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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

2019

Annual Report

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CORPORATE INFORMATION

Board of Directors

Executive Directors
Mr. Liu Yang *(Chairman)*
Mr. Huo Zhihong *(Chief Executive Officer)*
Ms. Wang Qiuqin

Independent Non-executive Directors
Mr. Leung Chi Kin
Ms. Li Sin Ming, Ivy
Mr. Sy Lai Yin, Sunny

Board Committees

Audit Committee
Ms. Li Sin Ming, Ivy *(Chairman)*
Mr. Leung Chi Kin
Mr. Sy Lai Yin, Sunny

Remuneration Committee
Mr. Leung Chi Kin *(Chairman)*
Mr. Liu Yang
Ms. Li Sin Ming, Ivy
Mr. Sy Lai Yin, Sunny

Nomination Committee
Mr. Leung Chi Kin *(Chairman)*
Mr. Liu Yang
Ms. Li Sin Ming, Ivy
Mr. Sy Lai Yin, Sunny

Corporate Governance Committee
Mr. Liu Yang *(Chairman)*
Mr. Huo Zhihong
Ms. Wang Qiuqin
Mr. Sy Lai Yin, Sunny

Company Secretary
Mr. Lai Kwok Wa, *HKICPA*

Auditor
Moore Stephens CPA Limited
Certified Public Accountants

Stock Code
6108

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Bermuda

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Principal Banker
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Zhejiang Province, the PRC

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Hamilton HM 11
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Hong Kong Branch Share Registrar and Transfer Office
Tricor Investor Services Limited
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Hopewell Centre
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Hong Kong

Website
www.newraymedicine.com

FINANCIAL SUMMARY

2019 Financial Highlights

- The Group recorded a revenue of approximately HK$118.6 million for the year ended 31 December 2019 (2018: approximately HK$372.4 million), representing a decrease of approximately 68.2% as compared to 2018.

- The Group's gross profit for the year ended 31 December 2019 was approximately HK$14.9 million (2018: approximately HK$47.4 million), representing a decrease of approximately 68.6% as compared to 2018.

- Net loss attributable to owners of the Company for the year ended 31 December 2019 was approximately HK$44.1 million while the net profit attributable to owners of the Company for the year ended 31 December 2018 was approximately HK$33.2 million.

- The Board does not recommend the payment of a final dividend for the year ended 31 December 2019.

- The Group had a gearing ratio (defined as total bank and other borrowings divided by total equity) of zero as at 31 December 2019 (2018: zero).

FINANCIAL SUMMARY

	2015 HK$'000	2016 HK$'000	2017 HK$'000	2018 HK$'000	**2019** **HK$'000**
Operating results					
Revenue	252,985	225,388	235,248	372,441	**118,632**
Gross profit	65,626	34,401	47,325	47,403	**14,875**
Profit/(loss) before tax	30,063	(13,708)	(94,389)	39,197	**(43,792)**
Profit/(loss) for the year	14,804	(20,458)	(105,012)	33,204	**(44,109)**
Profitability					
Gross profit margin	25.9%	15.3%	20.1%	12.7%	**12.5%**
Net profit margin	5.9%	N/A	N/A	8.9%	**N/A**
Assets and liabilities					
Total assets	516,572	534,736	830,384	768,072	**678,907**
Equity attributable to owners of the Company	477,663	471,687	726,825	725,384	**654,483**
Total liabilities	38,909	63,049	103,559	42,688	**24,424**
Bank balances and cash	56,795	71,599	90,195	146,101	**88,668**
Quick ratio (times)	7.4	4.5	3.5	10.0	**22.4**
Current ratio (times)	7.6	4.8	4.9	12.0	**22.4**

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 2019 (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) officially initiated in 2018 and the expansion of this centralised drug procurement regime nationwide in late 2019. 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. This centralised drug procurement policy was later expanded to 29 provinces and four municipalities across the country in 2019. Meanwhile, the tightened national health insurance budgets may bring further drugs reimbursement control and price cut on drugs. The aforesaid policies put the pharmaceutical distribution and trading enterprises including the Group into a challenging position and affect the profitability of the industry.

The Group also suffered a major blow as a result of the temporary suspension of production and sales of the Group's major product under the second generation of Cephalosporins (二代頭孢產品) ("Product") during the Year. For the Year, the total revenue of the Group was approximately HK$118.6 million, representing a decrease of approximately 68.2% as compared to 2018. The total gross profit of the Group was approximately HK$14.9 million, representing a decrease of approximately 68.6% as compared to 2018. The significant decrease in revenue and gross profit was mainly attributable to the sales decline of the Group's major product under the second generation of Cephalosporins (二代頭孢產品) as a result of the temporary suspension of production and sales of the Product during the Year. As the national exclusive distributor of the Product, the Group attached great importance to this incident. After the incident, the Group has maintained close communication with the manufacturer of the Product from time to time to ensure product quality.

Following the implementation of the "4+7 centralised purchase policy" (4+7城市藥品集中採購文件) in 11 major cities in 2018, China has further expanded this regime to most part of the country in 2019 in a bid to control drug prices and improve patient accessibility to high quality medicines. 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. 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.

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 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 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 various opportunities to enhance its distribution capabilities.

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
26 March 2020

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 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 2019 and 31 December 2018 respectively.

	Revenue contributed from each business segment				Gross profit margin	
	2018		**2019**		2018	**2019**
	HK$'000	%	**HK$'000**	**%**	%	**%**
(1) Distribution and trading of pharmaceutical products	364,533	97.9	**114,652**	**96.6**	11.0	**9.8**
(2) Provision of marketing and promotion services	7,908	2.1	**3,980**	**3.4**	N/A	**N/A**
Total	372,441	100.0	**118,632**	**100.0**		

Business Review *(Continued)*

(1) Distribution and trading of pharmaceutical products

This segment generated a revenue of approximately HK$114.7 million for the Year (2018: approximately HK$364.5 million), representing a decrease of approximately 68.5% as compared to 2018. The significant decrease in revenue was primarily attributable to the sales decline of the Product as a result of the temporary suspension of production and sales of the Product during the Year.

On 28 February 2019, the Group received a letter from 杭州市市場監督管理局 (Hangzhou Municipal Administration for Market Regulation) (the English name is for identification purposes only) ("Hangzhou Market Administration") requesting the Group to stop selling the Product and to recall all batches of the Product in the market pursuant to the instruction of 浙江省藥品監督管理局 (Zhejiang Food and Drug Administration) ("ZFDA") after the identification of defective batches of the Product during the course of an unannounced inspection. The Group had stopped selling the Product and had recalled all batches of the Product from customers accordingly. The Product distributed by the Group contains two packings i.e. 0.5g and 1.0g of a sealed glass container.

In April 2019, the Group applied to Hangzhou Market Administration and ZFDA for the resumption of trading of the Product in the PRC. On 6 May 2019, Hangzhou Market Administration issued a notice to the Group ("Notice") which specified that the Group had been discharged of the administrative measures for the suspension of the trading of the Product (1.0g) from the date of the Notice pursuant to the notice of ZFDA. Accordingly, the Group could start selling the Product (1.0g) again in the market.

In June 2019, the manufacturer of the Product notified the Group that a thorough examination and review of the manufacturing process of the Product ("Improvement Project") was being conducted in order to improve the Product's quality and to avoid any similar incident of defective production of the Product in the future. During the course of the Improvement Project, production of the Product was suspended. The Improvement Project was completed and the production and sales of the Product (1.0g) has resumed since September 2019. As at 31 December 2019 and the date of this report, the production and sales of the Product (0.5g) remained suspended. The Group expects that the temporary suspension of production and sales of the Product (0.5g) will not cause a material negative impact on the Group's revenue in 2020.

Business Review *(Continued)*

(2) Provision of marketing and promotion services

This segment generated a revenue of approximately HK$4.0 million for the Year (2018: approximately HK$7.9 million), representing a decrease of approximately 49.4% as compared to 2018. 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. Under the implementation of the "Two-Invoice" System (兩票制) in the PRC, the Group has started to develop its business of the provision of marketing and promotion services in respect of pharmaceutical products in the PRC since 2017. The Group's marketing and promotion model involves formulating marketing and promotion strategies and conducting academic promotion programs of the Group's products in return for service income from the suppliers. The decrease in revenue from this segment was primarily because the market was highly competitive and the services contract entered into between a subsidiary of WinHealth International Company Limited ("WinHealth International") and the Group for the provision of marketing and promotion services of certain pharmaceutical products expired in late 2018.

Future Prospects

(i) Industry Outlook

Under the implementation of the "4+7 centralised purchase policy" (4+7城市藥品集中採購文件) and the expansion of this centralised drug procurement regime as well as the tightened national health insurance budgets, 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, aging population, urbanisation, increase in chronic diseases and household income and 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.

Covid-19, a new coronavirus, has first been detected in Wuhan, the central Chinese city, in late 2019 and has widely spread across the country in early 2020. The Chinese government has stepped up its efforts to prevent the spread of Covid-19, which is highly contagious, by imposing quarantine on travel in and out of Wuhan and neighbouring cities. Flights, trains, public buses, metro system and long-distance coaches in some cities were also suspended. Some cities implemented measures including stricter controls on the movement of residents and vehicles and shut down of leisure and other non-essential community services. As the coronavirus outbreak discourages large-scale gatherings and functions and confines citizens to their homes, the Group's business, in particular, the provision of marketing and promotion services, has been significantly impacted. However, the Group expects that the spread of coronavirus will be contained in foreseeable future. The Group's business of the provision of marketing and promotion services will resume once the situation becomes stable.

Future Prospects *(Continued)*

(ii) Growth Strategies

(a) Continue to diversify the existing product portfolio

During the Year, the Group acquired the exclusive national distribution rights of five prescription capsule and granule drugs in the PRC. The manufacturers are currently applying for approval to manufacture these capsule and granule drugs in the PRC. The Group will seek to acquire distribution rights of new products to enhance its product portfolio. Looking ahead to 2020, 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

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.

(c) To focus on our core businesses

As a long-term business strategy, the Group intends to focus on its core businesses of the distribution and trading of pharmaceutical products and the provision of marketing and promotion services in respect of pharmaceutical products in the PRC through reallocating its resources to the future development of the core businesses. The Group may consider the possibility of disposing of the business or assets in respect of its non-core business currently held by the Group in the coming future.

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 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 product delivery and payment collection process; improving efficiencies of customers by allowing them to keep fewer inventories on hand and ensuring timely replenishment of inventory.

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

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

The pharmaceutical industry in the PRC is highly regulated by the PRC government. The Law on the Administration of Pharmaceuticals of the PRC (《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 the 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 the 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 its 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 Municipal Administration for Market Regulation.

In this connection, the Group has obtained the Pharmaceutical Operation Permit granted by ZFDA, 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 Municipal Administration for Market Regulation in accordance with the applicable PRC laws and regulations. The Pharmaceutical Operation Permit is valid till 14 November 2024.

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 ZFDA 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 14 November 2024.

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

On 28 February 2019, the Group received a letter from Hangzhou Market Administration requesting the Group to stop selling the Product and to recall all batches of the Product in the market pursuant to the instruction of ZFDA after the identification of defective batches of the Product during the course of an unannounced inspection. As certain batches of the Product failed in the examination for the imported drug registration requirements, the Group was held liable to pay a penalty of RMB447,000 pursuant to the Law on the Administration of Pharmaceuticals of the PRC (《中華人民共和國藥品管理法》) and the Implementation Regulations of the Law on the Administration of Pharmaceuticals of the PRC (《中華人民共和國藥品管理法實施條例》).

The Product distributed by the Group contains two packings i.e. 0.5g and 1.0g of a sealed glass container. In April 2019, the Group had applied to Hangzhou Market Administration and ZFDA for the resumption of trading of the Product in the PRC. On 6 May 2019, Hangzhou Market Administration issued the Notice to the Group which specified that the Group had been discharged of the administrative measures for the suspension of the trading of the Product (1.0g) from the date of the Notice pursuant to the notice of ZFDA. Accordingly, the Group could start selling the Product (1.0g) again in the market. As at 31 December 2019 and the date of this report, the production and sales of the Product (0.5g) remained suspended.

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

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 controls in the PRC. To mitigate the impact of the government policies on the pharmaceutical industry in the PRC, the Group will continue to diversify the portfolio of products distributed by it.

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Review

Revenue

The total revenue for the Year was approximately HK$118.6 million, representing a decrease of approximately 68.2% from approximately HK$372.4 million for the year ended 31 December 2018. The decrease in revenue from the distribution and trading of pharmaceutical products was primarily attributable to the temporary suspension of production and sales of the Group's major product under the second generation of Cephalosporins (二代頭孢產品) (i.e. the Product) during the Year. The decrease in revenue from the provision of marketing and promotion services was primarily because the market was highly competitive and the services contract entered into between WinHealth International's subsidiary and the Group for the provision of marketing and promotion services of certain pharmaceutical products expired in late 2018.

