14A of the Listing Rules. The related party transactions in relation to compensation of key management personnel who are Directors or Chief Executive of the Company in 2018 as disclosed in note 40(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 note 35 to the consolidated financial statements.

Equity-linked Agreements

Other than the Scheme as disclosed under the section headed “Share Option Scheme” in this report of the Directors and note 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 section and 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. The Company has maintained appropriate directors and officers liability insurance for all the Directors. The relevant provisions in the Bye-laws and the directors and officer’s liability insurance are currently in force and were in force throughout the Year.

Sufficiency of Public Float

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

REPORT OF THE DIRECTORS

Auditor

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 (“Moore Stephens”) as the auditor of the Company with effect from 30 January 2018. Moore Stephens acts as the auditor of the Company for the Year. Moore Stephens will retire and, being eligible, offer itself for re-appointment at the forthcoming annual general meeting. A resolution to re-appoint Moore Stephens and to authorise the Directors to fix its remuneration will be proposed at the forthcoming annual general meeting.

Dividend Policy

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

Review By Audit Committee

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

Plan to Address the Modifications

As set out in the “Independent Auditor’s Report” on pages 51 to 57 of this report, the audit qualification relates to the disclosure of related party transactions and its related balances of the acquisitions of interests in Saike International and WinHealth International (“Acquisitions”) as disclosed in the notes 19 to 21 to the consolidated financial statements (“Audit Qualification”), it is expected that the Audit Qualification will be removed in the independent auditors’ report of 2019 after the completion of the investigation of the IBC into the affairs of the Acquisitions (“Investigation”). To expedite the removal of the Audit Qualification, the IBC will expedite the Investigation and expect to complete the Investigation with the assistance of the Independent Investigator in 2019. The Company will use its best endeavour in order to remove the Audit Qualification as soon as practicable.

On behalf of the Board

Liu Yang

Chairman and Executive Director

27 March 2019

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 of the Company. In this regard, a corporate governance committee of the Board has been established with primary responsibility of developing and reviewing the Company's policies and practices on corporate governance and making recommendations to the Board.

The Company has adopted 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"). During the Year, code provision A.2.7 of the then prevailing CG Code requires that the Chairman of the Board should at least annually hold meetings with the non-executive Directors (including the independent non-executive Directors) without executive Directors present. During the Year, Mr. Zhou Ling had been the Chairman of the Board until the conclusion of the annual general meeting of the Company held on 27 June 2018. Mr. Liu Yang was appointed as the Chairman of the Board immediately upon the retirement of Mr. Zhou Ling at the annual general meeting of the Company on 27 June 2018. Each of Mr. Zhou Ling and Mr. Liu Yang was himself an executive Director and as such compliance with this code provision was infeasible. Save as disclosed above, the Company had complied with the CG Code to the extent applicable and permissible to the Company during the Year.

Directors' Securities Transactions

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

Board of Directors

As at the date of this report, the Board comprises six members, three of which are executive Directors, namely Mr. Liu Yang who is the Chairman of the Board, Mr. Huo Zhihong who is the Chief Executive Officer of the Company and Ms. Wang Qiuqin. Three other members are independent non-executive Directors, namely Mr. Leung Chi Kin, Ms. Li Sin Ming, Ivy and Mr. Sy Lai Yin, Sunny. There is no relationship among the members of the Board including financial, business, family, other material/relevant relationship. 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 20 and 21 of this report.

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

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

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

CORPORATE GOVERNANCE REPORT

Board of Directors *(Continued)*

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					Corporate Governance Committee meeting
	General meeting	Board meetings	Audit Committee meetings	Nomination Committee meetings	Remuneration Committee meetings	
Mr. Liu Yang (<i>Chairman</i>) (appointed on 27 June 2018)	N/A	8/8	N/A	1/1	2/2	1/1
Mr. Huo Zhihong (<i>Chief Executive Officer</i>) (appointed on 27 June 2018)	N/A	8/8	N/A	N/A	N/A	1/1
Ms. Wang Qiuqin (appointed on 27 June 2018)	N/A	8/8	N/A	N/A	N/A	1/1
Mr. Zhou Ling (retired on 27 June 2018)	1/1	11/11	N/A	N/A	N/A	N/A
Ms. Yang Fang (retired on 27 June 2018)	0/1	11/11	N/A	N/A	N/A	N/A
Mr. Leung Chi Kin	0/1	19/19	3/3	3/3	4/4	N/A
Ms. Li Sin Ming, Ivy	1/1	19/19	3/3	3/3	4/4	N/A
Mr. Sy Lai Yin, Sunny (appointed on 24 September 2018)	N/A	3/3	N/A	N/A	N/A	1/1
Mr. Ho Hau Cheung, SBS, MH (retired on 27 June 2018)	0/1	10/11	3/3	2/2	2/2	N/A

Directors' Continuous Professional Development

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

Chairman and Chief Executive Officer

During the year, Mr. Zhou Ling and Ms. Yang Fang had been the Chairman of the Board and the Chief Executive Officer of the Company respectively until their retirement upon the conclusion of the annual general meeting of the Company held on 27 June 2018. Mr. Liu Yang and Mr. Huo Zhihong were appointed as the Chairman of the Board and the Chief Executive Officer of the Company respectively in place of Mr. Zhou Ling and Ms. Yang Fang on 27 June 2018. Mr. Liu Yang is the Chairman of the Board and Mr. Huo Zhihong 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 the establishment of good corporate governance practices and procedures. The Chief Executive Officer of the Company is responsible for the Group's overall development strategies and general daily management.

CORPORATE GOVERNANCE REPORT

Company Secretary

Mr. Lai Kwok Wa is the company secretary of the Company. The company secretary is responsible for facilitating the Board process, including the communications among the Board members and shareholders of the Company and advising the Board on corporate governance matters. 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 existing independent non-executive Directors pursuant to the requirement of Rule 3.13 of the Listing Rules. The Company considers that each of the independent non-executive Directors is and has remained independent in accordance with the independence guidelines set out in the Listing Rules.

Term of Appointment of Non-Executive Directors

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

Mr. Leung Chi Kin 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 entered into a letter of appointment with the Company for a term of two years commencing on 20 June 2017. Mr. Sy Lai Yin, Sunny entered into a letter of appointment with the Company for a term of two years commencing on 24 September 2018.

Insufficient Number of Independent Non-Executive Directors

According to Rule 3.10(1) of the Listing Rules, the Board must include at least three independent non-executive Directors. Immediately after the retirement of Mr. Ho Hau Cheung, *SBS, MH* as an independent non-executive Director upon the conclusion of the annual general meeting of the Company held on 27 June 2018, the Board comprised three executive Directors (namely, Mr. Liu Yang, Mr. Huo Zhihong and Ms. Wang Qiuqin) and two independent non-executive Directors (namely, Mr. Leung Chi Kin and Ms. Li Sin Ming, Ivy). Since the Company had only two independent non-executive Directors, the Company was not in compliance with the requirements under Rule 3.10(1) of the Listing Rules.

The Company made its best endeavours to identify a suitable candidate to fill the vacancy for independent non-executive Director in order to comply with the Listing Rules. On 24 September 2018, Mr. Sy Lai Yin, Sunny was appointed as an independent non-executive Director and a member of each of the Audit Committee, the Remuneration Committee, the Nomination Committee and the Corporate Governance Committee. Following the appointment of Mr. Sy Lai Yin, Sunny on 24 September 2018, the Company was then in compliance with the requirement of Rule 3.10(1) of the Listing Rules.

CORPORATE GOVERNANCE REPORT

Remuneration Committee

The Board has established a 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 one executive Director and three independent non-executive Directors, namely Mr. Leung Chi Kin as the chairman of the Remuneration Committee, Mr. Liu Yang, Ms. Li Sin Ming, Ivy and Mr. Sy Lai Yin, Sunny as members of the Remuneration Committee. Mr. Ho Hau Cheung, *SBS, MH*, a former independent non-executive Director, was the chairman of the Remuneration Committee until his retirement as an independent non-executive Director with effect from 27 June 2018. Mr. Leung Chi Kin, an independent non-executive Director and a member of the Remuneration Committee, was then appointed as the chairman of the Remuneration Committee in place of Mr. Ho Hau Cheung, *SBS, MH* on 27 June 2018. Mr. Liu Yang, a new executive Director, was appointed as a member of the Remuneration Committee on 27 June 2018. Mr. Sy Lai Yin, Sunny, a new independent non-executive Director, was appointed as a member of the Remuneration Committee on 24 September 2018.

During the Year, four 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 of the Company and recommend the Board on the remuneration packages of all executive Directors, non-executive Directors and the senior management of the Company. All members of the Remuneration Committee attended the meetings during their respective terms of office.

CORPORATE GOVERNANCE REPORT

Nomination Committee

The Board has established a 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 one executive Director and three independent non-executive Directors, namely Mr. Leung Chi Kin as the chairman of the Nomination Committee, Mr. Liu Yang, Ms. Li Sin Ming, Ivy and Mr. Sy Lai Yin, Sunny as members of the Nomination Committee. Mr. Ho Hau Cheung, *SBS, MH*, 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 27 June 2018. Mr. Liu Yang, a new executive Director, was then appointed as a member of the Nomination Committee in place of Mr. Ho Hau Cheung, *SBS, MH*, on 27 June 2018. Mr. Sy Lai Yin Sunny, a new independent non-executive Director, was appointed as a member of the Nomination Committee on 24 September 2018.

The major responsibilities of the Nomination Committee are to review the structure, size and composition of the Board, formulate and implement the policy for nominating candidates for election by shareholders at general meetings of the Company (either to fill a casual vacancy or as an addition to the Board) and assess the independence of independent non-executive Directors, propose the re-election of retiring Directors and the appointment or re-appointment of and succession planning for the Directors. All Directors' appointments will be based on meritocracy, having due regard for the benefits of diversity on the Board, details of 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, three meetings of the Nomination Committee were held to review the structure and composition of the Board and nominate candidates 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 considers that a diversity of board members can be achieved through consideration of a number of aspects, including but not limited to gender, age, cultural and educational background, professional experience, skills and knowledge. In forming its perspective on diversity, the Company will also take into account factors based on its own business model and specific needs from time to time. The Company endeavours to ensure that the Board has an appropriate balance of skills, experience and diversity of perspectives that are required to support the execution of its business strategy and in order for the Board to be effective. All Directors' appointments will be based on meritocracy and candidates will be considered against objective criteria, having due regard to the benefits of diversity on the Board.

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

CORPORATE GOVERNANCE REPORT

Nomination Policy

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

- (a) whether (and how) the candidate can contribute his/her perspectives, skills and experience to the Board; and
- (b) whether (and how) the candidate can contribute to the diversity of the Board under the principles of the board diversity policy.

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

- (a) a written consent given by the candidate to be appointed, elected or re-elected (as the case may be) as a Director stating his consent for acting as a Director and the supply and disclosure of his information as required under the Listing Rules and other applicable laws and regulations;
- (b) details of the character, qualifications, background, experience and other business interests of the candidate for the purpose of Rules 3.09, 3.10 and 3.12 of the Listing Rules, together with supporting documents evidencing the same (if applicable);
- (c) (for a candidate whom may be nominated as an independent non-executive Director) details assessing the candidate's independence under Rule 3.13 of the Listing Rules and Code Provisions A.3.3 (Best Recommended Practice) and together with supporting documents evidencing the same (if applicable);
- (d) details of the candidate's information, together with supporting documents evidencing the same (if applicable), as required to be disclosed under Rule 13.51(2) of the Listing Rules;
- (e) (for a candidate whom may be nominated as an independent non-executive Director at a general meeting) explanation from the candidate for information required under Code Provision A5.5 of the CG Code;
- (f) (for a candidate whom may be nominated to be appointed as a member of the Audit Committee) details assessing the candidate's independence under Code Provision C.3.2 of the CG Code, together with supporting documents evidencing the same; and
- (g) up-to-date contact details of the candidate.

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

CORPORATE GOVERNANCE REPORT

Audit Committee

The Board has established an 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.

Pursuant to Rule 3.21 of the Listing Rules, the Audit Committee must comprise a minimum of three members. Immediately after the retirement of Mr. Ho Hau Cheung, *SBS, MH* as an independent non-executive Director upon the conclusion of the annual general meeting of the Company held on 27 June 2018, the Audit Committee comprised two independent non-executive Directors (namely, Ms. Li Sin Ming, *Ivy* as the chairman and Mr. Leung Chi Kin as member). Since the Audit Committee had only two members, the Company was not in compliance with the requirements under Rule 3.21 of the Listing Rules. On 24 September 2018, Mr. Sy Lai Yin, *Sunny* was appointed as an independent non-executive Director and a member of the Audit Committee. Following the appointment of Mr. Sy Lai Yin, *Sunny* as a member of the Audit Committee, the Company was then in compliance with the requirement of Rule 3.21 of the Listing Rules.

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. Leung Chi Kin and Mr. Sy Lai Yin, *Sunny* as members of the Audit Committee. Mr. Ho Hau Cheung, *SBS, MH*, a former independent non-executive Director, was a member of the Audit Committee until his retirement as an independent non-executive Director with effect from 27 June 2018. Mr. Sy Lai Yin, *Sunny*, a new independent non-executive Director, was then appointed as a member of the Audit Committee in place of Mr. Ho Hau Cheung, *SBS, MH*, on 24 September 2018.