Cost of sales

The cost of sales for the Year was approximately HK$103.8 million, representing a decrease of approximately 68.1% from approximately HK$325.0 million for the year ended 31 December 2018. The decrease in cost of sales was mainly due to the decrease in sales volume of the Group's major product under the second generation of Cephalosporins (二代頭孢產品) during the Year.

Gross Profit and Gross Profit Margin

Gross profit decreased by approximately HK$32.5 million, or approximately 68.6%, from approximately HK$47.4 million for the year ended 31 December 2018 to approximately HK$14.9 million for the Year. The significant decrease in gross profit of the Group for the Year was mainly attributable to the temporary suspension of production and sales of the Group's major product under the second generation of Cephalosporins (二代頭孢產品) . The Group's gross profit margin for the Year was approximately 12.5%, which has decreased by 0.2 percentage points when compared to 2018. The decrease in gross profit margin was primarily attributable to the decrease in sales volume of the Group's products while the amortisation costs classified as cost of sales are fixed.

Other Income, Gains and Losses

The net other loss for the Year were approximately HK$1.4 million (2018: net other gains of approximately HK$18.4 million). Such change was primarily attributable to (i) the absence of a net gain on deemed disposal of interest in WinHealth International for the Year (2018: approximately HK$20.7 million); and (ii) the net exchange loss of approximately HK$4.8 million recorded for the Year (2018: approximately HK$3.9 million).

Selling and Distribution Expenses

Selling and distribution expenses for the Year were approximately HK$16.7 million, representing a decrease of approximately 30.4% from approximately HK$24.0 million for the year ended 31 December 2018. The decrease in selling and distribution expenses was primarily attributable to the temporary suspension of production and sales of the Group's major product under the second generation of Cephalosporins (二代頭孢產品) during the Year.

Administrative Expenses

Administrative expenses for the Year were approximately HK$19.9 million, representing a decrease of approximately 13.1% from approximately HK$22.9 million for the year ended 31 December 2018. Such decrease was mainly due to the decrease in legal and professional fees incurred for conducting an independent investigation into the issues relating to the Group's acquisitions of interests in Saike International and WinHealth International during the Year.

Financial Review *(Continued)*

Share of Profit of Associates

Share of profit of associates was approximately HK$9.3 million for the Year which was contributed by Saike International, representing a decrease of approximately 54.0% from approximately HK$20.2 million for the year ended 31 December 2018 which was contributed by Saike International and WinHealth International. The Group ceased to recognise its interest in WinHealth International as interest in associate since 11 October 2018 upon the deemed disposals of interests in WinHealth International through its allotment and issue of new shares to other parties in April 2018 and subsequently in October 2018.

Income Tax Expense

Income tax expense for the Year was approximately HK$0.3 million, representing a decrease of approximately 95.0% from approximately HK$6.0 million for the year ended 31 December 2018. The decrease was primarily due to the decrease in taxable income for tax purposes.

Loss for the Year

The Group recorded a change from a profit attributable to owners of the Company of approximately HK$33.2 million for the year ended 31 December 2018 to a loss attributable to owners of the Company of approximately HK$44.1 million for the Year.

The turnaround of the Group's financial performance from a profit to a loss was primarily due to (i) the significant decrease in revenue and gross profit of the Group mainly due to the sales decline of the Group's major product (i.e. the Product) as a result of the temporary suspension of production and sales of the Product during the Year; (ii) the absence of a net gain on deemed disposal of interest in WinHealth International for the Year (2018: approximately HK$20.7 million); (iii) the decrease in share of profit of associates for the Year as the Group's interest in WinHealth International had no longer been classified as interest in associate since 11 October 2018; (iv) the recognition of impairment losses of approximately HK$9.0 million on the Group's trade and other receivables for the Year (2018: nil); and (v) the recognition of impairment losses in respect of the interest in Saike International, an associate of the Group, of approximately HK$20.9 million for the year (2018: nil); despite that the change was partially offset by the decrease in the selling and distribution expenses of the Group during the Year.

Equity instruments at fair value through other comprehensive income ("FVTOCI")

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

Financial Review *(Continued)*

Equity instruments at fair value through other comprehensive income ("FVTOCI") *(Continued)*

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

As at 31 December 2019, the Group's securities investment in the shares of Town Health International Medical Group Limited ("Town Health") ("TH Shares") (a company whose shares are listed on the Main Board of the Stock Exchange with stock code: 3886) had a fair value of approximately HK$17.1 million. On 27 November 2017, the Securities and Futures Commission ("SFC") had, pursuant to Section 8(1) of the Securities and Futures (Stock Market Listing) Rules (Cap. 571V, the Laws of Hong Kong), directed the Stock Exchange to suspend trading in the TH Shares with effect from 9:00 a.m. on 27 November 2017 as it appeared to the SFC that, among other things, Town Health's interim report for the six months ended 30 June 2016 published on 7 September 2016 and Town Health's annual report for the year ended 31 December 2016 published on 27 April 2017 included materially false, incomplete or misleading information. As at the date of this 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 2019. The valuation was conducted based on market approach method by reference to P/S multiple, EV/EBITDA multiple of companies in similar industry and discount of lack of marketability. As at 31 December 2019 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 gain on its investment in the TH Shares of approximately HK$3.0 million for the Year. Based on the 2019 interim report of Town Health, Town Health will strive to maintain the leading position in medical and healthcare industry in Hong Kong, while further developing the medical market in Mainland China. Town Health will continue striving to become the leading player in the healthcare industry. Town Health will leverage its healthcare management expertise and extensive experience to bring in high quality and more efficient Hong Kong-style health services and operation models into the PRC market.

(ii) Equity instruments at FVTOCI listed in Hong Kong

As at 31 December 2019, the Group's securities investment listed in Hong Kong (other than the TH Shares) had a fair value of approximately HK$1.9 million.

During the Year, the Group did not dispose of any equity securities listed in Hong Kong. Besides, due to a decrease in the fair value of certain listed securities investments, a fair value loss of approximately HK$0.2 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.

(iii) Equity instruments at FVTOCI for unlisted investments

HCMPS Healthcare Holdings Limited ("HCMPS")

As at 31 December 2019, the Group held approximately 14.0% equity interest in HCMPS (formerly known as C&C International Healthcare Group Limited) with an investment amount of approximately HK$69.2 million. As at 31 December 2019, the fair value of the Group's investment in HCMPS amounted to approximately HK$42,000,000 (2018: approximately HK$61,040,000), which accounted for approximately 6.2% of the Group's total assets (2018: approximately 7.9%). A fair value loss on the Group's investment in HCMPS of approximately HK$19,040,000 (2018: fair value loss of approximately HK$9,240,000) has been recognised in other comprehensive income for the Year. No dividend income was received from HCMPS for 2019 and 2018.

Financial Review *(Continued)*

Equity instruments at fair value through other comprehensive income ("FVTOCI") *(Continued)*

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

HCMPS Healthcare Holdings Limited ("HCMPS") (Continued)

HCMPS and its subsidiaries are principally engaged in the provision of contracted medical schemes and medical services. Based on the latest unaudited consolidated financial statements of HCMPS for the nine months ended 30 September 2019, it recorded an unaudited consolidated profit of approximately HK$17.1 million. The Hong Kong economic condition in 2020 is expected to be weakened as compared to 2019 due to the social instability in Hong Kong and the current outbreak of coronavirus disease. However, the aging population and the increasing demand for corporate medical solutions services in Hong Kong are favourable to the continuing development of HCMPS' business in the long term.

WinHealth International

As at 31 December 2019, the Group held approximately 9.63% equity interest in WinHealth International with an investment amount of approximately RMB47.25 million. As at 31 December 2019, the fair value of the Group's investment in WinHealth International amounted to approximately HK$76,694,000 (2018: approximately HK$79,454,000), which accounted for approximately 11.3% of the Group's total assets (2018: approximately 10.3%). A fair value loss on the Group's investment in WinHealth International of approximately HK$2,760,000 (2018: fair value loss of approximately HK$1,022,000) has been recognised in other comprehensive income for the Year. No dividend income was received from WinHealth International for 2019 and 2018.

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, it recorded an unaudited consolidated profit of approximately RMB73.8 million. The aging population, urbanisation, increase in chronic diseases and household income, and wider coverage of medical insurance in the PRC will drive the demand for medical treatments and use of drug, which are favourable to the continuing development of the business of WinHealth International in the long term.

Financial Review *(Continued)*

Equity instruments at fair value through other comprehensive income ("FVTOCI") *(Continued)*

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

WinHealth International (Continued)

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.

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.

Financial Review *(Continued)*

Equity instruments at fair value through other comprehensive income ("FVTOCI") *(Continued)*

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

WinHealth International (Continued)

As at the date of this report, the audited consolidated financial statements of WinHealth International for the years ended 31 December 2019 and 2018 have not yet been made available to the Group. Based on the unaudited consolidated financial statements of WinHealth International for the years ended 31 December 2019 and 2018, the unaudited consolidated profit of WinHealth International was approximately RMB73.8 million and RMB51.7 million respectively. On this basis, it is expected that no adjustment will be made for 2019 and 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 a 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.

As a long-term business strategy of the Group to focus on its core businesses, the Group may consider the possibility of disposing of the business or assets in respect of its non-core business currently held by the Group in the coming future.

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 cash and cash equivalents amounted to approximately HK$88.7 million in total as at 31 December 2019 (2018: approximately HK$146.1 million), among which approximately 44% (2018: approximately 49%) were denominated in Hong Kong dollars and 56% (2018: approximately 51%) were denominated in Renminbi. The Group did not have any bank loan as at 31 December 2019 (2018: nil).

The Group's gearing ratio (defined as total bank and other borrowings divided by total equity) was zero as at 31 December 2019 (2018: zero).

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.

Financial Review *(Continued)*

Employee Information

As at 31 December 2019, the Group had 35 employees (2018: 48). Staff costs for the Year, including Directors' emolument, amounted to approximately HK$12.5 million (2018: approximately HK$17.9 million). The Group's remuneration policy is based on the positions, duties and performance of the employees. The employees' remunerations vary according to their positions, which include salaries, overtime allowances, bonuses and/or various subsidies. The Group offers comprehensive and competitive remuneration and benefits packages to all its employees. In addition, the Group has adopted a share option scheme for the purpose of providing incentives and rewards to eligible persons who contribute to the success of the Group's operations.

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

Contingent Liabilities

As at 31 December 2019, the Group did not have any significant contingent liabilities.

Material Acquisitions or Disposals and Significant Investments

The Group did not make any material acquisitions or disposals and significant investments during the Year.

Investment in Saike International

As at 31 December 2019, the Group held 50% equity interest in Saike International. The 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$9.3 million (2018: approximately HK$12.0 million).

Saike International and its subsidiaries are principally engaged in the trading of medical devices and equipment in the PRC. The Group carried out an impairment review on Saike International by comparing the recoverable amount with the carrying amount of the Group's interest in Saike International as at 31 December 2019. In view of the decrease in the consolidated net profit of Saike International and the weakened PRC economic condition for 2019 due to the outbreak of Covid-19, there were changes in the value of the inputs and assumptions for the value in use calculation from those previously adopted by lowering the estimation of cash inflows and the terminal growth rate. Based on the assessment, the recoverable amount of Saike International was lower than its carrying amount as at 31 December 2019. Hence, an impairment loss of approximately HK$20.9 million on the Group's interest in Saike International was recognised during the Year. The Group will continue to monitor the performance of Saike International cautiously in view of the economic downturn in the PRC due to the current outbreak of Covid-19.

Capital Structure

The capital of the Company comprises only ordinary shares. As at 31 December 2019, the Group had shareholders' equity of approximately HK$654.5 million (2018: approximately HK$725.4 million).