The Audit Committee held three meetings during the Year to review the financial results of the Group for the year ended 31 December 2017 and the six months ended 30 June 2018, financial reporting, risk management and internal control systems of the Group and the effectiveness of the internal audit function of the Company. Two of the meetings were attended with the presence of the Company's external auditor so that the members of the Audit Committee could exchange their views and concerns on the financial reporting process of the Group with the auditor of the Company. All members of the Audit Committee attended the meetings during their respective terms of office.

Corporate Governance Committee

The Board has established a 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.

CORPORATE GOVERNANCE REPORT

Corporate Governance Committee *(Continued)*

As at the date of this report, the Corporate Governance Committee comprised three executive Directors and one independent non-executive Director, namely Mr. Liu Yang as the chairman of the Corporate Governance Committee, Mr. Huo Zhihong, Ms. Wang Qiuqin and Mr. Sy Lai Yin, Sunny as members of the Corporate Governance Committee. Mr. Zhou Ling and Ms. Yang Fang, the former executive Directors, were the chairman and a member of the Corporate Governance Committee respectively until their retirement as executive Directors with effect from 27 June 2018. Mr. Liu Yang, a new executive Director, was then appointed as the chairman of the Corporate Governance Committee in place of Mr. Zhou Ling on 27 June 2018. Mr. Huo Zhihong and Ms. Wang Qiuqin, the new executive Directors, were then appointed as members of the Corporate Governance Committee on 27 June 2018. Mr. Sy Lai Yin, Sunny, a new independent non-executive Director, was then appointed as a member of the Corporate Governance Committee on 24 September 2018.

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 auditor of the Company, Moore Stephens CPA Limited, regarding their reporting responsibilities is set out in the section headed "Independent Auditor's Report" on pages 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 up appropriate policies having regard to the objectives of the Group and the review of the effectiveness of the internal control system, including risk management of the Group. The system of internal control is designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable but not absolute assurance against material misstatement or loss. Controls are monitored by management review on an on-going basis. The Group's internal control systems and risk management systems have been developed with the following features and processes: Management (1) identifies significant risks in the Group's operational environment that may impact the business of the Group; (2) evaluates the impacts of those significant risks identified and the likelihood of the significant risks occurrence; (3) determines the risk management strategies and internal control processes to mitigate the risks; (4) performs on-going monitor and review of the effectiveness of the risk management strategies and internal control processes; and (5) reports to the Board on all findings regularly. The Board (1) determines the Group's risks tolerances level; and (2) oversees the Group's overall design and implementation on risk management and internal control systems.

CORPORATE GOVERNANCE REPORT

Internal Controls and Risk Management *(Continued)*

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

- the access of information is restricted to the Board and a limited number of employees on a need-to-know basis. Employees who are in possession of inside information understand their obligations to keep it confidential under the Group's inside information policy and procedures; and
- the Board would seek independent professional advice to ensure that the Company complies with the disclosure requirements, when appropriate.

The Board has engaged an independent professional firm to review the effectiveness of the internal control systems of the Group, covering significant operating cycles for the year ended 31 December 2018. Such review is conducted annually. The scope of the review has been previously determined and approved by the Board and the Audit Committee. The independent professional firm has reported major findings and areas of improvement to the Board. All the recommendations have been properly followed up by the Group to ensure that they will be implemented within a reasonable period of time. The Board is of the view that the Group's current risk management and internal control systems which cover all material controls, including financial, operational and compliance controls, are adequate and effective throughout the Year. The Board, through the Audit Committee, reviewed the adequacy of resources, staff qualifications and experience, training programmes, and budget of the Group's accounting and financial reporting functions during the Year, and considered that such systems are effective and adequate.

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

Auditor's Remuneration

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

Fees paid or payable by the Group for statutory audit services provided to the Group for the Year amounted to approximately HK\$1,650,000 (2017: approximately HK\$1,500,000).

Constitutional Documents

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

CORPORATE GOVERNANCE REPORT

Communication with Shareholders and Investors

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

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

1. One or more shareholders holding, at the date of deposit of the requisition, not less than one-tenth of the paid-up capital of the Company having the right of voting at general meetings can deposit a written request to convene a special general meeting at the principal place of business of the Company in Hong Kong for the attention of the Board or the Company Secretary.
2. The written request must state the name of the shareholders concerned, their respective shareholdings, the objects of the meeting, including details of the business(es) and resolutions proposed to be considered and approved at the meeting, signed by the shareholders concerned.
3. The request will be verified 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. For notice of the special general meeting at which the passing of a special resolution is to be considered, such notice shall be arranged to be sent to the shareholders at least 21 clear days or 10 clear business days (whichever is longer) before such special general meeting.

CORPORATE GOVERNANCE REPORT

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, Hong Kong.

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

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

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

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

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

This report covers the Group’s overall performance in two subject areas, namely, Environmental and Social aspects of its operations in the PRC, from 1 January 2018 to 31 December 2018, unless otherwise stated. The reporting scope of this report focuses on the distribution and trading of pharmaceutical products of the Group in the PRC, which are operated by the following subsidiaries of the Company including: China New Rich Medicine Holding Co. Limited and Zhejiang Xin Rui Pharmaceutical Co. Ltd. The Group’s operation in Hong Kong is excluded from the scope as it is identified to be insignificant to the overall Group’s operation. This report should be read in conjunction with the Corporate Governance Report on pages 30 to 40 of this annual report in order to have a full understanding on the Group’s relevant performances.

Reporting Standards

This report is prepared in accordance with the Environmental, Social and Governance Reporting Guide 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 2018. 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 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 in order to diversity product portfolio; 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 and provide the best products and services to our clients, our senior management is also cautious about our environmental impact due to our operational activities, and our compliance with applicable laws and regulatory requirements in mainland China. As our operation covers a wide scope of activities, mainly the distribution and trading of pharmaceutical products in the PRC, we are cautious on identifying our attributable environmental impacts and managing environmental impacts throughout the operations, and minimising these attributable impacts if possible.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Environmental and Natural Resources *(Continued)*

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

Air Emissions

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

Our company vehicles generated minor emissions from petroleum consumption. A total of 1.4t of nitrogen oxides, 0.1t particulate matter and 0.4kg of sulphur oxides were produced by vehicle emissions in this reporting year. We will continue to monitor our operation and ensure our air emissions will be maintained at a reasonable level.

Carbon Emissions

Despite the fact that our operations did not contribute significant air pollutant emission, we would still focus our effort in reducing our carbon emission, and in particular 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 electricity consumption, which is counted towards our Group's overall carbon footprint. For the delivery of goods, our Group has been collaborating closely with external logistics service providers, trying its best to enhance the efficiency of the supply chain to maintain its economic competitiveness and environmental sustainability. Reducing 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 continuously. We optimise the efficiency of the distribution network and the transportation network so as to save energy and reduce carbon emissions. We estimated our carbon footprint for this reporting year based on electricity consumption, and its associated emissions factor provided by our electricity providers (data on electricity consumption is available on the electricity bill from our electricity providers). Our calculation also included the unleaded petroleum consumption in our transportation freight. Consumption data were kept and managed 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 section of this 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 155.7tCO₂e.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Environmental and Natural Resources *(Continued)*

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 resources.

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

Resources Conservation

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

Electricity

Our Group understands that energy generation is a heavy fossil fuel burning process, and would result in the release of air pollutants and greenhouse gases to the atmosphere. Nevertheless, it is difficult to eliminate all energy consumption in most of our business activities. We are cautious about our electricity consumption and trying our best to minimise our impacts. Our electricity consumption is mainly incurred during its business processes to provide services to customers and in its general administration. In order to minimise its consumption of electricity during its business processes, all employees are reminded to switch off light and air-conditioners before leaving work or meeting rooms. The Group is constantly encouraging employees to reduce its carbon footprints through efficient use of electricity.

Water

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

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 of unleaded petroleum by vehicles are not material, and all employees are reminded to avoid unnecessary travelling to reduce consumption.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Environmental and Natural Resources *(Continued)*

Resources Conservation *(Continued)*

Non-hazardous Waste

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

As a summary, and after a careful data consolidation and analysis, our Group reported that a total of 137,340kWh of electricity, 1,220m³ of water, 8.9t of packaging materials, 0.3t of paper and 20,452L of petroleum 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, air and 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

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

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

Appraisal system is in place to assess the employees' work objectives, 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 reporting 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).

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Social *(Continued)*

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 the 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 reporting year.

Development and Training

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

The Group has the vision to assist new employees 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 reporting year, various training courses covering procurement management, warehouse and delivery management, product knowledge, product storage management, product recall procedure, customer service and complaint procedure, sales and marketing skill, administrative management, risk management, refrigerated products management and emergency preparedness were given to different departments. The Group also encourages employees to pursue their personal development objectives and continue to grow together with the Company.

In this reporting year, 28 of our employees had participated in trainings with 1,320 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364號).

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Social *(Continued)*

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 2018, the total headcount was 48. 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 2018	27	21

Workforce by Age Group	<30	30-50	>50
As at 31 December 2018	17	29	2

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 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.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Operating Practices *(Continued)*

Supplier Management *(Continued)*

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 and quality standards. According to the Administrative Measures for Certification of Good Supply Practices (《藥品經營質量管理規範認證管理辦法》) and the Good Supply Practices for Medicine Distribution Quality (《藥品經營質量管理規範》), a GSP Certificate is valid for 5 years generally and may be renewed for another 5 years within 3 months prior to its expiry.

Our Group has successfully obtained the GSP Certificate granted by 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, over 90% 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.

(i) Product Responsibility

The Group partners with about 146 distributors serving customers of over 800 hospitals, clinics and pharmacies. Product quality is a key element of sustainability of the Group's business.

The Group has standard procedures for inspecting and receiving all the purchased or returned pharmaceutical products. In compliance with the laws and regulations such as 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.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Operating Practices *(Continued)*

Supplier Management *(Continued)*

Supply Chain Management *(Continued)*

(i) Product Responsibility (Continued)

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

Moreover, the Group will carry out laboratory or clinical 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.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

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 2018.

For our pharmaceutical products distribution and other related businesses, during the reporting year, no material non-compliance was noted by the Group in relation to the relevant laws and regulations of the PRC concerning health and safety, advertising, labeling and privacy matters, including but not limited to the 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;

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Operating Practices *(Continued)*

Supplier Management *(Continued)*

Supply Chain Management *(Continued)*

(iii) Anti-corruption (Continued)

- Sexual harassment;

- 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, Ms. Wang Qiuqin. No reports or related complaints were received from employees in 2018.

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 organisations, NGOs and their volunteering activities by allocating portion of our revenue to build a better local community. The Group made donations to organisations that strive to improve the living for the poor in Hangzhou.

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 138, which comprise the consolidated statement of financial position as at 31 December 2018, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, except for the possible effects of the 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 2018, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Basis for Qualified Opinion

As disclosed in the auditor's report in respect of the consolidated financial statements for the year ended 31 December 2017 and 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.

INDEPENDENT AUDITOR'S REPORT

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 21 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 costs of acquisition amounted to RMB95,000,000 and RMB47,250,000, respectively. As at 31 December 2018, the carrying amount of the Group's interest in Saike International is HK\$146,397,000 (31 December 2017: HK\$149,379,000) and the fair value of the Group's interest in WinHealth International is HK\$79,454,000, which has been classified as an equity instrument at fair value through other comprehensive income after the loss of significant influence through dilution of voting rights during the year ended 31 December 2018 (see note 21(d) to the consolidated financial statements for details) (31 December 2017: interest in an associate of 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 notes 19 and 20 to the consolidated financial statements, were in fact related party transactions.

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSA") 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.

INDEPENDENT AUDITOR'S REPORT

Key Audit Matters

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

Key audit matters

How our audit addressed the key audit matters

Impairment assessment of interest in an associate

We identified the impairment assessment of interests in an associate as a key audit matter due to significant judgment exercised by the Group's management on assessing the impairment.

As disclosed in notes 4 and 21 to the consolidated financial statements, the carrying amount of the interest in an associate is HK\$146,397,000 (2017: HK\$204,974,000).

In determining the recoverable amount of an associate, estimation of the value in use is required and the valuation is carried out by external independent valuer (the "Valuer") 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.

Management has concluded that there are no impairment in respect of the interest in an associate as at 31 December 2018.

Our procedures in relation to the impairment assessment of interest in an associate included:

- Discussed with management and the Valuer how the Group estimated the recoverable amount of an associate, including the valuation model adopted, key assumptions used;
- Assessed the competence, capabilities and objectivity of the Valuer performing the valuation; and
- 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

Valuation of investments in equity instruments at fair value through other comprehensive income ("FVTOCI")

We identified the valuation of investments in equity instruments at FVTOCI as a key audit matter due to significant judgment exercised by the Group's management on the valuation.

As disclosed in notes 4 and 19 to the consolidated financial statements, the fair value of the investments in equity instruments at FVTOCI is HK\$154,534,000 as at 31 December 2018. The valuation is carried out by external independent valuers (the "Valuers") engaged by the Group.

In determining the fair value of the unquoted investments in equity instruments at FVTOCI, the management of the Group has adopted the discounted cash flows method. 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.

In determining the fair value of the quoted equity instrument at FVTOCI under suspension, estimation of the fair value is based on the market approach with reference to comparable companies engaged in similar business as the investee and requires the adoption of certain assumptions such as EV/EBITDA multiple, P/S multiple and discount for lack of marketability.

Management has concluded that the adopted methodologies and inputs used in determining the fair value of investments in equity instruments at FVTOCI are reasonable and appropriate.

Our procedures in relation to the valuation of investments in equity instruments at FVTOCI included:

- Discussed with management and the Valuers how the Group estimated the fair values of investments in equity instruments at FVTOCI including the valuation model adopted, key assumptions used;
- Assessed the competence, capabilities and objectivity of the Valuers performing the valuation; and
- Evaluated the reasonableness of the valuation methodology and key assumptions used.

INDEPENDENT AUDITOR'S REPORT

Other Information

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

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

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

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

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

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

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

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

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

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

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAAs 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.

INDEPENDENT AUDITOR'S REPORT

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

(Continued)

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

INDEPENDENT AUDITOR'S REPORT

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

(Continued)

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, 27 March 2019

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2018

	NOTES	2018 HK\$'000	2017 HK\$'000
Revenue	5	372,441	235,248
Cost of sales		(325,038)	(187,923)
Other income, gains and losses	7	47,403	47,325
Selling and distribution expenses		(23,989)	(23,220)
Administrative expenses		(22,871)	(20,118)
Finance costs	8	–	(162)
Share of profit of associates	21	20,219	19,500
Profit (loss) before tax		39,197	(94,389)
Income tax expense	9	(5,993)	(10,623)
Profit (loss) for the year attributable to owners of the Company	10	33,204	(105,012)
Other comprehensive (expense) income for the year			
<i>Items that will not be reclassified to profit or loss:</i>			
Fair value loss on equity instruments at fair value through other comprehensive income		(14,392)	–
Exchange difference arising on translation of functional currency to presentation currency			
– subsidiaries		(18,375)	25,362
– associates		(2,970)	2,588
		(35,737)	27,950
<i>Items that may be subsequently reclassified to profit or loss:</i>			
Fair value loss on available-for-sale investments		–	(118,886)
Reclassification adjustment upon impairment on available-for-sale investments		–	131,799
Released on disposal of available-for-sale investments		–	(12,913)
		–	–
Other comprehensive (expense) income for the year		(35,737)	27,950
Total comprehensive expense for the year		(2,533)	(77,062)
Profit (loss) for the year attributable to owners of the Company		33,204	(105,012)
Total comprehensive expense for the year attributable to owners of the Company		(2,533)	(77,062)
Earnings (loss) per share	13		
Basic (HK cents)		1.99	(7.22)
Diluted (HK cents)		1.99	(7.22)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2018

	NOTES	2018 HK\$'000	2017 HK\$'000
Non-current assets			
Property, plant and equipment	14	16,148	10,712
Prepaid lease payments	15	18,652	20,059
Prepayment for a distribution right	16	21,913	26,797
Intangible asset	17	12,022	14,515
Club debenture	18	571	598
Equity instruments at fair value through other comprehensive income	19	156,549	–
Available-for-sale investments	20	–	89,373
Financial asset at fair value through profit or loss	21	398	3,066
Interests in associates	21	146,397	204,974
		372,650	370,094
Current assets			
Inventories	23	66,471	130,551
Trade and other receivables	24	178,713	235,208
Prepaid lease payments	15	485	508
Prepayment for a distribution right	16	3,652	3,828
Bank balances and cash	27	146,101	90,195
		395,422	460,290
Current liabilities			
Trade and other payables	28	31,759	92,709
Tax payable		1,291	1,121
		33,050	93,830
Net current assets		362,372	366,460
Total assets less current liabilities		735,022	736,554
Non-current liability			
Deferred tax liabilities	29	9,638	9,729
		725,384	726,825
Capital and reserves			
Share capital	30	83,592	83,592
Share premium and reserves		641,792	643,233
Equity attributable to owners of the Company		725,384	726,825

The consolidated financial statements on pages 58 to 138 were approved and authorised for issue by the Board of Directors on 27 March 2019 and are signed on its behalf by:

LIU YANG
DIRECTOR

WANG QIUQIN
DIRECTOR

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2018

	Attributable to owners of the Company								
	Share capital	Share premium	Contributed surplus	PRC statutory reserve	Fair value through other comprehensive income (non-recycling reserve)	Share options reserve	Translation reserve	Retained profits	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000 (note)	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2017	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
Adjustment on adoption of HKFRS 9 (note 2)	-	-	-	-	(141,195)	-	-	142,287	1,092
At 1 January 2018	83,592	607,614	50,167	21,930	(141,195)	-	(1,727)	107,536	727,917
Profit for the year	-	-	-	-	-	-	-	33,204	33,204
Other comprehensive expense for the year	-	-	-	-	(14,392)	-	(21,345)	-	(35,737)
Total comprehensive expense for the year	-	-	-	-	(14,392)	-	(21,345)	33,204	(2,533)
Exchange difference released upon deemed disposals of an associate	-	-	-	-	-	-	743	(743)	-
Transfer	-	-	-	1,799	-	-	-	(1,799)	-
At 31 December 2018	83,592	607,614	50,167	23,729	(155,587)	-	(22,329)	138,198	725,384

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

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

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2018

	NOTES	2018 HK\$'000	2017 HK\$'000
OPERATING ACTIVITIES			
Profit (loss) before tax		39,197	(94,389)
Adjustments for:			
Fair value change on financial asset at fair value through profit or loss	7	2,696	2,271
Impairment loss on available-for-sale investments	7	–	131,799
Realised gain on disposal of available-for-sale investments	7	–	(12,913)
Amortisation of prepayment for a distribution right		3,738	3,698
Depreciation of property, plant and equipment	14	1,951	1,989
Amortisation of an intangible asset	17	1,869	1,849
Amortisation of prepaid lease payments	15	496	491
Net gain on deemed disposals of interest in an associate	7	(20,672)	–
Interest expenses	8	–	162
Loss on disposal of property, plant and equipment	7	10	1
Interest income	7	(1,032)	(699)
Dividend income from equity instruments at fair value through other comprehensive income	7	(174)	–
Dividend income from available-for-sale investments	7	–	(740)
Share of profit of associates		(20,219)	(19,500)
Operating cash flows before movements in working capital		7,860	14,019
Decrease (increase) in inventories		61,444	(114,457)
Decrease (increase) in trade and other receivables		50,699	(49,219)
(Decrease) increase in trade and other payables		(56,755)	49,575
Cash generated from (used in) operations		63,248	(100,082)
Income tax paid		(5,398)	(7,992)
NET CASH GENERATED FROM (USED IN) OPERATING ACTIVITIES		57,850	(108,074)
INVESTING ACTIVITIES			
Dividend received from an associate		8,400	–
Interest received		1,032	699
Dividend received from equity instruments at fair value through other comprehensive income		174	–
Dividend received from available-for-sale investments		–	740
Proceeds from disposal of property, plant and equipment		157	–
Purchases of property, plant and equipment	14	(8,183)	(78)
Proceeds from disposal of available-for-sale investments		–	97,125
Purchases of available-for-sale investments listed in Hong Kong		–	(212,658)
Purchase of unlisted available-for-sale investments		–	(25,500)
Acquisition of investments in associates		–	(53,336)
NET CASH GENERATED FROM (USED IN) INVESTING ACTIVITIES		1,580	(193,008)

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2018

	NOTES	2018 HK\$'000	2017 HK\$'000
FINANCING ACTIVITIES			
Proceeds from issue of rights shares		–	343,569
Proceeds from exercised share option		–	2,253
Repayment of bank loans		–	(16,904)
Interest paid		–	(162)
Payment of transaction costs attributable to issue of new shares		–	(13,622)
NET CASH GENERATED FROM FINANCING ACTIVITIES		–	315,134
NET INCREASE IN CASH AND CASH EQUIVALENTS		59,430	14,052
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		90,195	71,599
EFFECT OF FOREIGN EXCHANGE RATE CHANGES		(3,524)	4,544
CASH AND CASH EQUIVALENTS AT END OF THE YEAR, represented by bank balances and cash		146,101	90,195

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

1. GENERAL

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

The shares of the Company were listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The addresses of the registered office and principal place of business in Hong Kong of the Company are disclosed in the corporate information section of the annual report.

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

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

As stated in the consolidated financial statements of the Company for the year ended 31 December 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 (now known as WinHealth International Company Limited) ("WinHealth International") (the "Acquisitions") may have contained materially false, incomplete or misleading information.

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

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

Mr. Sy Lai Yin, Sunny, an independent non-executive Director appointed on 24 September 2018, was also appointed as a member of the IBC on the same day.

On 1 November 2018, the Company announced that Grant Thornton Advisory Services Limited was appointed as an independent investigator by the IBC to assist in the investigation. As at the date on which these consolidated financial statements are authorised for issue, the IBC's investigation into the affairs of the Acquisitions is still under progress.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

1. GENERAL (Continued)

As disclosed in note 21 to the consolidated financial statements, the Acquisitions were related to the sale and purchase agreements which the Group entered into with purportedly independent third parties to acquire two companies, Saike International and WinHealth International (see note 21 to the consolidated financial statements for details), which were completed in 2015 and 2017 respectively and the costs of acquisitions amounted to RMB95,000,000 and RMB47,250,000 respectively. As at 31 December 2018, the carrying amount of the Group's interest in Saike International is HK\$146,397,000 (31 December 2017: HK\$149,379,000) and the fair value of the Group's interest in WinHealth International is HK\$79,454,000, which has been classified as an equity instrument at fair value through other comprehensive income ("FVTOCI") after the loss of significant influence through dilution of voting rights as a result of the allotment and issue of new shares of WinHealth International to third parties during the year ended 31 December 2018 (see note 21(d) to the consolidated financial statements for details) (as at 31 December 2017: the carrying amount of the Group's interest in WinHealth International was HK\$55,595,000).

Based on the latest available information on the progress of the investigation conducted by the IBC and up to the date when these consolidated financial statements are authorised for issue, including announcements made by the Company, the IBC's investigation into the issues of the Acquisitions, which is still on-going, did not result in conclusive finding nor conclusion.

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

New and amendments to HKFRSs that are mandatorily effective for the current year

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

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

Except as described below, the application of the new and 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) (Continued)

New and amendments to HKFRSs that are mandatorily effective for the current year (Continued)

2.1 HKFRS 15 “Revenue from Contracts with Customers”

The Group has applied HKFRS 15 for the first time in the current year. HKFRS 15 superseded HKAS 18 “Revenue”, HKAS 11 “Construction Contracts” and the related interpretations.

The Group has applied HKFRS 15 retrospectively with the cumulative effect of initially applying this Standard recognised at the date of initial application of HKFRS 15, 1 January 2018. Any difference at the date of initial application is recognised in the opening retained profits (or other components of equity, as appropriate) and comparative information has not been restated. Furthermore, in accordance with the transition provisions in HKFRS 15, the Group has elected to apply the Standard retrospectively only to contracts that are not completed at 1 January 2018. Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 18 and HKAS 11 and the related interpretations.

The Group recognises revenue from the following major sources which arise from contracts with customers:

- Distribution and trading of pharmaceutical products; and
- Provision of marketing and promotion services

Information about the Group’s performance obligations and the accounting policies resulting from application of HKFRS 15 are disclosed in notes 3 and 5 to the consolidated financial statements respectively.

Summary of effects arising from initial application of HKFRS 15

The following adjustments were made to the amounts recognised in the consolidated statement of financial position at 1 January 2018. Line items that were not affected by the changes have not been included.

	Carrying amounts previously reported at 31 December 2017 HK\$’000	Reclassification HK\$’000	Carrying amounts under HKFRS 15 at 1 January 2018 HK\$’000
Trade and other payables			
– Receipts in advance from customers	3,231	(3,231)	–
– Contract liabilities	–	3,231	3,231

As at 1 January 2018, receipts in advance from customers amounting to HK\$3,231,000 in respect of sales contracts signed with customers previously included in trade and other payables were reclassified to contract liabilities which are included in trade and other payables.

The application of HKFRS 15 has had no material impact on the Group’s retained profits as at 1 January 2018.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) (Continued)

New and amendments to HKFRSs that are mandatorily effective for the current year (Continued)

2.2 HKFRS 9 “Financial Instruments”

In the current year, the Group has applied HKFRS 9 “Financial Instruments” and the related consequential amendments to other HKFRSs. HKFRS 9 introduces new requirements for 1) the classification and measurement of financial assets and financial liabilities and 2) expected credit losses (“ECL”) for financial assets.

Summary of effects arising from initial application of HKFRS 9

The Group has applied HKFRS 9 in accordance with the transition provisions set out in HKFRS 9, i.e. applied the classification and measurement requirements (including impairment under ECL model) retrospectively to instruments that have not been derecognised as at 1 January 2018 (date of initial application) and has not applied the requirements to instruments that have already been derecognised as at 1 January 2018. The difference between carrying amounts as at 31 December 2017 and the carrying amounts as at 1 January 2018 are recognised in the opening retained profits and other components of equity, without restating comparative information.

Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 39 “Financial Instruments: Recognition and Measurement”.

Accounting policies resulting from application of HKFRS 9 are disclosed in note 3 to the consolidated financial statements.

The table below illustrates the classification and measurement of financial assets and financial liabilities and other items subject to ECL under HKFRS 9 and HKAS 39 at the date of initial application, 1 January 2018.