Financial Review *(Continued)*

Rights Issue

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

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

The actual use of the net proceeds from the Rights Issue as at 31 December 2019 was as follows:

Intended use of proceeds	Actual use of proceeds as at 31 December 2019
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 approximately HK$117.7 million has been utilised for the partial settlement of the consideration for the acquisition of approximately 1.55% of the then total issued share capital of Town Health, the issued shares of which are listed on the Main Board of the Stock Exchange (Stock Code: 3886) at a total consideration of HK$144 million (excluding stamp duty and related expenses) in the open market in April 2017
(2) approximately HK$28.8 million for the acquisition of 11% of the issued share capital of China Biotech Services Holdings Limited ("China Biotech") (Note b)	approximately HK$28.8 million has been utilised for the partial settlement of the consideration for the acquisition of approximately 11% of the issued share capital of China Biotech, the issued shares of which are listed on GEM of the Stock Exchange (Stock Code: 8037) at a total consideration of approximately HK$33.4 million in cash
(3) approximately HK$43.0 million for the acquisition of 12% of the issued share capital of WinHealth International	approximately HK$53.4 million (of which HK$10.4 million was from the Relevant Proceeds (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

Financial Review *(Continued)*

Rights Issue *(Continued)*

Intended use of proceeds	Actual use of proceeds as at 31 December 2019
(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
	During the Year, the Company did not use any net proceeds from the Rights Issue. As at 31 December 2019, the total unutilised proceeds were approximately HK$39.6 million. The unulitised proceeds were from the Relevant Proceeds which shall be used 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. 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.

Financial Review *(Continued)*

Pledge of Assets

As at 31 December 2019, the Group pledged the buildings and right-of-use assets with an aggregate carrying amount of approximately HK$9.3 million (2018: approximately HK$9.6 million comprising the buildings and prepaid lease payments) to secure general banking facilities granted to the Group.

Future Plans for Material Investments

As at 31 December 2019, 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 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 was 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 was in the progress of preparing its draft independent investigation report. The Company has also engaged PKF Hong Kong Limited ("PKF") as its internal control adviser to review the effectiveness of the Group's internal control systems in relation to investment procedure (including mergers and acquisitions and new projects). PKF was in the progress of preparing its report on the Group's internal control systems.

The Company is also seeking legal advice to address and resolve the SFC's concerns with the aim of resuming trading in the Shares. The Company intends to make further submission to the SFC in relation to its application for resumption of trading of the Shares. However, the Company is not in a position to disclose the details due to its statutory secrecy obligations under the Securities and Futures Ordinance (Chapter 571, the Laws of Hong Kong). In view of the circumstances, the Company is not in a position to formulate any practicable resumption plan with a clear timeframe at this stage. The Company will continue to seek legal advice with a view to resuming trading of the Shares as soon as practicable.

Financial Review *(Continued)*

Suspension of Trading in Shares *(Continued)*

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 expired on 31 January 2020. The Company was informed by the Stock Exchange that, (i) after consultation with the SFC, the Stock Exchange will, until further notice, withhold exercising its right to delist the Company under Rule 6.01A(2)(b)(i) of the Listing Rules should trading in the Company's securities remain suspended on 31 January 2020; (ii) for the avoidance of doubt, this is without prejudice to the Stock Exchange exercising its right under Rule 6.01A of the Listing Rules at a later stage when the Stock Exchange considers appropriate; (iii) the Stock Exchange also reserves all its rights under the Listing Rules; (iv) the Company is reminded of its obligation to procure a resumption of trading as soon as possible; and (v) if the Stock Exchange is not satisfied that the Company has taken and is taking all reasonable steps to procure a resumption of trading, the Stock Exchange is likely to proceed to delist the Company without further delay. 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. The Company is seeking and will continue to seek legal advice with a view to resuming trading of its shares as soon as practicable.

For further details, please refer to the announcements of the Company dated 6 October 2017, 12 January 2018, 25 May 2018, 4 June 2018, 30 July 2018, 1 August 2018, 1 November 2018, 1 February 2019, 2 May 2019, 2 August 2019, 1 November 2019, 8 January 2020 and 31 January 2020. 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 39, 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 seven 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 41, 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 19 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. (廣州康瀅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 42, 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 14 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 70, 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 2019 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 44, 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 22 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 2019 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 39, 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 35, joined the Group in June 2012, and is the company secretary and the financial controller of the Company. Mr. Lai has over 12 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 2019 are set out in notes 40, 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 62 of this report.

Dividend

The Board does not recommend the payment of a final dividend for the Year (2018: nil).

Donations

Charitable donations made by the Group during the Year amounted to approximately HK$147,000 (2018: approximately HK$119,000).

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.

REPORT OF THE DIRECTORS

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 65 of this report. As at 31 December 2019, the reserves available for distribution to the Company's shareholders were approximately HK$439,348,000 (2018: approximately HK$440,027,000). Further details are set out in note 31 to the consolidated financial statements.

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 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)*
Mr. Huo Zhihong *(Chief Executive Officer)*
Ms. Wang Qiuqin

Independent Non-executive Directors

Mr. Leung Chi Kin
Ms. Li Sin Ming, Ivy
Mr. Sy Lai Yin, Sunny

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 and Ms. Li Sin Ming, Ivy entered into a letter of re-appointment with the Company for a term of two years commencing on 1 October 2019 and 20 June 2019 respectively. 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. 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. Liu Yang and Ms. Wang Qiuqin will retire from office by rotation at the forthcoming annual general meeting of the Company. Mr. Liu Yang and Ms. Wang Qiuqin are eligible and offer themselves for re-election.

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

Changes in Information of the Directors

The emolument of Mr. Liu Yang, the Chairman of the Board and an executive Director, has been increased from HK$360,000 per annum to HK$1,200,000 per annum with effect from 1 January 2020 and the emolument of Ms. Wang Qiuqin, an executive Director, has been increased from HK$360,000 per annum to HK$960,000 per annum with effect from 1 January 2020. Each of their respective emoluments with reference to their respective background, experience, qualifications, duties and responsibilities within the Group and the prevailing market condition, has been recommended by the Remuneration Committee to the Board for approval and has been approved by the Board.

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 2019, 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").

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

As at 31 December 2019, 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	Position	Approximate percentage of the total issued shares (Note 1)
U Man Iong	Person having a security interest in shares	426,672,000	Long	25.52%
Eagle Amber Holdings Limited (Note 2)	Beneficial owner	426,672,000	Long	25.52%
Zhang Jiang (Note 2)	Interest of a controlled corporation	426,672,000	Long	25.52%
Dai Xiaosong (Note 2)	Interest of a controlled corporation	426,672,000	Long	25.52%
Qian Shenglei	Beneficial owner	193,704,000	Long	11.59%
Zhou Ling (Note 3)	Beneficial owner and interest of spouse	161,400,000	Long	9.65%
Yang Fang (Note 3)	Beneficial owner and interest of spouse	161,400,000	Long	9.65%
China Wah Yan Healthcare Limited ("China Wah Yan") (Note 4)	Beneficial owner and interest of controlled corporations	137,427,840	Long	8.22%
Junyue International Corporation (Notes 5 and 6)	Interest of controlled corporations	103,070,880	Long	6.17%
Tan Sainuo (Note 6)	Interest of a controlled corporation	103,070,880	Long	6.17%

Substantial Shareholders' Interests and Short Positions In Shares and Underlying Shares *(Continued)*

Interest in shares and underlying shares of the Company *(Continued)*

Note 1: The total number of 1,671,846,657 shares of the Company in issue as at 31 December 2019 has been used for the calculation of the approximate percentage.

Note 2: Eagle Amber Holdings Limited is beneficially owned by Zhang Jiang and Dai Xiaosong as to 35.0% and 35.0% respectively. As such, Zhang Jiang and Dai Xiaosong were deemed to be interested in the 426,672,000 shares of the Company held by Eagle Amber Holdings Limited under Part XV of the SFO.

Note 3: Mr. Zhou Ling beneficially owns 132,188,952 shares of the Company. Ms. Yang Fang beneficially owns 29,211,048 shares of the Company. Mr. Zhou Ling is the spouse of Ms. Yang Fang. Accordingly, Mr. Zhou Ling was deemed to be interested in all the 29,211,048 shares of the Company held by Ms. Yang Fang by virtue of the SFO and Ms. Yang Fang was deemed to be interested in all the 132,188,952 shares of the Company held by Mr. Zhou Ling under Part XV of the SFO.

Note 4: Based on the corporate substantial shareholder notice dated 20 December 2019 filed by China Wah Yan, a company whose shares are listed on the Main Board of the Stock Exchange (Stock Code: 648), 34,356,960 shares of the Company were held by China Wah Yan, 21,070,880 shares of the Company were held by Classic Estate Investments Limited, which was wholly owned by China Wah Yan, and 82,000,000 shares of the Company was held by Ultimate Paramount International Limited, which was 50% owned by Classic Estate Investments Limited. Accordingly, China Wah Yan was deemed to be interested in all the 103,070,880 shares of the Company held by Classic Estate Investments Limited and Ultimate Paramount International Limited under Part XV of the SFO. Based on the corporate substantial shareholder notice dated 20 December 2019 filed by China Wah Yan, the relevant event leading to the filing of the notice is a disposal of residual value in the interest of the relevant shares, subject to the release and/or subsisting share charge over the relevant shares.

Note 5: Based on the corporate substantial shareholder notice dated 20 December 2019 filed by Junyue International Corporation, 21,070,880 shares of the Company were held by Classic Estate Investments Limited, which was wholly owned by Junyue International Corporation, and 82,000,000 shares of the Company was held by Ultimate Paramount International Limited, which was 50% owned by Classic Estate Investments Limited. Accordingly, Junyue International Corporation was deemed to be interested in all the 103,070,880 shares of the Company held by Classic Estate Investments Limited and Ultimate Paramount International Limited under Part XV of the SFO. Based on the corporate substantial shareholder notice dated 20 December 2019 filed by Junyue International Corporation, the relevant event leading to the filing of the notice is an acquisition of certain economic benefits arising from and in connection with Classic Estate Investments Limited.

Note 6: Junyue International Corporation is beneficially wholly owned by Tan Sainuo. As such, Tan Sainuo was deemed to be interested in the 103,070,880 shares of the Company in which Junyue International Corporation was interested under Part XV of the SFO.

Save as disclosed above, as at 31 December 2019, 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.

Major Customers and Suppliers

For the Year, the Group's five largest customers accounted for approximately 56.1% of the Group's total revenue and the Group's largest customer accounted for approximately 14.8% of the Group's total revenue. For the Year, the Group's four largest suppliers accounted for 100% 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.

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 2019 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 2019 and 31 December 2019 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.

Related Party Transactions

Mr. Zhou Ling and Ms. Yang Fang retired as the executive directors of the Company on 27 June 2018. During the Year, the related party transactions in relation to the payment of consultancy fee to Mr. Zhou Ling and the payment of salaries to Ms. Yang Fang by the Group during the period from 1 January 2019 to 26 June 2019, being the date falling within 12 months after their respective retirements, as disclosed in note 39(i) to the consolidated financial statements fell under the definition of "connected transactions" or "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 payment of consultancy fee to Mr. Zhou Ling and the payment of salaries to Ms. Yang Fang by the Group during the period from 27 June 2019 to 31 December 2019 did not fall under the definition of "connected transactions" or "continuing connected transactions" under Chapter 14A of the Listing Rules as Mr. Zhou Ling and Ms. Yang Fang ceased to be directors of the Company for more than 12 months.

During the Year, the related party transactions in relation to the compensation of key management personnel who are Directors or Chief Executive of the Company in 2019 as disclosed in note 39(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 performance 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.

Auditor

Deloitte Touche Tohmatsu ("Deloitte"), who was the auditor of the Group during the year ended 31 December 2013 to 2016, 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 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.

REPORT OF THE DIRECTORS

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 level 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 55 to 61 of this report, the audit qualification is related to the disclosure of related party transactions and its related balances of the Acquisitions as disclosed in the notes 20 to 21 to the consolidated financial statements ("Audit Qualification"). It is expected that the Audit Qualification will be resolved 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 try its best endeavour to complete the Investigation with the assistance of the Independent Investigator in 2020. The Company will use its best endeavour to remove the Audit Qualification as soon as practicable.

On behalf of the Board

Liu Yang
Chairman and Executive Director

26 March 2020

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, 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 or other material/relevant relationship. The biographical details of the Directors are set out in the section headed "Biographical Details of the Directors and Senior Management" on pages 24 and 25 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 formulating 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 develop business strategies, execute and implement the policies in the day-to-day business operation of the Group. The independent non-executive Directors provide their professional advice to the Group whenever necessary. The management is responsible for executing the Group's business strategies and monitoring the day-to-day business 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.

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

	Number of meetings attended/held					
	General meeting	Board meetings	Audit Committee meetings	Nomination Committee meeting	Remuneration Committee meeting	Corporate Governance Committee meeting
Mr. Liu Yang *(Chairman)*	1/1	12/12	N/A	1/1	0/1	1/1
Mr. Huo Zhihong *(Chief Executive Officer)*	0/1	11/12	N/A	N/A	N/A	1/1
Ms. Wang Qiuqin	1/1	12/12	N/A	N/A	N/A	1/1
Mr. Leung Chi Kin	1/1	12/12	3/3	1/1	1/1	N/A
Ms. Li Sin Ming, Ivy	1/1	12/12	3/3	1/1	1/1	N/A
Mr. Sy Lai Yin, Sunny	1/1	12/12	3/3	1/1	1/1	1/1

Directors' Continuous Professional Development

All Directors confirmed that they had complied with 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. 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.