	Available- for-sale (“AFS”) investments HK\$’000	Club debenture HK\$’000	Equity instruments at FVTOCI HK\$’000	Financial assets at fair value through profit or loss (“FVTPL”) HK\$’000	FVTOCI (non- recycling reserve) HK\$’000	Retained profits HK\$’000
Closing balance at 31 December 2017						
– HKAS 39	89,373	598	–	3,066	–	(34,751)
Effect arising from initial application of HKFRS 9						
Reclassification						
• From AFS investments	(89,373)	(598)	89,373	598	(142,287)	142,287
Remeasurement						
• From cost less impairment to fair value	–	–	1,092	–	1,092	–
Opening balance as at 1 January 2018	–	–	90,465	3,664	(141,195)	107,536

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) (Continued)

New and amendments to HKFRSs that are mandatorily effective for the current year (Continued)

2.2 HKFRS 9 “Financial Instruments” (Continued)

(a) AFS investments

From AFS investments to equity instruments at FVTOCI

At the date of initial application of HKFRS 9, the Group elected to present in other comprehensive income for the fair value changes of all equity instruments previously classified as AFS investments, of which approximately HK\$69,188,000 related to unlisted equity investment previously measured at cost less impairment, HK\$3,253,000 related to listed equity investments previously measured at fair value and HK\$16,932,000 related to listed equity investments under suspension previously measured at fair value under HKAS 39. These investments are not held for trading and not expected to be sold in the foreseeable future and their carrying amount of approximately HK\$89,373,000 as at 31 December 2017 were reclassified from AFS investments to equity instruments at FVTOCI, of which approximately HK\$69,188,000 related to unlisted equity investment previously measured at cost less impairment under HKAS 39. The fair value gain of approximately HK\$1,092,000 relating to those unlisted equity investment previously carried at cost less impairment were adjusted to equity instruments at FVTOCI and FVTOCI (non-recycling reserve) as at 1 January 2018. In addition, impairment losses previously recognised of approximately HK\$142,287,000 were transferred from retained profits to FVTOCI (non-recycling reserve) as at 1 January 2018.

From AFS investments to financial assets at FVTPL

At the date of initial application of HKFRS 9, the Group reclassified club debenture of carrying values amounting to approximately HK\$598,000 from AFS investments to financial assets at FVTPL. The carrying amount of club debenture recorded at cost less impairment approximate their fair value was adjusted to financial assets at FVTPL.

(b) Financial asset at FVTPL

Financial asset at FVTPL of HK\$3,066,000 is contingent consideration receivable is classified as a financial asset at FVTPL under HKAS 39. There was no impact on the amount recognised in relation to this asset from the initial application of HKFRS 9.

(c) Impairment under ECL model

In relation to the impairment of financial assets, HKFRS 9 requires an ECL model, as opposed to an incurred credit loss model under HKAS 39. The ECL model requires an entity to account for ECL and changes in those ECL 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.

In the current year, the Group has applied HKFRS 9 simplified approach to measure ECL on trade receivables using lifetime ECL which is calculated using a provision matrix. To measure the ECL on trade receivables, trade receivables have been grouped based on shared credit risk characteristics.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) (Continued)

New and amendments to HKFRSs that are mandatorily effective for the current year (Continued)

2.2 HKFRS 9 “Financial Instruments” (Continued)

(c) Impairment under ECL model (Continued)

Loss allowance for other financial assets at amortised cost, which mainly comprise of other receivables and bank balances and cash, are measured based on 12-month ECL (“12m ECL”) basis if there had been no significant increase in credit risk since initial recognition.

As at 1 January 2018, no additional credit loss allowance has been recognised against retained profits as the estimated allowance under the ECL model was not significantly different from that under HKAS 39.

Impacts on opening consolidated statement of financial position arising from the application of all new standards

As a result of the changes in the Group’s accounting policies above, the opening consolidated statement of financial position had to be reclassified and remeasured. The following table shows the adjustments recognised for each of the line items affected. Line items that were not affected by the changes have not been included.

	At 31 December 2017 HK\$’000	Impact on initial application HKFRS 15 HK\$’000	Impact on initial application HKFRS 9 HK\$’000	At 1 January 2018 HK\$’000
Non-current assets				
AFS Investments	89,373	–	(89,373)	–
Equity instruments at FVTOCI	–	–	90,465	90,465
Current liabilities				
Trade and other payables				
– Receipts in advance from customers	3,231	(3,231)	–	–
– Contract liabilities	–	3,231	–	3,231
Capital and Reserves				
FVTOCI (non-recycling reserve)	–	–	(141,195)	(141,195)
Retained profits	(34,751)	–	142,287	107,536

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) (Continued)

New or revised standards and interpretations that have been issued but not yet effective

HKFRS 16	Leases ¹
HKFRS 17	Insurance Contracts ³
HK(IFRIC)-Int 23	Uncertainty over Income Tax Treatments ¹
Amendments to HKFRS 3	Definition of a Business ⁵
Amendments to HKFRS 9	Prepayment Features with Negative compensation ¹
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ⁴
Amendments to HKAS 1 and HKAS 8	Amendments to Definition of Material ²
Amendments to HKAS 19	Plan Amendment, Curtailment or Settlement ¹
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures ¹
Amendments to HKFRSs	Annual Improvements to HKFRSs 2015–2017 Cycle ¹

¹ Effective for annual periods beginning on or after 1 January 2019

² Effective for annual periods beginning on or after 1 January 2020

³ Effective for annual periods beginning on or after 1 January 2021

⁴ Effective for annual periods beginning on or after a date to be determined

⁵ Effective business combination for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1 January 2020

Except for the new and amendments to HKFRSs mentioned below, the directors of the Company anticipate that the application of all other new and amendments to HKFRSs will have no material impact on the consolidated financial statements in the foreseeable future.

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. In addition, HKFRS 16 requires sales and leaseback transactions to be determined based on the requirements of HKFRS 15 as to whether the transfer of the relevant asset should be accounted as a sales. HKFRS 16 also includes requirements relating to subleases and lease modifications.

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

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. For the classification of cash flows, the Group currently presents upfront prepaid lease payments as investing cash flows in relation to leasehold lands for owned use 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) (Continued)

New or revised standards and interpretations that have been issued but not yet effective (Continued)

HKFRS 16 “Leases” (Continued)

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.

Other than certain requirements which are also applicable to lessor, 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 2018, the Group has non-cancellable operating lease commitments of HK\$1,083,000 (31 December 2017: HK\$944,000) as disclosed in note 37 to the consolidated financial statements. A preliminary assessment indicates that these arrangements will meet the definition of a lease. Upon the application of HKFRS 16, the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases. In addition, the application of new requirements may result in changes in measurement, presentation and disclosure as indicated above. However the directors of the Company do not expect the adoption of HKFRS 16 would result in significant impact on the Group’s financial performance and positions.

3. SIGNIFICANT ACCOUNTING POLICIES

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

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”.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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.

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. Changes in net assets of the associate or joint venture other than profit or loss and other comprehensive income are not accounted for unless such changes resulted in changes in ownership interest held by the Group. When the Group's share of losses of an associate 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

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.

The Group assesses whether there is an objective evidence that the interest in an associate or a joint venture may be impaired. When any objective evidence exists, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with HKAS 36 "Impairment of assets" as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs of disposal) with its carrying amount. Any impairment loss recognised 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 there coverable amount of the investment subsequently increases.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

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

When a group entity transacts with an associate 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 from contracts with customers (upon application of HKFRS 15 in accordance with transitions in note 2.1)

Under HKFRS 15, the Group recognises revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the goods or services underlying the particular performance obligation is transferred to the customer.

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

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

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

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Revenue from contracts with customers (upon application of HKFRS 15 in accordance with transitions in note 2.1) *(Continued)*

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

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

Variable consideration

For contracts that contain variable consideration, the Group estimates the amount of consideration to which it will be entitled using either (a) the expected value method or (b) the most likely amount, depending on which method better predicts the amount of consideration to which the Group will be entitled.

The estimated amount of variable consideration is included in the transaction price only to the extent that it is highly probable that such an inclusion will not result in a significant revenue reversal in the future when the uncertainty associated with the variable consideration is subsequently resolved.

At the end of each reporting period, the Group updates the estimated transaction price (including updating its assessment of whether an estimate of variable consideration is constrained) to represent faithfully the circumstances present at the end of the reporting period and the changes in circumstances during the reporting period.

Revenue recognition (prior to 1 January 2018)

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.

Revenue recognition (before and after 1 January 2018)

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Intangible assets

Intangible assets acquired separately

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

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

Impairment on 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). The recoverable amount of tangible and intangible assets are estimated individually, when it is not possible to estimate the recoverable amount of an asset individually, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Leasing

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

The Group as lessee

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

Leasehold land and building

When 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 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.

On the disposal of a foreign operation (that is, a disposal of the Group’s entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, or a partial disposal of an interest in a joint arrangement or an associate that includes a foreign operation of which the retained interest becomes a financial asset), all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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 the grant that the grants will be received.

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

Retirement benefit costs

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

Short-term employee benefits

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

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

Share-based payment 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

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 year in which the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

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

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

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 is carried at cost less any subsequent accumulated impairment losses before application of HKFRS 9 on 1 January 2018. Club debenture is classified as a financial asset at FVTPL upon the application of HKFRS 9 on 1 January 2018 (see the accounting policy in respect of financial instruments below).

Financial instruments

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

Financial assets and financial liabilities are initially measured at fair value except for trade receivables arising from contracts with customers which are initially measured in accordance with HKFRS 15 since 1 January 2018. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

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

Financial assets

Classification and subsequent measurement of financial assets (upon application of HKFRS 9 in accordance with transitions in note 2.2)

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

- the financial asset is held within a business model whose objective is to collect contractual cash flows; and
- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling; and
- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Classification and subsequent measurement of financial assets (upon application of HKFRS 9 in accordance with transitions in note 2.2) (Continued)

All other financial assets are subsequently measured at FVTPL, except that at the date of initial application of HKFRS 9/initial recognition of a financial asset the Group may irrevocably elect to present subsequent changes in fair value of an equity investment in other comprehensive income if that equity investment is neither held for trading nor contingent consideration recognised by an acquirer in a business combination to which HKFRS 3 "Business Combinations" applies.

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

(i) Amortised cost and interest income

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

(ii) Equity instruments designated as at FVTOCI

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

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

(iii) Financial assets at FVTPL

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Impairment of financial assets (upon application HKFRS 9 with transitions in accordance with note 2.2)

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

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

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

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

(i) Significant increase in credit risk

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

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

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- significant deterioration in external market indicators of credit risk, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor; and
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Impairment of financial assets (upon application HKFRS 9 with transitions in accordance with note 2.2) (Continued)

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

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

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

(ii) Definition of default

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

Irrespective of the above, the Group considers that default has occurred when a financial asset is more than 90 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

(iii) Credit-impaired financial assets

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

- (a) significant financial difficulty of the issuer or the borrower;
- (b) a breach of contract, such as a default or past due event;
- (c) the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;
- (d) it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
- (e) the disappearance of an active market for that financial asset because of financial difficulties.

(iv) Write-off policy

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Impairment of financial assets (upon application HKFRS 9 with transitions in accordance with note 2.2) (Continued)

(v) Measurement and recognition of ECL

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information. Estimation of ECL reflects an unbiased and probability-weighted amount that is determined with the respective risks of default occurring as the weights.

Generally, the ECL is the difference between all contractual cash flows that are due to the Group in accordance with the contract and the cash flows that the Group expects to receive, discounted at the effective interest rate determined at initial recognition.

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

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

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

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

Classification and subsequent measurement of financial assets (before application of HKFRS 9 on 1 January 2018)

Financial assets are classified into the following specific categories: financial assets at 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Classification and subsequent measurement of financial assets (before application of HKFRS 9 on 1 January 2018)
(Continued)

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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Impairment of financial assets (before application of HKFRS 9 on 1 January 2018)

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

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

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

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

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

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

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets (before application of HKFRS 9 on 1 January 2018) (Continued)

Derecognition of financial assets

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

On derecognition of a financial asset 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 is recognised in profit or loss.

On derecognition of an AFS financial asset, the cumulative gain or loss previously accumulated in the fair value reserve (recycling) is reclassified to profit or loss.

Financial liabilities and equity instruments

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

Equity instruments

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

Effective interest method

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

Financial liabilities at amortised cost

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

Derecognition of financial liabilities

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

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

Valuation of interest in Saike International

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 2018, the carrying amount of interest in Saike International is HK\$146,397,000 (2017: HK\$149,379,000).

Valuation of interest in WinHealth International

Determining whether interest in WinHealth International, an associate of the Group, was impaired required an estimation of the value in use as at 31 December 2017. In determining the value in use, management's estimates were 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 were less than expected, or change in facts and circumstances which resulted in downward revision of future cash, impairment loss might arise. As at 31 December 2017, the carrying amount of interest in WinHealth International was HK\$55,595,000.

The Group lost significant influence over WinHealth International because the decisions about the relevant activities of WinHealth International require consent of the majority directors of WinHealth International other than the Group appointed director in WinHealth International. WinHealth International ceased to be an associate of the Group and became an equity instrument at FVTOCI on 11 October 2018.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

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

Estimated allowances on deposits paid to suppliers

During the year ended 31 December 2017, 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 was not met in a particular year. The Group made allowance based on an assessment of the level of forfeitures of the deposits paid to suppliers.

Allowances were applied to deposits paid to the suppliers where events or changes in circumstances indicated that the balances might not be recoverable. The estimation of allowances on deposits paid to suppliers required the estimation of future cash flows. Where the expectation of the recoverability of deposits paid to suppliers was different from the original estimate, such difference would impact the carrying value of deposits paid to suppliers and allowances of deposits paid to suppliers during the year in which such estimate had changed. As at 31 December 2017, the carrying amount of deposits paid to suppliers is HK\$83,741,000 as disclosed in note 26 to the consolidated financial statements.

During the year ended 31 December 2018, the Group has agreed with the suppliers such that, even if the minimum purchase requirement is not met, the deposit will still be refunded to the Group (i.e. no forfeiture). As at 31 December 2018, the carrying amount of deposits paid to suppliers is HK\$91,303,000 as disclosed in note 26 to the consolidated financial statements.

Valuation of listed equity instrument at FVTOCI under suspended trading

In determining the fair value of the Group's investment in equity securities of Town Health International Medical Group Limited ("Town Health"), a listed entity details of which are included in notes 19 and 20 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 multiple, P/S multiple and discount for lack of marketability, are required to be made in applying the valuation. Changes in assumptions relating to these factors could affect the reported fair values of these securities. As at 31 December 2018, the fair value of listed equity instrument at FVTOCI under suspended trading is HK\$14,040,000 (2017: HK\$16,932,000).

Valuation of unlisted equity instruments at FVTOCI

In determining the fair value of the Group's investment in equity interest in HCMPS Healthcare Holdings Limited ("HCMPS") (formerly known as C&C International Healthcare Group Limited) and WinHealth International, unlisted entities of which are included in notes 19 and 20 to the consolidated financial statements, management's estimates are based on the Group's share of the present value of the estimated future cash flows expected to be generated by HCMPS and WinHealth International. Significant assumptions include budgeted sales, gross margin, other related expenses, discount rate and terminal growth rate. Changes in assumptions relating to these factors could affect the reported fair values of these securities. As at 31 December 2018, the fair value of unlisted equity instruments at FVTOCI is HK\$140,494,000 (1 January 2018: HK\$70,280,000 and 31 December 2017: HK\$69,188,000).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

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

Impairment loss on trade receivables

The policy for allowance for doubtful debts of the Group is based on the evaluation of collectability of amounts based on management's estimate. In determining whether impairment is required, the Group takes into consideration the likelihood of collection of debts on an individual basis as well as on a collective basis, including the Group's past experience of collecting payments. Specific allowance is only made for receivables that are unlikely to be collected and is recognised on the difference between the estimated future cash flow expected to receive discounted using the original interest rate and the carrying value. As at 31 December 2018, the carrying amount of trade receivables is HK\$82,241,000 (2017: HK\$49,280,000).

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 2018, the carrying amount of inventories is HK\$66,471,000 (2017: HK\$130,551,000).

5. REVENUE

Disaggregation of revenue from contracts with customers by segments is as follows:

Revenue represents an aggregate of the net amounts received and receivable at a point in time for the year. An analysis of the Group's revenue for the year is as follows:

	2018 HK\$'000	2017 HK\$'000
Distribution and trading of pharmaceutical products	364,533	231,979
Provision of marketing and promotion services	7,908	3,269
	372,441	235,248

The Group recognises the marketing and promotion fee from its customers at the time when the ultimate users approached by the Group and then placed orders from the Group's customers. As such, revenue is recognised in respect of the marketing and promotion income. This is the time when the management of the Group considers that it is highly probable that a significant reversal in the cumulative revenue recognised will not occur.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

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 business activities.

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

- (i) Distribution and trading of pharmaceutical products – distribution and trading of injection drugs, capsule and granule drugs and tablet drugs
- (ii) Provision of marketing and promotion services – provision of marketing and promotion services of drugs

In prior year, there were 5 reportable and operating segments, namely injection drugs, capsule and granule drugs, tablet drugs, provision of marketing and promotion services of drugs and others.

During the year, the CODM reassessed the current business units of the Group. As the revenue generated from the distribution and trading of capsule and granule drugs and tablet drugs was minimal, the CODM combined revenue from all drugs into distribution and trading of pharmaceutical products reporting and operating segment, taking into account the Group's future business development.

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

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 2018

	Distribution and trading of pharmaceutical products HK\$'000	Provision of marketing and promotion services HK\$'000	Total HK\$'000
REVENUE			
External sales and segment revenue	364,533	7,908	372,441
RESULT			
Segment profit	40,096	7,307	47,403
Other income, gains and losses			18,435
Selling and distribution expenses			(23,989)
Administrative expenses			(22,871)
Share of profit of associates			20,219
Profit before tax			39,197

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

6. SEGMENT INFORMATION (Continued)

Year ended 31 December 2017

	Distribution and trading of pharmaceutical products HK\$'000	Provision of marketing and promotion services HK\$'000	Total HK\$'000
REVENUE			
External sales and segment revenue	231,979	3,269	235,248
RESULT			
Segment profit	44,306	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)

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

Information about major customers

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

	2018 HK\$'000	2017 HK\$'000
Customer A ¹	N/A ²	42,819
Customer B ¹	N/A ²	27,188

¹ The revenue derived from the distribution and trading of pharmaceutical products.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

7. OTHER INCOME, GAINS AND LOSSES

	2018 HK\$'000	2017 HK\$'000
Net gain on deemed disposals of interest in an associate (note 21(d))	20,672	–
Compensation received from a customer	1,949	–
Incentives received from government grants (note)	1,180	138
Bank interest income	1,032	526
Other interest income	–	173
Sundry income	13	532
Dividend income from equity instruments at FVTOCI	174	–
Dividend income from AFS investments	–	740
Net exchange (loss) gain	(3,879)	1,335
Fair value change on financial asset at FVTPL (note 21)	(2,696)	(2,271)
Loss on disposal of property, plant and equipment	(10)	(1)
Impairment loss on AFS investments	–	(131,799)
Realised gain on disposal of AFS investments	–	12,913
	18,435	(117,714)

Note: During the year ended 31 December 2018, the Group was granted incentives of RMB1,011,000 (equivalent to approximately HK\$1,180,000) (2017: RMB120,000 (equivalent to approximately HK\$138,000)) 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

	2018 HK\$'000	2017 HK\$'000
Interest on bank borrowings	–	162

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

9. INCOME TAX EXPENSE

	2018 HK\$'000	2017 HK\$'000
Current tax:		
PRC Enterprise Income Tax ("EIT")	5,542	8,336
Underprovision in prior year:		
PRC EIT	82	251
	5,624	8,587
Deferred tax (note 29)	369	2,036
	5,993	10,623

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 2018 and 2017.

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

	2018 HK\$'000	2017 HK\$'000
Profit (loss) before tax	39,197	(94,389)
Tax at the domestic income tax rate of 25% (2017: 25%) (note i)	9,799	(23,597)
Tax effect of share of profit of associates	(5,055)	(4,875)
Tax effect of income not taxable for tax purpose	(3,395)	(3,443)
Tax effect of expenses and losses not deductible for tax purposes	4,608	40,133
Underprovision in prior year	82	251
Tax effect of tax losses not recognised	116	118
Effect of different tax rate of subsidiaries operating in other jurisdictions	(531)	–
Deferred tax on undistributed earnings of PRC subsidiaries and associates	369	2,036
Income tax expense for the year	5,993	10,623

Note:

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

10. PROFIT (LOSS) FOR THE YEAR

	2018 HK\$'000	2017 HK\$'000
Profit (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))	5,995	10,079
Other staff's salaries, bonus and other benefits	11,233	10,982
Contributions to retirement benefits scheme, excluding directors	654	675
Total staff costs	17,882	21,736
Depreciation of property, plant and equipment	1,951	1,989
Amortisation of prepaid lease payments	496	491
Amortisation of prepayment for a distribution right (included in cost of sales)	3,738	3,698
Amortisation of intangible asset (included in cost of sales)	1,869	1,849
Minimum lease payment under operating leases in respect of rented premises	976	655
Auditor's remuneration	1,650	1,500
Legal and professional fees (included in administrative expenses)	9,317	7,152
Donations	119	58
Loss on disposal of property, plant and equipment	10	1
Cost of inventories recognised as an expense	310,297	182,376

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

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

(a) Directors' and chief executive's emoluments

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

	Year ended 31 December 2018									Total HK\$'000
	Executive directors					Independent non-executive directors				
	Liu Yang ("Mr. Liu") HK\$'000 (note (i))	Huo Zhihong ("Mr. Huo") HK\$'000 (note (i))	Wang Qiuqin HK\$'000 (note (i))	Zhou Ling ("Mr. Zhou") HK\$'000 (note (ii))	Yang Fang ("Ms. Yang") HK\$'000 (note (ii))	Ho Hau Cheung SBS, MH HK\$'000 (note (ii))	Leung Chi Kin HK\$'000	Li Sin Ming, Ivy HK\$'000 (note (iii))	Sy Lai Yin, Sunny HK\$'000 (note (iv))	
Fees	180	180	180	-	-	48	132	132	65	917
Salaries, bonus and other benefits	-	-	122	3,415	1,481	-	-	-	-	5,018
Contributions to retirement benefits scheme	-	-	8	26	26	-	-	-	-	60
Total emoluments	180	180	310	3,441	1,507	48	132	132	65	5,995

	Year ended 31 December 2017							Total HK\$'000
	Executive directors			Independent non-executive directors				
	Mr. Zhou HK\$'000 (note (ii))	Ms. Yang HK\$'000 (note (iii))	Lee Chik Yuet HK\$'000 (note (v))	Ho Hau Cheung SBS, MH HK\$'000 (note (ii))	Leung Chi Kin HK\$'000	Li Sin Ming, Ivy HK\$'000 (note (iii))	Sung Hak Keung, Andy HK\$'000 (note (v))	
Fees	-	-	60	84	84	51	36	315
Salaries, bonus 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

Notes:

- (i) Appointed on 27 June 2018.
- (ii) Retired on 27 June 2018.
- (iii) Appointed on 20 June 2017.
- (iv) Appointed on 24 September 2018.
- (v) Retired on 20 June 2017.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

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

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

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

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

Mr. Zhou was the Chairman of the Board and Ms. Yang was the Chief Executive Officer of the Company until 27 June 2018 and Mr. Liu and Mr. Huo were appointed as the Chairman of the Board and the Chief Executive Officer of the Company respectively on the same day. All of their emoluments disclosed above include those for services rendered by them in such roles.

For both 2018 and 2017, 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 2018 and 2017.

(b) Five highest paid employees

Of the five individuals with the highest emoluments in the Group, two (2017: two) were former directors and the former Chief Executive Officer of the Company whose emoluments are included in the disclosures above. The emoluments of the remaining three (2017: three) individuals were as follows:

	2018 HK\$'000	2017 HK\$'000
Salaries and other allowances	5,665	5,565
Contributions to retirement benefits scheme	138	114
	5,803	5,679

Their emoluments were within the following bands:

	Number of employees	
	2018	2017
Nil to HK\$1,000,000	2	2
HK\$4,000,001 to HK\$4,500,000	1	1
	3	3

No share option was granted by the Company under the share option scheme of the Company for both years.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

12. DIVIDENDS

No dividend was paid or proposed for ordinary shareholders of the Company during the years ended 31 December 2018 and 2017, nor has any dividend been proposed since the end of the reporting period.

13. EARNINGS (LOSS) PER SHARE

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

	2018 HK\$'000	2017 HK\$'000
Profit (loss) for the year attributable to owners of the Company for the purposes of basic and diluted earnings (loss) per share	33,204	(105,012)
	Number of ordinary shares	
	2018 '000	2017 '000
Number of shares Weighted average number of ordinary shares for the purposes of basic and diluted earnings (loss) per share	1,671,847	1,454,383

The weighted average number of ordinary shares for the purpose of basic loss per share for the year ended 31 December 2017 had 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.

No diluted earnings per share for the year ended 31 December 2018 was presented as there were no potential ordinary shares in issue for the year.

The computation of diluted loss per share for the year ended 31 December 2017 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

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 2017	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
Additions	–	6,987	–	1,196	8,183
Disposals	(39)	(751)	(3)	(1,765)	(2,558)
Exchange realignment	(387)	(225)	(27)	(504)	(1,143)
At 31 December 2018	8,022	7,876	562	10,165	26,625
ACCUMULATED DEPRECIATION					
At 1 January 2017	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
Provided for the year	220	339	27	1,365	1,951
Disposals	–	(712)	(2)	(1,677)	(2,391)
Exchange realignment	(48)	(55)	(23)	(388)	(514)
At 31 December 2018	1,103	990	497	7,887	10,477
CARRYING VALUES					
At 31 December 2018	6,919	6,886	65	2,278	16,148
At 31 December 2017	7,517	447	97	2,651	10,712

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

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\$2,641,000 (2017: HK\$6,262,000) as at 31 December 2018 to secure general banking facilities granted to the Group.