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 and Ms. Li Sin Ming, Ivy entered into a letter of re-appointment with the Company for a term of two years commencing on 1 October 2019 and 20 June 2019 respectively. 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.

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.

During the Year and as at the date of this report, the Remuneration Committee comprised one executive Director and three independent non-executive Directors. Mr. Leung Chi Kin is the chairman of the Remuneration Committee and Mr. Liu Yang, Ms. Li Sin Ming, Ivy and Mr. Sy Lai Yin, Sunny are the members of the Remuneration Committee.

During the Year, one meeting of the Remuneration Committee was 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 (other than Mr. Liu Yang) attended the meeting.

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.

During the Year and as at the date of this report, the Nomination Committee comprised one executive Director and three independent non-executive Directors. Mr. Leung Chi Kin is the chairman of the Nomination Committee and Mr. Liu Yang, Ms. Li Sin Ming, Ivy and Mr. Sy Lai Yin, Sunny are the members of the Nomination Committee.

Nomination Committee *(Continued)*

The major responsibilities of the Nomination Committee are to review the structure, size and composition of the Board, formulate and implement the policy for nominating candidates for election by shareholders at 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 the board diversity policy 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, one meeting of the Nomination Committee was held to review the structure and composition of the Board and make recommendations to the Board. All members of the Nomination Committee attended the meeting.

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.

Nomination Policy

In selecting and evaluating candidates for directorship of the Company, the Nomination Committee may make reference to the directors' nomination policy which also contains the directors' nomination procedures. The directors' nomination policy aims at applying the principles of the board diversity policy and other provisions under the Listing Rules to improve transparency of 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 directors' 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 (Recommended Best 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 A.5.5 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.

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.

During the Year and 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.

The Audit Committee held three meetings during the Year. During the meetings, the Audit Committee reviewed the financial results of the Group for the year ended 31 December 2018 and the six months ended 30 June 2019, 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 convened 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 the Year.

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.

During the Year and as at the date of this report, the Corporate Governance Committee comprised three executive Directors and one independent non-executive Director. Mr. Liu Yang is the chairman of the Corporate Governance Committee and Mr. Huo Zhihong, Ms. Wang Qiuqin and Mr. Sy Lai Yin, Sunny are the members of the Corporate Governance Committee.

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 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 the Year.

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 55 to 61 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 tolerance level; and (2) oversees the Group's overall design and implementation on risk management and internal control systems.

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

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

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

Internal Controls and Risk Management *(Continued)*

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 2019. 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 (2018: approximately HK$1,650,000).

Constitutional Documents

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

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.

Communication with Shareholders and Investors *(Continued)*

3. The request will be verified by 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.

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 54, 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 principally 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 2019 to 31 December 2019, 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 35 to 43 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 2019. 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 customers, 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 the PRC. 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 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 customers 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 1.2t of nitrogen oxides, 0.1t particulate matter and 0.2kg 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 on 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 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 in 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, with our efforts to curb the carbon footprint of our Group and based on our electricity consumption and unleaded petroleum consumption, the carbon footprint of our Group in this reporting year was 121.9tCO_2e, which has decreased by approximately 21.7% when compared to 2018.

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. As a result, only insignificant amounts of non-hazardous wastes were disposed of during the reporting year.

Use of Resources

As an environmental friendly company, our Group is actively pursuing the culture of "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. After the adoption of the above measures, electricity consumption of the Group has decreased by approximately 18.3% in the reporting year when compared to 2018.

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 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). After the adoption of the above measures, the paper consumption of the Group has decreased by approximately 8.3% in the reporting year when compared to 2018.

As a summary, and after a careful data consolidation and analysis, our Group reported that a total of 112,211kWh of electricity, 1,017m^3 of water, 3t of packaging materials, 0.3t of paper and 13,986L 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, performance, 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).

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 in 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, 35 of our employees had participated in trainings with 1,938 training hours in total.

Labour Standards

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

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 2019, the total headcount was 35. 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 2019		21	14
Workforce by Age Group	**<30**	**30–50**	**>50**
As at 31 December 2019	16	18	1

Operating Practices

Supplier Management

Our Group maintains good working relationships with suppliers. We look forward 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 ZFDA in order to carry out our distribution business in the PRC.

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 sites, 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 ZFDA, 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 14 November 2024.

During the Year, save as disclosed in the sub-section headed "Product Responsibility" below, 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 PRC. 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 106 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 The Law on the Administration of Pharmaceuticals 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.

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 testings on 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 The Law on the Administration of Pharmaceuticals of the PRC (《中華人民共和國藥品管理法》) and the Good Supply Practices, etc.

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

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

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

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

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

Operating Practices *(Continued)*

Supplier Management *(Continued)*

Supply Chain Management *(Continued)*

(i) *Product Responsibility (Continued)*

On 28 February 2019, the Group received a letter from 杭州市市場監督管理局 (Hangzhou Municipal Administration for Market Regulation) (the English name is for identification purposes only) ("Hangzhou Market Administration") requesting the Group to stop selling the Product and to recall all batches of the Product in the market pursuant to the instruction of ZFDA after the identification of defective batches of the Product during the course of an unannounced inspection. As certain batches of the Product failed in the examination for the imported drug registration requirements, the Group was held liable to pay a penalty of RMB447,000 pursuant to the Law on the Administration of Pharmaceuticals of the PRC (《中華人民共和國藥品管理法》) and the Implementation Regulations of the Law on the Administration of Pharmaceuticals of the PRC (《中華人民共和國藥品管理法實施條例》).

The Product distributed by the Group contains two packings i.e. 0.5g and 1.0g of a sealed glass container. In April 2019, the Group had applied to Hangzhou Market Administration and ZFDA for the resumption of trading of the Product in the PRC. On 6 May 2019, Hangzhou Market Administration issued the Notice to the Group which specified that the Group had been discharged of the administrative measures for the suspension of the trading of the Product (1.0g) from the date of the Notice pursuant to the notice of ZFDA. Accordingly, the Group could start selling the Product (1.0g) again in the market. As at 31 December 2019 and the date of this report, the production and sales of the Product (0.5g) remained suspended.

For our pharmaceutical products distribution and other related businesses, during the reporting year, except for the above incident, no other 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 Law on the Administration of Pharmaceuticals of the PRC (《中國人民共和國藥品管理法》), the Implementation Regulations of the Law on the Administration of Pharmaceuticals of the PRC (《中國人民共和國藥品管理法實施條例》), the Measures on the Administration of the Pharmaceutical Operation Permit (《藥品經營許可證管理辦法》), 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 (《藥品進品管理辦法》) 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 personal data of customers collected 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:

Operating Practices *(Continued)*

Supplier Management *(Continued)*

Supply Chain Management *(Continued)*

(iii) Anti-corruption (Continued)

- Dishonesty;
- Fraud;
- Corruption;
- Illegal behaviour (including theft, trafficking/taking of drugs, use of violence or threat of using violence and criminal damage to property);
- Discrimination;
- Sexual harassment;
- 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;
- Failure in compliance 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 2019.

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 the Anti-Unfair Competition Law of the PRC (《中華人民共和國反不正當競爭法》) and relevant laws and regulations regarding bribery, extortion, fraud and money laundering 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.

MOORE

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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 62 to 142, which comprise the consolidated statement of financial position as at 31 December 2019, 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 2019, 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 2018 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.

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 2019, the carrying amount of the Group's interest in Saike International is HK$131,445,000 (31 December 2018: HK$146,397,000) and the fair value of the Group's interest in WinHealth International is HK$76,694,000 (31 December 2018: 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)).

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 20 and 21 to the consolidated financial statements, were in fact related party transactions.

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the 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 interest in an associate as a key audit matter due to significant judgment exercised by the Group's management on assessing and estimating 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$131,445,000 (2018: HK$146,397,000). In determining the recoverable amount of an associate, estimation of the value in use is required and the valuation is carried out by an 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 is impairment in respect of the interest in an associate as at 31 December 2019 amounting to HK$20,914,000 (2018: zero) recognised in profit or loss during the year.	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 reasonableness of 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.

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 20 to the consolidated financial statements, the fair value of the quoted equity instrument under suspension and unquoted equity instruments in equity instruments at FVTOCI is HK$135,758,000 as at 31 December 2019 (2018: HK$154,534,000). 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.

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 HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

(Continued)

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

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

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

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

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

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

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

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.

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, 26 March 2020

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2019

	NOTES	2019 HK$'000	2018 HK$'000
Revenue	5	**118,632**	372,441
Cost of sales		**(103,757)**	(325,038)
		14,875	47,403
Other income, gains and losses	7	**(1,400)**	18,435
Selling and distribution expenses		**(16,677)**	(23,989)
Administrative expenses		**(19,918)**	(22,871)
Finance costs	8	**(52)**	–
Share of profit of associates	21	**9,263**	20,219
Impairment loss on trade and other receivables	24	**(8,969)**	–
Impairment loss on interest in an associate	21	**(20,914)**	–
(Loss) profit before tax		**(43,792)**	39,197
Income tax expense	9	**(317)**	(5,993)
(Loss) profit for the year attributable to owners of the Company	10	**(44,109)**	33,204
Other comprehensive expense for the year			
Items that will not be reclassified to profit or loss:			
Fair value loss on equity instruments at fair value through other comprehensive income		**(18,930)**	(14,392)
Exchange difference arising on translation of functional currency to presentation currency			
– Subsidiaries		**(6,735)**	(18,375)
– Associates		**(1,127)**	(2,970)
Other comprehensive expense for the year		**(26,792)**	(35,737)
Total comprehensive expense for the year		**(70,901)**	(2,533)
(Loss) profit for the year attributable to owners of the Company		**(44,109)**	33,204
Total comprehensive expense for the year attributable to owners of the Company		**(70,901)**	(2,533)
(Loss) earnings per share	13		
Basic (HK cents)		**(2.64)**	1.99
Diluted (HK cents)		**(2.64)**	1.99

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2019

	NOTES	2019 HK$'000	2018 HK$'000
Non-current assets			
Property, plant and equipment	14	**14,086**	16,148
Prepaid lease payments	15	**–**	18,652
Right-of-use assets	16	**20,594**	–
Prepayment for a distribution right	17	**17,532**	21,913
Intangible asset	18	**9,973**	12,022
Club debenture	19	**558**	571
Equity instruments at fair value through other comprehensive income	20	**137,619**	156,549
Financial asset at fair value through profit or loss	21	**–**	398
Interests in associates	21	**131,445**	146,397
Deposits paid to suppliers	24	**46,567**	–
		378,374	372,650
Current assets			
Inventories	23	**793**	66,471
Trade and other receivables	24	**207,500**	178,713
Prepaid lease payments	15	**–**	485
Prepayment for a distribution right	17	**3,572**	3,652
Bank balances and cash	26	**88,668**	146,101
		300,533	395,422
Current liabilities			
Trade and other payables	27	**12,992**	31,759
Lease liabilities	28	**401**	–
Tax payable		**–**	1,291
		13,393	33,050
Net current assets		**287,140**	362,372
Total assets less current liabilities		**665,514**	735,022
Non-current liabilities			
Lease liabilities	28	**1,783**	–
Deferred tax liabilities	29	**9,248**	9,638
		11,031	9,638
		654,483	725,384

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2019

	NOTES	2019 HK$'000	2018 HK$'000
Capital and reserves			
Share capital	30	**83,592**	83,592
Share premium and reserves		**570,891**	641,792
Equity attributable to owners of the Company		**654,483**	725,384

The consolidated financial statements on pages 62 to 142 were approved and authorised for issue by the Board of Directors on 26 March 2020 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 2019

	Attributable to owners of the Company							
	Share capital HK$'000	Share premium HK$'000	Contributed surplus HK$'000	PRC statutory reserve HK$'000 (note)	Fair value through other comprehensive income ("FVTOCI") (non-recycling reserve) HK$'000	Translation reserve HK$'000	Retained profits HK$'000	Total HK$'000
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 expenses 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 disposal 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**
At 1 January 2019	**83,592**	**607,614**	**50,167**	**23,729**	**(155,587)**	**(22,329)**	**138,198**	**725,384**
Loss for the year	**–**	**–**	**–**	**–**	**–**	**–**	**(44,109)**	**(44,109)**
Other comprehensive expenses for the year	**–**	**–**	**–**	**–**	**(18,930)**	**(7,862)**	**–**	**(26,792)**
Total comprehensive expense for the year	**–**	**–**	**–**	**–**	**(18,930)**	**(7,862)**	**(44,109)**	**(70,901)**
At 31 December 2019	**83,592**	**607,614**	**50,167**	**23,729**	**(174,517)**	**(30,191)**	**94,089**	**654,483**