15. PREPAID LEASE PAYMENTS

	2018 HK\$'000	2017 HK\$'000
Carrying value:		
At 1 January	20,567	19,695
Charged to profit or loss during the year	(496)	(491)
Exchange realignment	(934)	1,363
At 31 December	19,137	20,567
Analysed for reporting purposes as:		
Current asset	485	508
Non-current asset	18,652	20,059
	19,137	20,567

The Group has pledged prepaid lease payments with aggregate carrying amounts of approximately HK\$6,947,000 (2017: HK\$20,567,000) as at 31 December 2018 to secure general banking facilities granted to the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

16. PREPAYMENT FOR A DISTRIBUTION RIGHT

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

17. INTANGIBLE ASSET

	HK\$'000
COST	
At 1 January 2017	17,887
Exchange realignment	1,254
At 31 December 2017	19,141
Exchange realignment	(880)
At 31 December 2018	18,261
ACCUMULATED AMORTISATION	
At 1 January 2017	2,534
Provided for the year	1,849
Exchange realignment	243
At 31 December 2017	4,626
Provided for the year	1,869
Exchange realignment	(256)
At 31 December 2018	6,239
CARRYING VALUE	
At 31 December 2018	12,022
At 31 December 2017	14,515

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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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. As at 31 December 2017, the directors of the Company considered no impairment indicators were identified with reference to market price of the club debenture.

The club debenture is classified as a financial asset at FVTPL from the application of HKFRS 9 since 1 January 2018.

19. EQUITY INSTRUMENTS AT FVTOCI

Equity instruments at FVTOCI comprise:

	2018 HK\$'000	2017 HK\$'000
Listed investments:		
– Equity securities listed in Hong Kong (note i)	16,055	–
Unlisted investments:		
– Equity securities (notes ii & iii)	140,494	–
Total	156,549	–
Analysed for reporting purposes as:		
Non-current assets	156,549	–

Notes:

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

As at 31 December 2018, the fair value of the Group's investment in China Demeter Financial Investments Limited ("China Demeter") (stock code: 8120) amounted to HK\$188,000. During the year ended 31 December 2018, fair value loss of HK\$252,000 has been recognised in other comprehensive income for the year ended 31 December 2018.

As at 31 December 2018, the fair value of the Group's investment in Golden Throat Holdings Group Company Limited ("Golden Throat") (stock code: 6896) amounted to HK\$1,827,000. During the year ended 31 December 2018, fair value loss of HK\$986,000 has been recognised in other comprehensive income.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

19. EQUITY INSTRUMENTS AT FVTOCI (Continued)

Notes: (Continued)

(i) (Continued)

As at 31 December 2018, the fair value of the Group's investment in Town Health amounted to HK\$14,040,000. 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 2018 to be HK\$14,040,000 and have adopted the market approach with reference to comparable companies engaged in the similar businesses as Town Health in arriving at the fair value. Significant assumptions on parameters used in the valuation, such as EV/EBITDA multiple, P/S multiple and discount for lack of marketability, are required to be made in applying the valuation. Fair value loss of HK\$2,892,000 has been recognised in other comprehensive income for the year ended 31 December 2018.

As at 31 December 2018, the trading in listed securities of Town Health is still under suspension and the status of resumption has not been clarified. The directors are of the opinion that Town Health is a not related party of the Group.

(ii) The above unlisted equity investment represents investment in unlisted equity securities issued by HCMPS, 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 Networks Company Limited, an independent third party, to acquire additional 5% unlisted equity securities of HCMPS, at a cash consideration of HK\$25,500,000. The acquisition was completed on 16 March 2017. The Group holds 14% of the issued share capital of HCMPS as at 31 December 2018. 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 balance of HK\$69,188,000 is reclassified from AFS investment at the date of initial application of HKFRS 9 on 1 January 2018. The fair value gain of HK\$1,092,000 was remeasured on the same date. The directors of the Company have elected to designate this investment in equity instrument at FVTOCI as they believe that this investment is held for long-term purpose and realising the performance potential in the long-run. The directors adopted the discounted cash flows in arriving at the fair value. Significant assumptions used in the valuation such as budgeted sales, gross margin, other related expenses, discount rate and terminal growth rate. Details are disclosed in note 33c(i) to the consolidated financial statements.

As at 31 December 2018, the fair value of Group's investment in HCMPS amounted to HK\$61,040,000. The fair value loss of HK\$9,240,000 has been recognised in other comprehensive income for the year ended 31 December 2018.

(iii) The above unlisted equity investments represent investment in unlisted equity securities issued by WinHealth International, a private entity incorporated in the British Virgin Islands ("BVI") with limited liability in March 2015. As disclosed on note 21(d) to the consolidated financial statements, the Group lost significant influence over WinHealth International on 11 October 2018. The Group holds 9.63% of the issued share capital of WinHealth International as at 31 December 2018. The directors of the Company have elected to designate this investment in equity instrument at FVTOCI as they believe that this investment is held for long-term purpose and realising the performance potential in the long-run. The directors adopted the discounted cash flows in arriving at the fair value. Significant assumptions used in the valuation such as budgeted sales, gross margin, other related expenses, discount rate and terminal growth rate. Details are disclosed in note 33c(i) to the consolidated financial statements.

As at 31 December 2018, the fair value of Group's investment in WinHealth International amounted to HK\$79,454,000. The fair value loss of HK\$1,022,000 has been recognised in other comprehensive income for the year ended 31 December 2018.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

20. AVAILABLE-FOR-SALE INVESTMENTS

AFS investments comprise:

	2018 HK\$'000	2017 HK\$'000
Listed investments:		
– Equity securities listed in Hong Kong (note i & ii)	–	20,185
Unlisted investments:		
– Equity securities (note i & iii)	–	69,188
Total	–	89,373
Analysed for reporting purposes as:		
Non-current assets	–	89,373

Notes:

- (i) All available-for-sale investments were reclassified to equity instruments at FVTOCI (note 19) at the date of initial application of HKFRS 9 on 1 January 2018.
- (ii) On 2 December 2016, China New Rich Medicine 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”) to acquire an aggregate of approximately 29% equity interest of China Biotech Services Holdings Limited (“China Biotech”) (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 approximately HK\$87,973,000 in cash in two tranches.

The first tranche acquisition had been completed on 13 January 2017. China New Rich had acquired 86,700,000 shares, representing approximately 11% equity interest, of China Biotech from China Wah Yan at a consideration of approximately HK\$33,362,000. The second tranche acquisition, which was conditional upon approval of shareholders of the Company, had 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 to 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 a disposal of HK\$10,809,000 was recognised in the consolidated profit or loss during the year ended 31 December 2017.

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

As at 31 December 2017, the Group’s investment in China Demeter (stock code: 8120) amounted to HK\$440,000. 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 had been recognised in the consolidated profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

20. AVAILABLE-FOR-SALE INVESTMENTS (Continued)

Notes: (Continued)

(ii) (Continued)

As at 31 December 2017, the Group's investment in Golden Throat (stock code: 6896) amounted to HK\$2,813,000. During the year ended 31 December 2017, the Group partially disposed of shares of Golden Throat. Gain on disposal of HK\$605,000 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 had been recognised in the consolidated profit or loss.

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, impairment loss of HK\$2,731,000 had been recognised in the consolidated profit or loss.

As at 31 December 2017, the Group's investment in Town Health amounted to carrying amount of HK\$16,932,000. During the year ended 31 December 2017, the Group purchased 120,000,000 shares 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 had adopted the market approach with reference to comparable companies engaged in the similar businesses as Town Health in arriving at the fair value. Significant assumptions on parameters used in the valuation, such as EV/EBITDA multiple, P/S multiple and discount for lack of marketability, were 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, impairment loss of HK\$127,511,000 was recognised in consolidated profit or loss for the year ended 31 December 2017.

As at 31 December 2017, the listed securities of China Wah Yan and Town Health were still under suspension and status of the resumption has not been clarified. The directors were of the opinion that neither China Wah Yan nor Town Health was 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.

The impairment loss of the above listed securities of HK\$142,287,000 was reclassified to the FVTOCI (non-recycling reserve) at the date of initial application of HKFRS 9 on 1 January 2018.

(iii) The above unlisted equity investment represents investment in unlisted equity securities issued by HCMPS. Details of HCMPS background information is in note 19(ii). The Group holds 14% of the issued share capital of HCMPS as at 31 December 2017. The investments are measured at cost less impairment for the year ended 31 December 2017. The balance was reclassified to equity instruments at FVTOCI (note 19) at the date of initial application of HKFRS 9 on 1 January 2018.

As at 31 December 2017, 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 of the investment in HCMPS during the year ended 31 December 2017.

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For the year ended 31 December 2018

21. INTERESTS IN ASSOCIATES

	2018 HK\$'000	2017 HK\$'000
Cost of unlisted investments in associates	118,631	166,868
Share of post-acquisition profit and other comprehensive income	37,544	41,986
Exchange difference arising on translation	(9,778)	(3,880)
	146,397	204,974

For the year ended 31 December 2017, the interests in associates represent a 20.0% equity interest in Sea Star International Limited ("Sea Star"), a company incorporated in the BVI in 2015 and 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 was able to exercise significant influence over Sea Star, Saike International and WinHealth International as the Group had the power to participate in the financial and operating policy decisions of the investees but did not have control or joint control over those policies. Accordingly, Sea Star, Saike International and WinHealth International were regarded as associates of the Group as at 31 December 2017.

The Group lost the significant influence over WinHealth International in October 2018. Details can be referred to note 21(d) to the consolidated financial statements. Accordingly, Sea Star and Saike International remained as associates of the Group as at 31 December 2018.

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

Name	Place of incorporation	Proportion of ownership held by the Group		Principal activities
		2018	2017	
Sea Star (note (a))	the BVI	20.0%	20.0%	Inactive
Saike International (note (b))	the BVI	50.0%	50.0%	Trading of medical devices and equipment in the PRC
WinHealth International (notes (c) and (d))	the BVI	–	15.0%	Distribution of pharmaceutical products in the PRC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

21. INTERESTS IN ASSOCIATES (Continued)

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 was 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 was held by Sharp Shine and Brilliant Dream as to 80% and 20%, respectively. Sea Star was intended to be engaged in the medical and healthcare related business in the PRC. Sharp Shine and Brilliant Dream would provide interest-free initial shareholders' loan in an aggregate sum of up to HK\$300,000,000 to Sea Star in the proportion of 80% and 20% with a view to financing a proposed business. As at 31 December 2018, the carrying amount of Sea Star is HK\$2 (2017: HK\$2). As at 31 December 2017 and 2018, there was no shareholders' loan made to the investee.
- (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 were 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 had been fulfilled and the completion of Saike Acquisition (the "Completion") took place on the same day. In connection with the Completion, Major Bright and the Vendor entered into a put option deed (the "Put Option Deed"), pursuant to which the Vendor granted a put option (the "Put Option") to Major Bright requiring the Vendor to purchase the Sale Shares from Major Bright at the put option exercise price (which approximate the consideration to acquire Sales Shares minus any payment for the shortfall of the Targeted Profit Requirement with interest thereon) in accordance with the terms and conditions of the Put Option Deed.

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 was 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\$99,487,000 (2017: HK\$104,282,000) arising on acquisition of Saike International.

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.

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For the year ended 31 December 2018

21. 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 certain 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 ended 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 ended 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 had 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 were set out in the Company's announcements dated 5 December 2016 and 14 March 2017.

As at the date on which the consolidated financial statements are authorised for issue report, the audited consolidated financial statements of WinHealth International for the year ended 31 December 2018 have not yet been made available to the Company. Based on the audited consolidated financial statements of WinHealth International for the period from 1 January 2018 to 10 October 2018, the audited consolidated profit of WinHealth International for that period was approximately RMB51,601,000. Based on the unaudited consolidated financial statements of WinHealth International for the year ended 31 December 2018, the unaudited consolidated profit of WinHealth International was approximately RMB51,707,000, which was above the WinHealth International 2018 Target Profit. On this basis, it is expected that no adjustment will be made for the year ended 31 December 2018.

The management of the Group had performed a review of the WinHealth International 2017 Audited Profit. WinHealth International 2017 Audited Profit is RMB36,439,000 (equivalent to approximately HK\$42,116,000), which was above the WinHealth International 2017 Target Profit. For the year ended 31 December 2017, no shortfall of profit is recognised in profit or loss.

As at the date of acquisition (i.e. 17 March 2017), the fair value of the contingent consideration (i.e. targeted profit requirement) is RMB4,517,000 (equivalent to HK\$5,099,000), which was presented as a financial asset at FVTPL in the consolidated statement of financial position.

As at 31 December 2018, the directors of the Company took into consideration of the discounted cash flow calculation of WinHealth Group and the fair value of the WinHealth International 2018 Target Profit is RMB349,000 (equivalent to approximately HK\$398,000) (2017: RMB2,563,000 (equivalent to approximately HK\$3,066,000)). The management expert adopted Monte-Carlo simulation analysis to derive the fair value of the WinHealth International 2018 Target Profit and WinHealth International 2017 Target Profit. 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 WinHealth International 2018 Target Profit.

Included in the cost of interests in associates was goodwill of HK\$44,575,000 and intangible assets, net of tax of HK\$4,533,000 arising on acquisition of WinHealth International on 17 March 2017.

The Group was 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 had significant influence over WinHealth International as at 31 December 2017.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

21. INTERESTS IN ASSOCIATES (Continued)

Notes: (Continued)

- (d) As disclosed in note 21(c) to the consolidated financial statements, the Group acquired 15% of the ordinary shares of WinHealth International in 2017. The Group was entitled to appoint one out of three directors to the board of directors of WinHealth International and had significant influence over WinHealth International. The equity interests in WinHealth International were accounted for as interest in an associate of the Group as at 31 December 2017.