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 2019

	NOTES	2019 HK$'000	2018 HK$'000
OPERATING ACTIVITIES			
(Loss) profit before tax		**(43,792)**	39,197
Adjustments for:			
Fair value change on financial asset at fair value through profit or loss	7	**391**	2,696
Amortisation of prepayment for a distribution right	10	**3,612**	3,738
Depreciation of property, plant and equipment	14	**2,620**	1,951
Amortisation of an intangible asset	18	**1,806**	1,869
Amortisation of prepaid lease payments	15	**–**	496
Depreciation of right-of-use assets	16	**1,341**	–
Net gain on deemed disposals of interest in an associate	7	**–**	(20,672)
Interest expenses	8	**52**	–
(Gain) loss on disposal of property, plant and equipment	7	**(232)**	10
Interest income	7	**(2,365)**	(1,032)
Dividend income from equity instruments at fair value through other comprehensive income	7	**(474)**	(174)
Share of profit of associates	21	**(9,263)**	(20,219)
Impairment loss on trade and other receivables	24	**8,969**	–
Impairment loss on interest in an associate	21	**20,914**	–
Operating cash flows before movements in working capital		**(16,421)**	7,860
Decrease in inventories		**65,658**	61,444
(Increase) decrease in trade and other receivables		**(85,722)**	50,699
Decrease in trade and other payables		**(18,273)**	(56,755)
Cash (used in) generated from operations		**(54,758)**	63,248
Income tax paid		**(1,775)**	(5,398)
NET CASH (USED IN) GENERATED FROM OPERATING ACTIVITIES		**(56,533)**	57,850
INVESTING ACTIVITIES			
Dividend received from an associate		**–**	8,400
Interest received		**2,365**	1,032
Dividend received from equity instruments at fair value through other comprehensive income	7	**474**	174
Proceeds from disposal of property, plant and equipment		**520**	157
Purchases of property, plant and equipment	14	**(1,178)**	(8,183)
NET CASH GENERATED FROM INVESTING ACTIVITIES		**2,181**	1,580

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2019

	NOTES	2019 HK$'000	2018 HK$'000
FINANCING ACTIVITIES			
Payment for principal portion of lease liabilities	28	**(805)**	–
Payment for interest portion of lease liabilities	28	**(52)**	–
NET CASH USED IN FINANCING ACTIVITIES		**(857)**	–
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS		**(55,209)**	59,430
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		**146,101**	90,195
EFFECT OF FOREIGN EXCHANGE RATE CHANGES		**(2,224)**	(3,524)
CASH AND CASH EQUIVALENTS AT END OF THE YEAR, represented by bank balances and cash		**88,668**	146,101

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

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 2018, 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.

On 2 May 2019, the Company also announced that PKF Hong Kong Limited ("PKF") was engaged as its internal control adviser to review the effectiveness of the Group's internal control systems in relation to investment procedure (including mergers and acquisitions and new projects).

As at the date on which these consolidated financial statements are authorised for issue, the IBC's investigation into the affairs of the Acquisitions and the review of the effectiveness of the Group's internal control systems in relation to investment procedure are still under progress.

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 associates, 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 2019, the carrying amount of the Group's interest in Saike International is HK$131,445,000 (31 December 2018: HK$146,397,000) and the fair value of the Group's interest in WinHealth International is HK$76,694,000 (31 December 2018: 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)).

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

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.

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 16 "Leases" *(Continued)*

The Group has applied HKFRS 16 for the first time in the current year. HKFRS 16 superseded HKAS 17 "Leases" (HKAS 17), and the related interpretations.

Definition of a lease

The Group has elected the practical expedient to apply HKFRS 16 to contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC)-int 4 *Determining whether an Arrangement contains a Lease* and not apply this standard to contracts that were not previously identified as containing a lease. Therefore, the Group has not reassessed contracts which already existed prior to the date of initial application.

For contracts entered into or modified on or after 1 January 2019, the Group applies the definition of a lease in accordance with the requirements set out in HKFRS 16 in assessing whether a contract contains a lease.

As a lessee

The Group has applied HKFRS 16 retrospectively with the cumulative effect recognised at the date of initial application, 1 January 2019. As at 1 January 2019, the Group recognised additional lease liabilities and measured right-of-use assets at the carrying amounts as if HKFRS 16 had been applied since commencement dates, but discounted using the incremental borrowing rates of the relevant group entities at the date of initial application by applying HKFRS 16.C8(b)(i) transition. Any difference at the date of initial application is recognised in the opening retained profits and comparative information has not been restated.

When applying the modified retrospective approach under HKFRS 16 at transition, the Group applied the following practical expedients to leases previously classified as operating leases under HKAS 17, on lease-by-lease basis, to the extent relevant to the respective lease contracts:

i. relied on the assessment of whether leases are onerous by applying HKAS 37 Provisions Contingent Liabilities and Contingent Assets as an alternative of impairment review; and

ii. elected not to recognise right-of-use assets and lease liabilities for leases with lease term ends within 12 months of the date of initial application.

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 16 "Leases" (Continued)*

As a lessee (Continued)

When recognising the lease liabilities for leases previously classified as operating leases, the Group has applied incremental borrowing rates of the relevant group entities at the date of initial application. The weighted average incremental borrowing rate applied is 5%.

	At 1 January 2019 HK$'000
Operating lease commitments disclosed as at 31 December 2018	1,083
Less: Practical expedient – lease with lease term ending within 12 months from the date of initial application	(248)
Prepayment at 1 January 2019	(221)
	614
Less: Total future interest charge	(8)
Lease liabilities relating to operating leases recognised upon application of HKFRS 16 at 1 January 2019	606
Analysed as	
Current	606
Non-current	–
	606

The carrying amount of right-of-use assets for own use as at 1 January 2019 comprises the following:

		At 1 January 2019 HK$'000
Right-of-use assets relating to operating leases recognised upon application of HKFRS 16		827
Reclassified from prepaid lease payments	Note	19,137
		19,964

Note: Upfront payments for leasehold lands in the PRC for own used properties were classified as prepaid lease payments as at 31 December 2018. Upon application of HKFRS 16, the current and non-current portion of prepaid lease payments amounting to HK485,000 and HK$18,652,000 respectively were reclassified to right-of-use assets.

Also, right-of-use assets and corresponding lease liabilities amounting to approximately HK$827,000 and approximately HK$606,000 respectively in respect of non-cancellable operating lease commitments unless they qualify for low value or short-term leases were recognised.

Effective from 1 January 2019, leasehold lands for own used were presented as right-of-use assets and are measured under HKFRS 16 at cost less any accumulated depreciation and any impairment losses.

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 16 "Leases" *(Continued)*

As a lessee (Continued)

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

	Notes	Carrying amounts previously reported at 31 December 2018 HK$'000	Adjustments HK$'000	**Carrying amounts under HKFRS 16 at 1 January 2019 HK$'000**
Non-current assets				
Right-of-use assets	16	–	19,964	**19,964**
Prepaid lease payments	15	18,652	(18,652)	**–**
Current assets				
Trade and other receivables				
– other prepayments		221	(221)	**–**
Prepaid lease payments	15	485	(485)	**–**
Current liabilities				
Lease liabilities	28	–	(606)	**(606)**

Note: The reporting of cash flows from operating activities under indirect method for the year ended 31 December 2019 have been prepared based on restated opening consolidated statement of financial position as at 1 January 2019 as disclosed above.

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

New and amendments to HKFRSs in issue but not yet effective

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

HKFRS 17	Insurance Contracts[1]
Amendments to HKFRS 3	Definition of a Business[2]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venure[3]
Amendments to HKAS 1 and HKAS 8	Definition of Material[4]
Amendments to HKAS 39, HKFRS 7 and HKFRS 9	Interest Rate Benchmark Reform[4]

1 Effective for annual periods beginning on or after 1 January 2021.
2 Effective for business combinations and asset acquisitions for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1 January 2020.
3 Effective for annual periods beginning on or after a date to be determined.
4 Effective for annual periods beginning on or after 1 January 2020.

In addition to the above new and amendments to HKFRSs, a revised Conceptual Framework for Financial Reporting was issued in 2018. Its consequential amendments, the Amendments to References to the Conceptual Framework in HKFRS Standards, will be effective for annual periods beginning on or after 1 January 2020.

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.

Conceptual Framework for Financial Reporting 2018 (the "New Framework") and the Amendments to References to the Conceptual Framework in HKFRS Standards

The New Framework:

- reintroduces the terms stewardship and prudence; introduces a new asset definition that focuses on rights and a new liability definition that is likely to be broader than the definition it replaces, but does not change the distinction between a liability and an equity instrument;

- discusses historical cost and current value measures, and provides additional guidance on how to select a measurement basis for a particular asset or liability;

- states that the primary measure of financial performance is profit or loss, and that only in exceptional circumstances other comprehensive income will be used and only for income or expenses that arise from a change in the current value of an asset or liability; and

- discusses uncertainty, derecognition, unit of account, the reporting entity and combined financial statements.

Consequential amendments have been made so that references in certain HKFRSs have been updated to the New Framework, whilst some HKFRSs are still referred to the previous versions of the framework. These amendments are effective for annual periods beginning on or after 1 January 2020, with earlier application permitted. Other than specific standards which still refer to the previous versions of the framework, the Group will rely on the New Framework on its effective date in determining the accounting policies especially for transactions, events or conditions that are not otherwise dealt with under the accounting standards.

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 accounted for in accordance with HKFRS 16 (since 1 January 2019) or HKAS 17 (before application of HKFRS 16), and accounted for in measurements that have some similarities to fair value but are not fair value, such as net realisable value in HKAS 2 "Inventories" or value in use in HKAS 36 "Impairment of assets".

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

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;

- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and

- Level 3 inputs are unobservable inputs for the asset or liability.

The principal accounting policies are set out below.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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 even if this results in the non-controlling interests having a deficit balance.

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.

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.

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 is not allocated to any asset, including goodwill, that 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 recoverable 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.

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

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 the same 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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Revenue from contracts with customers *(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.

Refund liabilities

The Group recognises a refund liability if the Group expects to refund some or all of the consideration received from customers.

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.

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.

Leases

Definition of a lease (upon application of HKFRS 16 in accordance with transitions in note 2)

A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

For contracts entered into or modified or arising from business combinations on or after the date of initial application, the Group assesses whether a contract is or contains a lease based on the definition under HKFRS 16 at inception, modification date or acquisition date, as appropriate. Such contract will not be reassessed unless the terms and conditions of the contract are subsequently changed.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Leases *(Continued)*

The Group as a lessee (upon application of HKFRS 16 in accordance with transitions in note 2)

Non-lease components are separated from lease component on the basis of their relative stand-alone prices.

Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to leases of properties that have a lease term of 12 months or less from the commencement date and do not contain a purchase option. It also applies the recognition exemption for lease of low-value assets.

Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis or another systematic basis over the lease term.

Right-of-use assets

The cost of right-of-use asset includes:

- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date, less any lease incentives received;
- any initial direct costs incurred by the Group; and
- an estimate of costs to be incurred by the Group in dismantling and removing the underlying assets, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease.

Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities.

Right-of-use assets in which the Group is reasonably certain to obtain ownership of the underlying leased assets at the end of the lease term are depreciated from commencement date to the end of the useful life. Otherwise, right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term.

Refundable rental deposits

Refundable rental deposits paid are accounted under HKFRS 9 Financial Instruments ("HKFRS 9") and initially measured at fair value. Adjustments to fair value at initial recognition are considered as additional lease payments and included in the cost of right-of-use assets.

Lease liabilities

At the commencement date of a lease, the Group recognises and measures the lease liability at the present value of lease payments that are unpaid at that date. In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Leases *(Continued)*

Lease liabilities *(Continued)*

The lease payments include:

- fixed payments (including in-substance fixed payments) less any lease incentives receivable;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable by the Group under residual value guarantees;
- the exercise price of a purchase option if the Group is reasonably certain to exercise the option; and
- payments of penalties for terminating a lease, if the lease term reflects the Group exercising an option to terminate the lease.

After the commencement date, lease liabilities are adjusted by interest accretion and lease payments.

The Group presents lease liabilities as a separate line item on the consolidated statement of financial position.

The Group as a lessee (prior to 1 January 2019)

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.

Assets held under finance leases are recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated statement of financial position as a finance lease obligation.

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognised immediately in profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Group's general policy on borrowing costs (see the accounting policy below). Contingent rentals are recognised as expenses in the periods in which they are incurred.

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. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

Lease incentives relating to operating leases are considered as integral part of lease payments, the aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Property, plant and equipment

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

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

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

Intangible assets

Intangible assets acquired separately

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

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 property, plant and equipment, right-of-use assets, intangible assets other than goodwill

At the end of the reporting period, the Group reviews the carrying amounts of its property, plant and equipment, right-of-use assets, 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 the relevant assets is estimated in order to determine the extent of the impairment loss (if any). The recoverable amount of property, plant and equipment, right-of-use assets, and intangible assets are estimate 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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Intangible assets *(Continued)*

Impairment on property, plant and equipment, right-of-use assets, intangible assets other than goodwill *(Continued)*

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.

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 prior to 1 January 2019. After 1 January 2019, the carrying amount of prepaid lease payments were reclassified to right-of-use assets. Also, right-of-use assets and corresponding lease liabilities in respect of non-cancellable operating lease commitments were recognised unless they qualify for low value or short-term leases.

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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Foreign currencies *(Continued)*

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.

Borrowing costs

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

Government grants

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

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

Retirement benefit costs

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

Short-term 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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Share-based payment arrangements

Equity-settled share-based payment transactions

Share options granted to directors and employees of the Company

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date. Details regarding the determination of the fair value of equity-settled share-based transactions are set out in note 34 to the consolidated financial statements.

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

Taxation

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

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit/loss 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 deferred tax assets and liabilities are not recognised if the temporary difference arises 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. In addition, deferred tax liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill.

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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Taxation *(Continued)*

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.

For the purposes of measuring deferred tax for leasing transactions in which the Group recognises the right-of-use assets and the related lease liabilities, the Group first determines whether the tax deductions are attributable to the right-of-use assets or the lease liabilities.

For leasing transactions in which the tax deductions are attributable to the lease liabilities, the Group applies HKAS 12 Income Taxes requirements to right-of-use assets and lease liabilities separately. Temporary differences relating to right-of-use assets and lease liabilities are not recognised at initial recognition and over the lease terms due to application of the initial recognition exemption.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied to the same taxable entity by the same taxation authority.

Current and deferred tax are recognised in profit or loss, except when they relate 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.

In assessing any uncertainty over income tax treatments, the Group considers whether it is probable that the relevant tax authority will accept the uncertain tax treatment used, or proposed to be use by individual group entities in their income tax filings. If it is probable, the current and deferred taxes are determined consistently with the tax treatment in the income tax filings. If it is not probable that the relevant taxation authority will accept an uncertain tax treatment, the effect of each uncertainty is reflected by using either the most likely amount or the expected value.

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 classified as a financial asset at financial asset at fair value through profit or loss ("FVTPL").

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. 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 FVTPL 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

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 selling and 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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Classification and subsequent measurement of financial assets (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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Impairment of financial assets and other items subject to impairment assessment under HKFRS 9

The Group recognises a loss allowance for ECL on financial assets which are subject to impairment under HKFRS 9 (including trade and other receivables and bank balances). 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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Impairment of financial assets and other items subject to impairment assessment under HKFRS 9 (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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Impairment of financial assets and other items subject to impairment assessment under HKFRS 9 (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. For a lease receivable, the cash flows used for determining the ECL is consistent with the cash flows used in measuring the lease receivable in accordance with HKFRS 16 (since 1 January 2019) or HKAS 17 (prior to 1 January 2019).

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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets *(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 measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

On derecognition of an investment in a debt instrument classified as at FVTOCI, the cumulative gain or loss previously accumulated in the FVTOCI reserve is reclassified to profit or loss.

On derecognition of an investment in equity instrument which the Group has elected on initial recognition to measure at FVTOCI, the cumulative gain or loss previously accumulated in the investments revaluation reserve is not reclassified to profit or loss, but is transferred to retained profits.

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.

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 2019, the carrying amount of interest in Saike International is HK$131,445,000 (2018: HK$146,397,000), after taking into account the impairment of HK$20,914,000 (2018: nil) recognised in profit or loss during the year.

Estimated allowances on deposits paid to suppliers

Management regularly assesses the loss allowances for ECL on deposits paid to suppliers. Allowances for these deposits are made based on evaluation of ECL for deposits paid to suppliers and involve exercise of management's judgements. A considerable amount of judgement is required in assessing the ultimate realisation of these deposits paid to suppliers, including their current creditworthiness and the risk of default. The assessment on the probability of default and loss given default is based on credit rating adjusted by future economy. As at 31 December 2019, the carrying amount of deposits paid to suppliers is HK$134,458,000 (2018: HK$91,303,000) respectively, net of impairment loss allowance of HK$3,997,000 (2018: nil) respectively as disclosed in notes 24 and 25 to the consolidated financial statements. The information about the ECL and the Group's deposits paid to suppliers are disclosed in note 33(b).

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 note 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 2019, the fair value of listed equity instrument at FVTOCI under suspended trading is HK$17,064,000 (2018: HK$14,040,000).

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

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 note 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 2019, the fair value of unlisted equity instruments at FVTOCI is HK$118,694,000 (2018: HK$140,494,000).

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 2019, the carrying amount of trade receivables is HK$41,521,000 (2018: HK$82,241,000), net of impairment loss allowance of HK$4,972,000 (2018: nil). The provision of ECL is sensitive to changes in estimates. The information about the ECL and the Group's trade receivables are disclosed in notes 24 and 33(b) to the consolidated financial statements.

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. Due to the identification of the defective products during the year ended 31 December 2019, these defective products returned to a supplier with an amount of approximately HK$76,894,000, as at 31 December 2019, the carrying amount of inventories is HK$793,000 (2018: HK$66,471,000).

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 recognised at a point in time for the year. An analysis of the Group's revenue for the year is as follows:

	2019 HK$'000	2018 HK$'000
Distribution and trading of pharmaceutical products	**114,652**	364,533
Provision of marketing and promotion services	**3,980**	7,908
	118,632	372,441

The Group recognises the marketing and promotion fee from its customers at the time when the ultimate users placed orders to the Group's customers and it is highly probable that a significant reversal in the cumulative revenue recognised will not occur, this is also the time when the Group has the enforceable right for payment.

On 28 February 2019, the Group received a letter from 杭州市市場監督管理局 (Hangzhou Municipal Administration for Market Regulation) (the English name is for identification purposes only) ("Hangzhou Market Administration") requesting the Group to stop selling its major product under the second generation of Cephalosporins (二代頭孢產品) ("Product") and to recall all batches of the Product in the market pursuant to the instruction of 浙江省藥品監督管理局 (Zhejiang Food and Drug Administration) ("ZFDA").

On 6 May 2019, Hangzhou Market Administration issued a notice to the Group ("Notice") which specified that the Group has been discharged of the administrative measures for the suspension of the trading of the Product (1.0g) from the date of the Notice pursuant to the notice of ZFDA. Accordingly, the Group has started selling the Product (1.0g) in the market since September 2019, and as at 31 December 2019 and the date of this report, the production and sales of the Product (0.5g) remain suspended. Sales return amounting to approximately RMB13,118,000 in relation to the products that were finally found to be defective was deducted from the sales recognised for the year ended 31 December 2019 of which revenue was recognised 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; and

(ii) Provision of marketing and promotion services – provision of marketing and promotion services of drugs.

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

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

Year ended 31 December 2019

	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	114,652	3,980	118,632
RESULT			
Segment profit	2,229	3,677	5,906
Other income, gains and losses			(1,400)
Selling and distribution expenses			(16,677)
Administrative expenses			(19,918)
Finance cost			(52)
Share of profit of associates			9,263
Impairment loss on interest in an associate			(20,914)
Loss before tax			(43,792)

6. SEGMENT INFORMATION *(Continued)*

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

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:

	2019 HK$'000	2018 HK$'000
Customer A[1]	**17,530**	N/A[2]
Customer B[1]	**14,892**	N/A[2]
Customer C[1]	**14,877**	N/A[2]

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.

7. OTHER INCOME, GAINS AND LOSSES

	2019 HK$'000	2018 HK$'000
Net gain on deemed disposals of interest in an associate (note 21(d))	–	20,672
Compensation received from a customer	737	1,949
Incentives received from government grants (note)	12	1,180
Bank interest income	2,365	1,032
Sundry income	–	13
Dividend income from equity instruments at FVTOCI	474	174
Net exchange loss	(4,829)	(3,879)
Fair value change on financial asset at FVTPL (note 21)	(391)	(2,696)
Gain (loss) on disposal of property, plant and equipment	232	(10)
	(1,400)	18,435

Note: During the year ended 31 December 2019, the Group was granted incentives of RMB11,000 (equivalent to approximately HK$12,000) (2018: RMB1,011,000 (equivalent to approximately HK$1,180,000)) 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

	2019 HK$'000	2018 HK$'000
Interest expense on lease liabilities	52	–

9. INCOME TAX EXPENSE

	2019 HK$'000	2018 HK$'000
Current tax:		
PRC Enterprise Income Tax ("EIT")	499	5,542
Underprovision in prior year:		
PRC EIT	–	82
	499	5,624
Deferred tax (note 29)	(182)	369
	317	5,993

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 2019 and 2018.

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

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

	2019 HK$'000	2018 HK$'000
(Loss) profit before tax	(43,792)	39,197
Tax at the domestic income tax rate of 25% (2018: 25%) (note (i))	(10,948)	9,799
Tax effect of share of profit of associates	(2,316)	(5,055)
Tax effect of income not taxable for tax purpose	(1,219)	(3,395)
Tax effect of expenses and losses not deductible for tax purposes	11,020	4,608
Underprovision in prior year	–	82
Tax effect of tax losses not recognised	3,108	116
Effect of different tax rate of subsidiaries operating in other jurisdictions	854	(531)
Deferred tax on undistributed earnings of PRC subsidiaries and associates	(182)	369
Income tax expense for the year	317	5,993

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.

10. (LOSS) PROFIT FOR THE YEAR

	2019 HK$'000	2018 HK$'000
(Loss) profit for the year has been arrived at after charging (crediting):		
Directors' emoluments, including contributions to retirement benefits scheme and equity-settled share-based payment expenses (note 11(a))	**2,914**	5,995
Other staff's salaries, bonus and other benefits	**8,947**	11,233
Contributions to retirement benefits scheme, excluding directors	**636**	654
Total staff costs	**12,497**	17,882
Depreciation of property, plant and equipment	**2,620**	1,951
Depreciation of right-of-use assets	**1,341**	–
Amortisation of prepaid lease payments	**–**	496
Amortisation of prepayment for a distribution right (included in cost of sales)	**3,612**	3,738
Amortisation of intangible asset (included in cost of sales)	**1,806**	1,869
Minimum lease payment under operating leases in respect of rented premises	**260**	976
Auditor's remuneration	**1,650**	1,650
Legal and professional fees (included in administrative expenses)	**5,465**	9,317
Donations	**147**	119
(Gain) loss on disposal of property, plant and equipment	**(232)**	10
Impairment loss on deposits paid to suppliers	**3,997**	–
Impairment loss on trade receivables	**4,972**	–
Cost of inventories recognised as an expense	**95,075**	310,297

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 2019						
	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$'000 (note (i))	Leung Chi Kin HK$'000	Li Sin Ming, Ivy HK$'000	Sy Lai Yin, Sunny HK$'000 (note (ii))	Total HK$'000
Fees	360	360	360	240	240	240	1,800
Salaries, bonus and other benefits	600	–	498	–	–	–	1,098
Contributions to retirement benefits scheme	–	–	16	–	–	–	16
Total emoluments	960	360	874	240	240	240	2,914

	Year ended 31 December 2018									
	Executive directors					Independent non-executive directors				
	Mr. Liu HK$'000 (note (i))	Mr. Huo HK$'000 (note (i))	Wang Qiuqin HK$'000 (note (i))	Zhou Ling ("Mr. Zhou") HK$'000 (note (iii))	Yang Fang ("Ms. Yang") HK$'000 (note (iii))	Ho Hau Cheung *SBS, MH* HK$'000 (note (iii))	Leung Chi Kin HK$'000	Li Sin Ming, Ivy HK$'000	Sy Lai Yin, Sunny HK$'000 (note (ii))	Total HK$'000
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

Notes:

(i) Appointed on 27 June 2018.

(ii) Appointed on 24 September 2018.

(iii) Retired on 27 June 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 as directors of the Company and/or its subsidiaries.

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

All of their emoluments disclosed above include those for services rendered by them in such roles.