On 10 April 2018, WinHealth International entered into a capital increase agreement with an independent third party ("WinHealth Investor 1"), and pursuant to which WinHealth Investor 1 subscribed 10.08% of the ordinary shares of WinHealth International at a consideration of US\$10,614,000 (equivalent to HK\$83,547,000) (the "First Capital Injection"). Upon the completion of the First Capital Injection in April 2018, the Group's equity interests in WinHealth International were diluted from 15% to 13.49%, resulted in a gain on a deemed disposal of interest in WinHealth International of HK\$10,339,000. The composition of board of directors of WinHealth International remained unchanged. Therefore, in the opinion of the directors of the Company, the Group continued to have significant influence over WinHealth International. Subsequently, in October 2018, 196,100 ordinary shares held by WinHealth Investor 1 were reclassified into preferred shares and transferred to an independent third party ("WinHealth Investor 2").

On 26 September 2018 and 11 October 2018, WinHealth International entered into a Series A preferred share purchase agreement and a shareholders agreement respectively, with WinHealth Investor 2 and an independent third party ("WinHealth Investor 3") (collectively defined as "WinHealth New Investor Group"). Pursuant to these agreements, WinHealth Investor 2 subscribed 113,379 Series A-3 preferred shares at a consideration of US\$8,000,000 (equivalent to HK\$61,868,000) and WinHealth Investor 3 subscribed 386,550 Series A-4 preferred shares at a consideration of US\$32,000,000 (equivalent to HK\$247,472,000) (the "Second Capital Injection"). Upon the completion of the Second Capital Injection on 11 October 2018, the Group's equity interests in WinHealth International were diluted from 13.49% to 9.63%, resulted in a gain on a deemed disposal of interest in WinHealth International of HK\$23,408,000. The board of directors in WinHealth International was reconstituted to comprise a maximum of seven directors, of which two directors and one independent director ("Ordinary Directors") shall be appointed by Mr. Wang and his spouse (i.e. the founders of WinHealth International), two directors and one independent director ("Series A Directors") shall be appointed jointly by WinHealth New Investor Group and one director shall be appointed by the Group.

After taking into consideration of the composition of the board of directors of WinHealth International with two Ordinary Directors, two Series A Directors and one director appointed by the Group, upon the completion of Second Capital Injection on 11 October 2018, the directors of the Company considered the Group lost the significant influence over WinHealth International because the decisions about the relevant activities of WinHealth International only required consent of the Series A Directors and Ordinary Directors. WinHealth International ceased to be an associate of the Group and retained equity interests in WinHealth International were reclassified as equity instruments at FVTOCI on 11 October 2018. The fair value of the retained equity interests in WinHealth International on the date of reclassification to equity instruments at FVTOCI was HK\$80,476,000 (note 19 to the consolidated financial statements) with fair value loss of HK\$13,075,000 recognised in the consolidated profit or loss.

WinHealth Investor 1 was incorporated in Hong Kong. WinHealth Investor 2 and WinHealth Investor 3 were incorporated in the Cayman Islands. WinHealth Investor 1, WinHealth Investor 2 and WinHealth Investor 3 are related companies of each other. In the opinion of the directors of the Company, WinHealth Investor 1, WinHealth Investor 2 and WinHealth Investor 3 are not related parties of the Group.

During the years ended 31 December 2018 and 31 December 2017, 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 2018 and 31 December 2017.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

21. INTERESTS IN ASSOCIATES (Continued)

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

	2018 HK\$'000	2017 HK\$'000
Current assets	120,603	117,252
Non-current assets	1,295	1,531
Current liabilities	(28,078)	(28,590)
Net assets attributable to owners of Saike International	93,820	90,193
Revenue for the year	62,483	117,392
Profit for the year	24,054	30,873
Other comprehensive (expense) income for the year	(3,627)	4,897
Total comprehensive income for the year	20,427	35,770
Group's share of profit of Saike International	12,027	15,436
Dividends declared from Saike International during the year	16,800	–

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

	2018 HK\$'000	2017 HK\$'000
Net assets of Saike International	93,820	90,193
Proportion of the Group's ownership interest in Saike International	50%	50%
Goodwill	46,910 99,487	45,097 104,282
Carrying amounts of the Group's interest in Saike International	146,397	149,379

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

21. INTERESTS IN ASSOCIATES *(Continued)* WinHealth International

	2018 HK\$'000	2017 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
	For the period from 1 January 2018 to 10 October 2018 HK\$'000	For the period from 17 March 2017 to 31 December 2017 HK\$'000
Revenue for the period	447,813	334,653
Profit for the period	62,166	31,757
Other comprehensive (expense) income for the period	(8,501)	931
Total comprehensive income for the period	53,665	32,688
Group's share of profit of WinHealth International	8,894	4,764
Dividend declared from WinHealth International during the period	–	–

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For the year ended 31 December 2018

21. 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:

	2018 HK\$'000	2017 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.

22. INTEREST IN A JOINT VENTURE/AMOUNT DUE FROM A JOINT VENTURE

	2018 HK\$'000	2017 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 海口新朗醫藥科技有限公司 (in English, for identification purpose only, Haikou Xin Lang Pharmaceutical Technology Co. Ltd.) ("Haikou Xin Lang"), an equity joint venture established in the PRC in March 2011. The Group is able to exercise joint control over Haikou Xin Lang as all decisions about the relevant activities require unanimous consent of the Group and the other joint venture partner. The Group also has rights to the net assets of Haikou Xin Lang. Accordingly, Haikou Xin Lang is regarded as a joint venture of the Group.

This joint venture was ceased to operate on 21 March 2019.

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For the year ended 31 December 2018

22. INTEREST IN A JOINT VENTURE/AMOUNT DUE FROM A JOINT VENTURE

(Continued)

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

Name	Place of incorporation	Proportion of ownership held by the Group		Principal activity
		2018	2017	
Haikou Xin Lang	the PRC	50.1%	50.1%	Inactive

Note: The amount was unsecured, non-interest bearing and repayable on demand. In the opinion of the directors, settlement was neither planned nor likely to occur in the foreseeable future. The directors considered 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.

	2018 HK\$'000	2017 HK\$'000
Current assets	1,145	1,202
Current liabilities	(1,171)	(1,226)
Loss for the year	(2)	(2)
Total comprehensive expenses for the year	(2)	(2)

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

	2018 HK\$'000	2017 HK\$'000
Net liabilities of the joint venture	(26)	(24)
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.

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23. INVENTORIES

	2018 HK\$'000	2017 HK\$'000
Finished goods	66,471	130,551

24. TRADE AND OTHER RECEIVABLES

	2018 HK\$'000	2017 HK\$'000
Trade receivables	82,241	49,280
Commission receivable from an associate (note 25(a))	–	1,787
Other prepayments	1,055	1,434
Other deposits	1,654	1,196
Prepayments to suppliers	294	359
Deposits paid to an associate (note 25(b))	–	79,302
Deposits paid to suppliers (note 26)	91,303	83,741
Value-added tax recoverable	1,997	17,790
Others	169	319
	178,713	235,208

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

	2018 HK\$'000	2017 HK\$'000
Trade receivables:		
0–30 days	26,934	28,007
31–60 days	7,772	7,726
61–90 days	8,431	550
91–180 days	16,582	4,170
181–365 days	18,544	8,439
Over 365 days	3,978	388
	82,241	49,280

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For the year ended 31 December 2018

24. TRADE AND OTHER RECEIVABLES *(Continued)*

Before accepting any new customers, the Group assesses the potential customer's credit quality and defines credit limits by the customer. Credit limits attributed to customers are reviewed periodically. Majority of the trade receivables that are neither past due nor impaired have no default payment history. The average turnover days of these receivables as at 31 December 2018 is 64 days (2017: 79 days).

Included in the Group's trade receivable balance are debtors with aggregate carrying amount of approximately HK\$11,773,000 (2017: HK\$12,997,000) which are past due but not impaired as at 31 December 2018. The Group has not provided for credit loss allowance because management is of the opinion the credit quality of these customers has not deteriorated and the balances are considered fully recoverable. The Group does not hold any collateral over these balances.

The Group has provided fully for all receivables over 365 days past due/based on the dates of goods delivery notes because in the opinion of the directors of the Company, the receivables that are past due beyond 365 days are generally not recoverable.

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

	2018 HK\$'000	2017 HK\$'000
1–180 days	11,749	4,170
181–365 days	24	8,439
Over 365 days	–	388
	11,773	12,997

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

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For the year ended 31 December 2018

25. AMOUNT DUE FROM AN ASSOCIATE

- (a) As at 31 December 2017, the balance of amount due from an associate includes an amount of HK\$1,787,000 which represented service 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 was unsecured, interest-free and had credit period of 90 days. The amount was fully repaid during the year ended 31 December 2018.
- (b) Included in trade and other receivables as at 31 December 2017 was 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 was secured by guarantee provided by Mr. Wang and was repaid upon the completion of contract in 2018. The contract was expired during the year and the amount was fully repaid during the year ended 31 December 2018.

26. 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.

For the arrangement with several major suppliers, if the minimum purchase requirement was 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 in previous years. The management had performed detailed assessment on these contracts and no impairment losses nor provision were considered necessary for the year ended 31 December 2017.

During the year ended 31 December 2018, the Group has agreed with the suppliers that, even if the minimum purchase requirement is not met, the deposit will still be refunded to the Group (i.e. no forfeiture).

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

	2018 HK\$'000	2017 HK\$'000
At 1 January	83,741	105,428
Deposits paid	89,947	75,705
Deposits refunded	(78,266)	(103,745)
Deposits utilised for purchases	–	(52)
Exchange realignment	(4,119)	6,405
At 31 December	91,303	83,741
Classified as:		
Current assets (included in trade and other receivables)	91,303	83,741

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

27. 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% (2017: 0.01% to 0.3%) per annum, for the year ended 31 December 2018.

As at 31 December 2018, deposits of HK\$174,000 (2017: HK\$52,000) 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:

	2018 HK\$'000	2017 HK\$'000
HK\$	71,447	1,379

28. TRADE AND OTHER PAYABLES

	2018 HK\$'000	2017 HK\$'000
Trade payables	21,239	82,054
Deposits received	3,561	3,813
Receipts in advance from customers	–	3,231
Contract liabilities (note)	2,353	–
Other tax payables	46	285
Accruals	4,560	3,326
	31,759	92,709

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

	2018 HK\$'000	2017 HK\$'000
0–30 days	21,239	–
31–60 days	–	19,588
61–90 days	–	33,428
Over 90 days	–	29,038
	21,239	82,054

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

28. TRADE AND OTHER PAYABLES (Continued)

The credit period on purchase of goods ranges from 30 to 60 days. For certain suppliers, the Group is required to make prepayments and/or pay deposits to the suppliers based on the supplier agreements for purchase of goods. Details of the amounts of prepayments to suppliers and deposits paid to suppliers are set out in notes 24 and 26 to the consolidated financial statements.

Contract liabilities, that are not expected to be settled within the Group's normal operating cycle, are classified as current liabilities based on the Group's earliest obligation to transfer goods or services to the customers. The receipts in advance from customers for the year ended 31 December 2017 were reclassified to contract liabilities from the application of HKFRS 15 since 1 January 2018.

Note:

Movement of contract liabilities during the year ended 31 December 2018 as follows:

	2018 HK\$'000
At 1 January	3,231
Increase in contract liabilities as a result of receipts in advance from customers	2,297
Decrease in contract liabilities as a result of recognition of revenue during the year that was included in the contract liabilities at the beginning of the year	(3,172)
Exchange realignment	(3)
At 31 December	2,353

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 2017	7,122
Charge to profit or loss	2,036
Exchange realignment	571
At 31 December 2017	9,729
Charge to profit or loss	369
Exchange realignment	(460)
At 31 December 2018	9,638

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

29. DEFERRED TAX LIABILITIES *(Continued)*

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

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

The Group has unused tax losses of approximately HK\$4,309,000 (2017: HK\$4,452,000) as at 31 December 2018, 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 2018 are losses of HK\$418,000, HK\$265,000, HK\$440,000, HK\$472,000 and HK\$260,000 that will expire in 2019, 2020, 2021, 2022 and 2023, 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 2017	800,000	40,000
Increased on 26 January 2017 (note a)	2,200,000	110,000
At 31 December 2017, 1 January 2018 and 31 December 2018	3,000,000	150,000
Issued and fully paid:		
At 1 January 2017	416,448	20,822
Rights issue of shares (note b)	1,249,344	62,467
Issue of shares upon exercise of share options (note c)	6,055	303
At 31 December 2017, 1 January 2018 and 31 December 2018	1,671,847	83,592

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

30. SHARE CAPITAL OF THE COMPANY (Continued)

Notes:

- (a) On 26 January 2017, the authorised share capital of the Company was increased from HK\$40,000,000 to HK\$150,000,000 by the creation of additional 2,200,000,000 ordinary shares of par value of HK\$0.05 each.
- (b) On 6 March 2017, the Company allotted 1,249,344,000 Rights Shares 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).

Details of the Rights Issue are disclosed in the announcement 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 this report.