For both 2019 and 2018, 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 2019 and 2018.

(b) Five highest paid employees

Of the five individuals with the highest emoluments in the Group, two (2018: nil) were existing directors of the Company and one (2018: two) was former director and the former Chief Executive Officer ("CEO") of the Company until 27 June 2018 whose emoluments are included in the disclosures above. The emoluments of the remaining three individuals, including one former director and the former CEO (2018: three individuals) were as follows:

	2019	2018
	HK$'000	HK$'000
Salaries and other allowances	**3,573**	5,665
Contributions to retirement benefits scheme	**132**	138
	3,705	5,803

Their emoluments were within the following bands:

	Number of employees	
	2019	2018
Nil to HK$1,000,000	**2**	2
HK$1,500,001 to HK$2,000,000	**1**	–
HK$4,000,001 to HK$4,500,000	**–**	1
	3	3

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

12. DIVIDENDS

No dividend was paid or proposed for ordinary shareholders of the Company during the years ended 31 December 2019 and 2018, nor has any dividend been proposed since the end of the reporting period.

13. (LOSS) EARNINGS PER SHARE

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

	2019	2018
	HK$'000	HK$'000
(Loss) profit for the year attributable to owners of the Company for the purposes of basic and diluted (loss) earnings per share	**(44,109)**	33,204

	Number of ordinary shares	
	2019	2018
	'000	'000
Number of shares		
Weighted average number of ordinary shares for the purposes of basic and diluted (loss) earnings per share	**1,671,847**	1,671,847

No diluted (loss) earnings per share for the years ended 31 December 2019 and 31 December 2018 was presented as there were no potential ordinary shares in issue for the years.

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 2018	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
Additions	**–**	**184**	**–**	**994**	**1,178**
Disposals	**–**	**(355)**	**(556)**	**(1,719)**	**(2,630)**
Exchange realignment	**(175)**	**(167)**	**(6)**	**(213)**	**(561)**
At 31 December 2019	**7,847**	**7,538**	**–**	**9,227**	**24,612**
ACCUMULATED DEPRECIATION					
At 1 January 2018	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
Provided for the year	**199**	**1,529**	**20**	**872**	**2,620**
Disposals	**–**	**(198)**	**(511)**	**(1,633)**	**(2,342)**
Exchange realignment	**(26)**	**(33)**	**(6)**	**(164)**	**(229)**
At 31 December 2019	**1,276**	**2,288**	**–**	**6,962**	**10,526**
CARRYING VALUES					
At 31 December 2019	**6,571**	**5,250**	**–**	**2,265**	**14,086**
At 31 December 2018	6,919	6,886	65	2,278	16,148

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$2,575,000 (2018: HK$2,641,000) as at 31 December 2019 to secure general banking facilities granted to the Group.

15. PREPAID LEASE PAYMENTS

	2019 **HK$'000**	2018 HK$'000
Carrying value:		
At 1 January	**19,137**	20,567
Transferred to right-of-use assets upon the application of HKFRS 16 (note 16)	**(19,137)**	–
At 1 January (restated)	**–**	20,567
Charged to profit or loss during the year	**–**	(496)
Exchange realignment	**–**	(934)
At 31 December	**–**	19,137
Analysed for reporting purposes as:		
Current asset	**–**	485
Non-current asset	**–**	18,652
	–	19,137

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

The balances have been transferred to right-of-use assets since the date of initial application of HKFRS 16.

16. RIGHT-OF-USE ASSETS

	Prepaid lease payments HK$000	Leased properties HK$000	Total HK$000
Carrying amount:			
At 1 January 2019	–	–	–
Adjustment of adoption of HKFRS 16	–	827	827
Transferred from prepaid lease payments (note 15)	19,137	–	19,137
As at 1 January 2019 (restated)	19,137	827	19,964
Addition	–	2,408	2,408
Charged to profit or loss during the year	(480)	(861)	(1,341)
Exchange realignment	(413)	(24)	(437)
At 31 December 2019	18,244	2,350	20,594

The balances of prepaid land lease payments have been transferred from prepaid lease payments to right-of-use assets since the date of initial application of HKFRS 16.

For both years, the Group leases offices and warehouses for its operations. Lease contracts are entered into for fixed term of 12 months to 5 years, but may have extension and termination options as described below. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. In determining the lease term and assessing the length of the non-cancellable period, the Group applies the definition of a contract and determines the period for which the contract is enforceable.

The Group has pledged prepaid lease payments with aggregate carrying amounts of approximately HK$6,772,000 (2018: HK$6,947,000) as at 31 December 2019 to secure general banking facilities granted to the Group. The prepaid lease payment represents land use right in the PRC, with lease term ends in 2056.

17. 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.

18. INTANGIBLE ASSET

	HK$'000
COST	
At 1 January 2018	19,141
Exchange realignment	(880)
At 31 December 2018	18,261
Exchange realignment	**(399)**
At 31 December 2019	**17,862**
ACCUMULATED AMORTISATION	
At 1 January 2018	4,626
Provided for the year	**1,869**
Exchange realignment	**(256)**
At 31 December 2018	6,239
Provided for the year	**1,806**
Exchange realignment	**(156)**
At 31 December 2019	**7,889**
CARRYING VALUE	
At 31 December 2019	**9,973**
At 31 December 2018	12,022

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.

19. CLUB DEBENTURE

The club debenture represents entrance fee paid to a golf club. As at 31 December 2019, the directors of the Company considered no impairment indicators were identified with reference to market price of the club debenture.

20. EQUITY INSTRUMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

Equity instruments at FVTOCI comprise:

	2019 HK$'000	2018 HK$'000
Listed investments:		
– Equity securities listed in Hong Kong (note i)	**18,925**	16,055
Unlisted investments:		
– Equity securities (notes ii & iii)	**118,694**	140,494
Total	**137,619**	156,549
Analysed for reporting purposes as:		
Non-current assets	**137,619**	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 2019, the fair value of the Group's investment in China Demeter Financial Investments Limited ("China Demeter") (stock code: 8120) amounted to HK$135,000 (2018: HK$188,000). During the year ended 31 December 2019, fair value loss of HK$53,000 (2018: HK$252,000) has been recognised in other comprehensive income.

As at 31 December 2019, the fair value of the Group's investment in Golden Throat Holdings Group Company Limited ("Golden Throat") (stock code: 6896) amounted to HK$1,726,000 (2018: HK$1,827,000). During the year ended 31 December 2019, fair value loss of HK$101,000 (2018: HK$986,000) has been recognised in other comprehensive income.

As at 31 December 2019, the fair value of the Group's investment in Town Health amounted to HK$17,064,000 (2018: HK$14,040,000). The Group held 120,000,000 shares of Town Health, representing approximately 1.59% of the total issued share capital of Town Health. 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 2019 to be HK$17,064,000 (2018: 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 gain of HK$3,024,000 (2018: loss of HK$2,892,000) has been recognised in other comprehensive income for the year ended 31 December 2019.

As at 31 December 2019, 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.

20. EQUITY INSTRUMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME *(Continued)*

Notes: *(Continued)*

(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% (2018: 14%) of the issued share capital of HCMPS as at 31 December 2019. 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 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 33(c)(i) to the consolidated financial statements.

As at 31 December 2019, the fair value of Group's investment in HCMPS amounted to HK$42,000,000 (2018: HK$61,040,000). The fair value loss of HK$19,040,000 (2018: HK$9,240,000) has been recognised in other comprehensive income for the year ended 31 December 2019.

(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% (2018: 9.63%) of the issued share capital of WinHealth International as at 31 December 2019. 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 33(c)(i) to the consolidated financial statements.

As at 31 December 2019, the fair value of Group's investment in WinHealth International amounted to HK$76,694,000 (2018: HK$79,454,000). The fair value loss of HK$2,760,000 (2018: HK$1,022,000) has been recognised in other comprehensive income for the year ended 31 December 2019.

21. INTERESTS IN ASSOCIATES

	2019 HK$'000	2018 HK$'000
Cost of unlisted investments in associates	**118,631**	118,631
Share of post-acquisition profit and other comprehensive income	**45,680**	37,544
Exchange difference arising on translation	**(11,952)**	(9,778)
	152,359	146,397
Impairment loss	**(20,914)**	–
	131,445	146,397

As at 31 December 2019 and 2018, 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. The Group was able to exercise significant influence over Sea Star and Saike International as the Group had the power to participate in the financial and operating policy decisions of the investees but did not have control or joint control over those policies. Accordingly, Sea Star and Saike International were regarded as associates of the Group as at 31 December 2019 and 2018.

The Group lost the significant influence over WinHealth International in October 2018. Details can be referred to note 21(c) and (d) to the consolidated financial statements.

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

Name	Place of incorporation	Proportion of ownership held by the Group 2019	2018	Principal activities
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

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 2019, the carrying amount of Sea Star is nil (2018: HK$2). As at 31 December 2018 and 2019, 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.

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

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

For the year ended 31 December 2017, the Audited Profits of Saike Group was RMB26,712,000 (equivalent to HK$30,873,000), which was above the Targeted Profit Requirement and no shortfall of profit was 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$97,313,000 (2018: HK$99,487,000) 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.

21. INTERESTS IN ASSOCIATES *(Continued)*

Notes: *(Continued)*

(b) *(Continued)*

During the years ended 31 December 2019 and 31 December 2018, the directors of the Company reviewed the carrying amounts 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.

The recoverable amount of the cash generated unit of Saike International's goodwill (the "Unit") has been determined based on a value in use calculation. That calculation uses cash flow projections based on financial budgets approved by management covering a 5-year (2018: 5-year) period, and discount rate of 18.49% (2018: 19.59%). Other key assumptions for the value in use calculations relate to the estimation of cash inflows/outflows which include budgeted sales and gross margin, such estimation is based on the Unit's past performance and management's expectations for the market development.

Since the recoverable amounts of the Unit as at 31 December 2019 were lower (2018: higher) when compared with their carrying amounts as at 31 December 2019, impairment loss amounting to HK$20,914,000 (2018: nil) was recognised during the year ended 31 December 2019.

(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 31 December 2019, the audited consolidated financial statements of WinHealth International for the year ended 31 December 2019 have not yet been made available to the Company. Based on the unaudited consolidated financial statements of WinHealth International for the year ended 31 December 2019, the unaudited consolidated profit of WinHealth International was approximately RMB73,793,000, which was above the WinHealth International 2019 Target Profit. On this basis, it is expected that no adjustment will be made for the year ended 31 December 2019.

As at 31 December 2018, 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 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.

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.

21. INTERESTS IN ASSOCIATES *(Continued)*

Notes: *(Continued)*

(c) *(Continued)*

As at 31 December 2019, the fair value of WinHealth International 2019 Target Profit is nil because no shortfall of profit is required to be recognised in profit or loss.

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 contingent consideration of the WinHealth International 2018 Target Profit is RMB349,000 (equivalent to approximately HK$398,000). The management expert adopted Monte-Carlo simulation analysis to derive the fair value of the contingent consideration of the WinHealth International 2018 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 the 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.

(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 shareholder 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 20 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.

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

	2019 HK$'000	2018 HK$'000
Current assets	**143,124**	120,603
Non-current assets	**1,006**	1,295
Current liabilities	**(34,037)**	(28,078)
Net assets attributable to owners of Saike International	**110,093**	93,820
Revenue for the year	**62,551**	62,483
Profit for the year	**18,526**	24,054
Other comprehensive expense for the year	**(2,253)**	(3,627)
Total comprehensive income for the year	**16,273**	20,427
Group's share of profit of Saike International	**9,263**	12,027
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:

	2019 HK$'000	2018 HK$'000
Net assets of Saike International	**110,093**	93,820
Proportion of the Group's ownership interest in Saike International	**50%**	50%
	55,046	46,910
Goodwill	**97,313**	99,487
Impairment loss	**(20,914)**	–
Carrying amounts of the Group's interest in Saike International	**131,445**	146,397

21. INTERESTS IN ASSOCIATES *(Continued)*

WinHealth International

	For the period from 1 January 2018 to 10 October 2018 HK$'000
Revenue for the period	447,813
Profit for the period	62,166
Other comprehensive expense for the period	(8,501)
Total comprehensive income for the period	53,665
Group's share of profit of WinHealth International	8,894
Dividend declared from WinHealth International during the period	–

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

	2019 HK$'000	2018 HK$'000
Cost of unlisted investment in a joint venture	**–**	604
Share of post-acquisition loss	**–**	(604)
	–	–
Amount due from a joint venture (note)	**–**	616
Less: Impairment	**–**	(600)
Less: Share of post-acquisition loss that is in excess of the cost of the investment	**–**	(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 deregistered on 21 March 2019.