- (c) During the year ended 31 December 2017, a former director and an employee of the Company exercised share options which entitled them to subscribe for an aggregate of 6,054,657 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 2018 rank *pari passu* with the then existing ordinary shares in all respects.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

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:

	NOTES	2018 HK\$'000	2017 HK\$'000
Non-current assets			
Investments in subsidiaries		75,367	75,367
Amounts due from subsidiaries		376,776	452,798
		452,143	528,165
Current assets			
Other receivables		416	670
Bank balances and cash		72,710	1,388
		73,126	2,058
Current liability			
Other payables		1,650	1,500
Net current assets			
		71,476	558
Total assets less current liabilities			
		523,619	528,723
Capital and reserves			
Share capital	30	83,592	83,592
Share premium and reserves	31(a)	440,027	445,131
Equity attributable to owners of the Company			
		523,619	528,723

The financial statements were approved and authorised for issue by the Board of Directors on 27 March 2019 and are signed on its behalf by:

LIU YANG
DIRECTOR

WANG QIUQIN
DIRECTOR

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

31. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY

(Continued)

Note:

(a) Movement in the Company's reserves

	Share premium HK\$'000	Contributed surplus HK\$'000	Share options reserve HK\$'000	Translation reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
At 1 January 2017	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)
Issue upon exercise of 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
Total comprehensive expense for the year	-	-	-	1,448	(6,552)	(5,104)
At 31 December 2018	607,614	50,167	-	(1,729)	(216,025)	440,027

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 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

33. FINANCIAL INSTRUMENTS

33a. Categories of financial instruments

	2018 HK\$'000	2017 HK\$'000
Financial assets		
Equity instruments at FVTOCI	156,549	–
AFS investments	–	89,373
Financial assets at FVTPL	969	3,066
Financial assets at amortised cost (including cash and cash equivalents)	319,645	–
Loans and receivables (including cash and cash equivalents)	–	304,305
	477,163	396,744
Financial liabilities		
Amortised cost	25,799	85,380

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	
	2018 HK\$'000	2017 HK\$'000
HK\$	71,621	79,603

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

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% (2017: 3%) increase and decrease in the functional currency of each group entity against the above foreign currency. 3% (2017: 3%) is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rate. A positive number below indicates an increase in profit after tax (2017: a decrease in loss after tax) where the above foreign currency strengthens by 3% (2017: 3%) against the functional currency of the respective group entity. For a 3% (2017: 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 profit (loss) after tax and the balances below would be negative.

	2018 HK\$'000	2017 HK\$'000
Profit (loss) after tax	1,611	(1,791)

(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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

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

The Group has concentration of equity price risk on its equity instruments at FVTOCI listed in Hong Kong as 100% (2017: AFS investments listed in Hong Kong as 100%) of its equity interests held by the Group are issued by four (2017: four) issuers. The management of the Group considers that the equity price risk on the equity instruments at FVTOCI (2017: AFS investments) in the equity interests held is limited as they were issued by four (2017: four) companies whose shares are listed on the Stock Exchange.

The Group has concentration of equity price risk on its unlisted equity instruments at FVTOCI as 100 % (2017: AFS investments as 100%) of its equity interests held by the Group are issued by two (2017: one) issuers. The management of the Group considers that the equity price risk on the equity instruments at FVTOCI (2017: 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 and unlisted investments, at the end of the reporting period.

If the prices of the respective equity instruments at FVTOCI had been 10% (2017: AFS investments as 10%) lower/higher:

- loss after tax increase/decrease by HK\$325,000 for the year ended 31 December 2017 as a result of the changes in fair value of AFS investments which have been impaired. Profit after tax for the year ended 31 December 2018 would have no impact as a result of the changes in fair value; and
- FVTOCI (non-recycling reserve) would increase/decrease by HK\$202,000 (2017: no impact) for the Group as a result of the changes in fair value of equity instruments at FVTOCI (2017: AFS investments).

The Group's sensitivity to equity instruments at FVTOCI (2017: AFS investments) has not changed significantly from the prior year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

33. FINANCIAL INSTRUMENTS *(Continued)*

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

Credit risk management

As at 31 December 2018 and 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. 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 96% (2017: 74%) of balances are placed with three (2017: two) banks of which two (2017: one) are located in the PRC and one (2017: one) is located in Hong Kong as at 31 December 2018.

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 30% (2017: 67%) of its trade receivables were due from one (2017: five) customer as at 31 December 2018. This one (2017: five) customer is a distributor which is a private enterprise engaged in trading and wholesaling of drugs in Hebei in the PRC as at 31 December 2018 (2017: Zhejiang, Hebei and Hubei in the PRC). In addition, the Group also has concentration of credit risks on its deposits paid to suppliers as 96% (2017: 96%) of its deposits paid to suppliers were paid to two (2017: three) suppliers in aggregate as at 31 December 2018. 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, the customer and all of these 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 customers and suppliers.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

33. FINANCIAL INSTRUMENTS *(Continued)*

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

Credit risk management *(Continued)*

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

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

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

31 December 2018	Notes	External credit rating	Internal credit rating	Gross carrying amount HK\$'000
Bank balances and cash	27	AA+	N/A	146,101
Trade receivables	24	N/A	Low risk (note ii)	82,241
Deposits paid to suppliers	26	N/A	Low risk (note iii)	91,303
				<u>319,645</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

33. FINANCIAL INSTRUMENTS *(Continued)*

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

Credit risk management *(Continued)*

Notes:

- i. For the purposes of internal credit risk management, the Group uses past due information to assess whether credit risk has increased significantly since initial recognition.
- ii. For trade receivables, the Group has applied the simplified approach in HKFRS 9 to measure the loss allowance at lifetime ECL. Except for debtors with significant outstanding balances or credit-impaired, the Group determines the expected credit losses on these items by past due status.

The Group measures loss allowances for trade receivables at an amount equal to lifetime ECLs, which is calculated using a provision matrix. As the Group's historical credit loss experience does not indicate significantly different loss patterns for different customer segments, the loss allowance based on past due status is not further distinguished between the Group's different customer bases. The Group has performed historical analysis and identified the key economic variables impacting credit risk and expected credit loss. It considers variable reasonable and supportive forwarding-looking information.

The directors of the Company are of the opinion that the credit risk of trade receivables is low base on the sound collection history of the receivables due from them and the economic environment in which the debtors operate. Therefore, the expected credit loss rate of the trade receivable is assessed to be closed to zero and no provision was made as at 31 December 2018.

iii.	Past due HK\$'000	Not past due HK\$'000	Total HK\$'000
Deposits paid to suppliers	–	91,303	91,303

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.

Liquidity tables

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

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For the year ended 31 December 2018

33. FINANCIAL INSTRUMENTS (Continued)

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

Liquidity risk management (Continued)

Liquidity tables (Continued)

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 2018						
Non-derivative financial liabilities						
Trade and other payables	-	25,799	-	-	25,799	25,799
At 31 December 2017						
Non-derivative financial liabilities						
Trade and other payables	-	29,038	53,016	3,326	85,380	85,380

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 are observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active market for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

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)

Financial assets	Fair value as at		Fair value hierarchy	Valuation technique(s)	Significant unobservable input(s)	Range (weighted average)
	31 December 2018 HK\$'000	31 December 2017 HK\$'000				
Equity instruments at FVTOCI listed in Hong Kong (31 December 2017 classified as AFS investments listed in Hong Kong)	2,015	–	Level 1	Quoted bid prices in an active market	N/A	N/A
AFS investments listed in Hong Kong	–	3,253	Level 1	Quoted bid prices in an active market	N/A	N/A
Club debenture	571	–	Level 2	Quoted bid prices in secondary market for identical asset	N/A	N/A
Equity instrument at FVTOCI listed in Hong Kong under suspension (31 December 2017 classified as AFS investments under suspension)	14,040	–	Level 3	Market approach	EV/EBITDA multiple P/S multiple Discount for lack of marketability	6.13-15.55 (11.45) 0.50-2.01 (1.25) 48%
AFS investments listed in Hong Kong under suspension	–	16,932	Level 3	Market approach	EV/EBITDA multiple P/S multiple Discount for lack of marketability	12.44-18.40 (14.28) 0.77-3.00 (2.03) 48%
Equity instruments at FVTOCI for unlisted investments (31 December 2017 classified as AFS investments unlisted in Hong Kong)	140,494	–	Level 3	Discounted cash flow	Terminal growth rate Discount rate	2.90%-3.00% (2.95%) 14.86%-16.96% (15.91%)
Financial asset at FVTPL	398	3,066	Level 3	Monte-Carlo simulation analysis	Net operating profit Volatility	RMB38,500,000 (equivalent to HK\$43,940,000) (2017: RMB35,000,000 (equivalent to HK\$41,871,000)) 33.84% (2017: 49.56%)

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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)*

The fair values of investments in suspended listed equity securities which have not resumed trading subsequent to year end, for which there is an absence of quoted prices, were estimated as at the end of 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.

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:

	HK\$'000
At 1 January 2017	–
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 2017	16,932

As at 31 December 2017, the Group transferred 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 and 20 to the consolidated financial statements.

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 2018, 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.

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

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

Pursuant to the Scheme, the maximum number of shares in the Company in respect of which options may be granted when aggregated with any other share option scheme of the Company is not permitted to exceed 10% of the total number of shares in issue as at the date of adoption of the Scheme. Subject to the issue of a circular and the approval of the shareholders of the Company in a general meeting and/or such other requirements prescribed under the Listing Rules from time to time, the board may refresh the limit at any time to 10% of the total number of shares in issue as at the date of approval by the shareholders of the Company in a general meeting. As at 31 December 2018 and the date of this report, the maximum number of ordinary shares of the Company which could be issued upon exercise of all options that may be granted under the existing Scheme limit is 166,579,200 ordinary shares of HK\$0.05 each, representing approximately 9.96% of the issued share capital of the Company. Notwithstanding the foregoing, the shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Scheme and any other share option schemes of the Company at any time shall not exceed 30% of the shares in issue from time to time.

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

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For the year ended 31 December 2018

34. SHARE OPTION SCHEME (Continued)

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

There were no share options outstanding under the Scheme as at 31 December 2018 and 31 December 2017 and no share options were granted by the Company under the Scheme during the years ended 31 December 2018 and 31 December 2017.

The following table discloses the movements of the number of the Company's share options held by the grantees during the years ended 31 December 2018 and 31 December 2017:

Category of participants	Outstanding at 1 January 2017	Adjustment for Rights Issue (note)	Granted during 2017	Exercised during 2017	Lapsed/cancelled/forfeited during 2017	Outstanding at 31 December 2017, 1 January 2018 and 31 December 2018
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.

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

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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\$714,000 (2017: HK\$780,000) for the year ended 31 December 2018 charged to the consolidated statement of profit or loss and other comprehensive income represents contribution paid or payable to the above retirement benefit plans by the Group.

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

36. PLEDGE OF ASSETS

As at 31 December 2018, the Group pledged the buildings and prepaid lease payments with aggregate carrying values of approximately HK\$9,588,000 (2017: HK\$26,829,000) 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 2018 was HK\$976,000 (2017: HK\$655,000).

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

	2018 HK\$'000	2017 HK\$'000
Within one year	870	692
In the second to fifth year inclusive	213	252
	1,083	944

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 (2017: two to five years) and rentals are fixed over the lease terms.

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38. CAPITAL COMMITMENTS

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

	2018 HK\$'000	2017 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

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 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 flows	(17,066)
Exchange adjustments	135
Other changes:	
Interest expenses	162
At 31 December 2017, 1 January 2018 and 31 December 2018	–

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40. 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	2018 HK\$'000	2017 HK\$'000
Zhejiang Medical	An indirect wholly owned subsidiary of WinHealth International, an associate of the Group until October 2018	Marketing and promotion services provided by the Group	1,545	1,445
		Purchases of pharmaceutical products	–	2,956
Mr. Zhou	Former director and substantial shareholder	Consultancy fee	421	–
Ms. Yang	Former director and substantial shareholder	Salaries	351	–

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 on which the consolidated financial statements are authorised for issue, 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.

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For the year ended 31 December 2018

40. 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 21, 22 and 25 to the consolidated financial statements.

(iii) Compensation of key management personnel

	2018 HK\$'000	2017 HK\$'000
Short term benefits	5,899	9,974
Post employment benefits	96	105
	5,995	10,079

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

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41. 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		Issued and fully paid share capital/ registered capital	Principal activities
		2018	2017		
Direct					
Max Goodrich International Limited (note i)	the BVI 21 September 2007	100%	100%	HK\$163,800	Investment holding
Major Bright (note i)	the BVI 9 May 2014	100%	100%	HK\$1	Investment holding
Indirect					
Brilliant Dream Holding Limited (note i)	the 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 (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 ii & iii)	the PRC 8 July 2008	100%	100%	HK\$75,000,000	Investment holding
Zhejiang Xin Rui 浙江新銳醫藥有限公司 (note ii)	the PRC 26 April 2006	100%	100%	RMB65,000,000	Distribution and trading of pharmaceutical products and provision of marketing and promotion services
Hong Rui Trading 浙江泓銳貿易有限公司 (note ii)	the PRC 6 September 2005	100%	100%	RMB5,000,000	Inactive

Notes:

- (i) A company incorporated with limited liability.
- (ii) A domestic company incorporated in the PRC with limited liability.
- (iii) A wholly foreign owned enterprise with limited liability.

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.