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

(Continued)

Details of the Group's joint venture at 31 December 2019 and 2018 are as follows:

Name	Place of incorporation	Proportion of ownership held by the Group		Principal activity
		2019	2018	
Haikou Xin Lang	the PRC	–	50.1%	Deregistered

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.

	2019 HK$'000	2018 HK$'000
Current assets	–	1,145
Current liabilities	–	(1,171)
Loss for the year	–	(2)
Total comprehensive expenses for the year	–	(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:

	2019 HK$'000	2018 HK$'000
Net liabilities of the joint venture	–	(26)
Proportion of the Group's ownership interest in the joint venture	–	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.

23. INVENTORIES

	2019 HK$'000	2018 HK$'000
Finished goods	**793**	66,471

24. TRADE AND OTHER RECEIVABLES

	2019 HK$'000	2018 HK$'000
Trade receivables	**46,439**	82,241
Less: allowance for credit loss	**(4,918)**	–
Trade receivables (net of allowance for credit loss)	**41,521**	82,241
Other prepayments	**559**	1,055
Other deposits	**399**	1,654
Prepayments to suppliers	**76,894**	294
Deposits paid to suppliers (net of allowance for credit loss) (note 25)	**134,458**	91,303
Value-added tax recoverable	**–**	1,997
Others	**236**	169
	254,067	178,713
Less: Non-current portion	**(46,567)**	–
Current portion	**207,500**	178,713

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

	2019 HK$'000	2018 HK$'000
Trade receivables:		
0–30 days	**4,934**	26,934
31–60 days	**1,973**	7,772
61–90 days	**4,566**	8,431
91–180 days	**982**	16,582
181–365 days	**10,633**	18,544
Over 365 days	**18,433**	3,978
	41,521	82,241

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.

Included in the Group's trade receivable balance are debtors with aggregate carrying amount of approximately HK$18,505,000 (2018: HK$11,773,000) which are past due but not impaired as at 31 December 2019 and the Group has provided for impairment loss of approximately HK$4,972,000 (2018: nil) based on the provision matrix. 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 of HK$3,032,000. The Group's exposure to credit risk and expected credit loss for trade receivables is stated in note 33(b) to the consolidated financial statements.

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.

Included in the Group's deposits paid to suppliers balance are suppliers with aggregate carrying amount of approximately HK$134,458,000 (2018: HK$91,303,000) as at 31 December 2019 and the Group has provided for impairment loss of approximately HK$3,997,000 (2018: nil).

25. DEPOSITS PAID TO SUPPLIERS

From time to time, the Group is required to make deposit payments to its suppliers as a condition of acquiring the distribution rights of specific products and as security for purchase of products. The deposits will be collected back from suppliers at the end of the distribution agreements.

During the year ended 31 December 2019 and 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).

As at 31 December 2019, deposits amounting to HK46,567,000 were classified as non-current assets because the terms of distribution agreement will end in 2021, and the amount is expected to be refunded in 2021.

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

	2019 **HK$'000**	2018 HK$'000
At 1 January	**91,303**	83,741
Deposits paid	**138,427**	89,947
Deposits refunded	**(89,308)**	(78,266)
Allowance for credit loss	**(3,997)**	–
Exchange realignment	**(1,967)**	(4,119)
At 31 December	**134,458**	91,303
Classified as:		
Current assets (included in trade and other receivables)	**87,891**	91,303
Non-current assets	**46,567**	–
	134,458	91,303

The Group's exposure to credit risk and expected credit loss for deposits paid to suppliers is stated in note 33(b) to the consolidated financial statements.

26. BANK BALANCES AND CASH

Bank balances and cash comprise cash held by the Group and short-term bank deposits with an original maturity of three months or less. The deposits carry interest at market rates which range from 0.01% to 0.3% (2018: 0.01% to 0.3%) per annum, for the year ended 31 December 2019.

As at 31 December 2019, deposits of HK$647,000 (2018: HK$174,000) 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:

	2019 **HK$'000**	2018 HK$'000
HK$	**38,398**	71,447

27. TRADE AND OTHER PAYABLES

	2019 **HK$'000**	2018 HK$'000
Trade payables	**2,522**	21,239
Deposits received from customers	**1,362**	3,561
Contract liabilities (note)	**2,489**	2,353
Value-added tax payable	**1,625**	–
Other tax payables	**181**	46
Accruals	**4,813**	4,560
	12,992	31,759

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

	2019 **HK$'000**	2018 HK$'000
0–30 days	**2,522**	21,239

27. 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 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 25 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.

Note:

Movement of contract liabilities during the year ended 31 December 2019 as follows:

	2019 **HK$'000**	2018 HK$'000
At 1 January	**2,353**	3,231
Increase in contract liabilities as a result of receipts in advance from customers	**1,965**	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	**(1,823)**	(3,172)
Exchange realignment	**(6)**	(3)
At 31 December	**2,489**	2,353

28. LEASE LIABILITIES

	HK$'000
At 1 January 2019	**–**
Adjustment of adoption of HKFRS 16	**606**
As at 1 January 2019 (restated)	**606**
Addition	**2,408**
Payments	**(857)**
Interest expense on lease liabilities	**52**
Exchange realignment	**(25)**
At 31 December 2019	**2,184**
Lease liabilities payable	
Within 1 year	**401**
After 1 year but within 5 years	**1,783**
	2,184
Expense relating to short-term lease	**260**

No lease obligations that are denominated in currencies other than the functional currencies of the relevant group entities as at 31 December 2019.

29. DEFERRED TAX LIABILITIES

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

	Withholding tax on undistributed earnings of the PRC subsidiaries and associates HK$'000
At 1 January 2018	9,729
Charge to profit or loss	369
Exchange realignment	(460)
At 31 December 2018	9,638
Charge to profit or loss	**(182)**
Exchange realignment	**(208)**
At 31 December 2019	**9,248**

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$16,321,000 (2018: HK$4,309,000) as at 31 December 2019, 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 2019 are losses of HK$265,000, HK$440,000, HK$472,000, HK$260,000 and HK$12,430,000 that will expire in 2020, 2021, 2022, 2023 and 2024, 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 2018, 31 December 2018, 1 January 2019 and 31 December 2019	**3,000,000**	**150,000**
Issued and full paid:		
At 1 January 2018, 31 December 2018, 1 January 2019 and 31 December 2019	**1,671,847**	**83,592**

All ordinary shares issued during the year ended 31 December 2019 and 2018 rank *pari passu* with the then existing ordinary shares in all respects.

31. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY

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

	NOTES	2019 HK$'000	2018 HK$'000
Non-current assets			
Investments in subsidiaries		**75,367**	75,367
Amounts due from subsidiaries		**432,573**	376,776
		507,940	452,143
Current assets			
Other receivables		**229**	416
Bank balances and cash		**16,211**	72,710
		16,440	73,126
Current liabilities			
Other payables		**1,440**	1,650
Net current assets		**15,000**	71,476
Total assets less current liabilities		**522,940**	523,619
Capital and reserves			
Share capital	30	**83,592**	83,592
Reserves	31(a)	**439,348**	440,027
Equity attributable to owners of the Company		**522,940**	523,619

The financial statements were approved and authorised for issue by the Board of Directors on 26 March 2020 and are signed on its behalf by:

LIU YANG	**WANG QIUQIN**
DIRECTOR	*DIRECTOR*

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	Translation reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1 January 2018	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
Total comprehensive expense for the year	**–**	**–**	**851**	**(1,530)**	**(679)**
At 31 December 2019	**607,614**	**50,167**	**(878)**	**(217,555)**	**439,348**

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 debtor the redemption of existing debt.

33. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

	2019 HK$'000	2018 HK$'000
Financial assets		
Equity instruments at FVTOCI	**137,619**	156,549
Financial assets at FVTPL	**558**	969
Financial assets at amortised cost (including cash and cash equivalents)	**264,647**	319,645
	402,824	477,163
Financial liabilities		
Amortised cost	**9,519**	25,799

(b) 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 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	
	2019 HK$'000	2018 HK$'000
HK$	**39,045**	71,621

33. FINANCIAL INSTRUMENTS *(Continued)*

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

Market risk *(Continued)*

(i) Foreign currency risk management (Continued)

The Group is mainly exposed to HK$. The following table details the Group's sensitivity to a 3% (2018: 3%) increase and decrease in the functional currency of each group entity against the above foreign currency. 3% (2018: 3%) is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rate. A positive number below indicates a decrease in loss after tax (2018: an increase in profit after tax) where the above foreign currency strengthens by 3% (2018: 3%) against the functional currency of the respective group entity. For a 3% (2018: 3%) weakening of the above foreign currency against the functional currency of the respective group entity, there would be an equal and opposite impact on the (loss) profit after tax and the balances below would be negative.

	2019 **HK$'000**	2018 HK$'000
(Loss) profit after tax	**(879)**	1,611

(ii) Interest rate risk management

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

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

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

33. FINANCIAL INSTRUMENTS *(Continued)*

(b) 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% (2018: 100%) of its equity interests held by the Group are issued by four (2018: four) issuers. The management of the Group considers that the equity price risk on the equity instruments at FVTOCI in the equity interests held is limited as they were issued by four (2018: 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 % (2018: 100%) of its equity interests held by the Group are issued by two (2018: two) issuers. The management of the Group considers that the equity price risk on the equity instruments at FVTOCI 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% (2018: 10%) lower/higher:

- (Loss) profit after tax for the year ended 31 December 2019 and 2018 would have no impact as a result of the changes in fair value; and

- FVTOCI (non-recycling reserve) would increase/decrease by HK$186,000 (2018: HK$202,000) for the Group as a result of the changes in fair value of equity instruments at FVTOCI.

The Group's sensitivity to equity instruments at FVTOCI has not changed significantly from the prior year.

33. FINANCIAL INSTRUMENTS *(Continued)*

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

Credit risk management

As at 31 December 2019 and 2018, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position.

The Group's credit risk arising from its financial assets is primarily attributable to its trade receivables and deposits paid to suppliers. In order to minimise the credit risk arising from its trade receivables and deposits paid to suppliers, 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 and each deposit paid to supplier 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 80% (2018: 96%) of balances are placed with three (2018: three) banks of which two (2018: two) are located in the PRC and one (2018: one) is located in Hong Kong as at 31 December 2019.

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 84% (2018: 30%) of its trade receivables were due from three (2018: one) customers as at 31 December 2019. These three (2018: one) customers are distributors which are private enterprises engaged in trading and wholesaling of drugs in Shenzhen and Hebei in the PRC as at 31 December 2019 (2018: Hebei in the PRC). In addition, the Group also has concentration of credit risks on its deposits paid to suppliers as 98% (2018: 96%) of its deposits paid to suppliers were paid to four (2018: two) suppliers in aggregate as at 31 December 2019. 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, indicators that there is no reasonable expectation of recovery include the failure of debtors to make ongoing settlement with the Group and the failure of debtors to make contractual payments on certain debts that are more than 365 days past due. The management of 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.

33. FINANCIAL INSTRUMENTS *(Continued)*

(b) 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:

	Notes	External credit rating	Internal credit rating	Gross carrying amount	
				2019	2018
				HK$'000	HK$'000
Bank balances and cash	26	AA+	N/A	**88,668**	146,101
Trade receivables	24	N/A	Low risk (note (ii))	**43,440**	82,241
Trade receivables	24	N/A	Loss (note (ii))	**2,999**	–
Deposits paid to suppliers	25	N/A	Low risk (note (iii))	**138,427**	91,303
				273,534	319,645

33. FINANCIAL INSTRUMENTS *(Continued)*

(b) 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 following table provides information about the Group's exposure to credit risk and expected credit losses for trade receivables as at 31 December 2019 and 2018.

For the year ended 31 December 2019	**Expected loss rate %**	**Gross carrying amount HK$'000**	**Loss allowance HK$'000**	**Net carrying amount HK$'000**
Current (not past due)	**–**	**23,016**	**–**	**23,016**
1–180 days past due	**9%**	**20,401**	**1,907**	**18,494**
181–365 days past due	**52%**	**23**	**12**	**11**
Over 365 days past due	**100%**	**2,999**	**2,999**	**–**
		46,439	**4,918**	**41,521**

For the year ended 31 December 2018	Expected loss rate %	Gross carrying amount HK$'000	Loss allowance HK$'000	Net carrying amount HK$'000
Current (not past due)	–	70,468	–	70,468
1–180 days past due	–	11,749	–	11,749
181–365 days past due	–	24	–	24
		82,241	–	82,241

Expected loss rates are based on actual loss experience over the past 12 months. These rates are adjusted to reflect differences between economic conditions during the period over which the historic data has been collected, current conditions and the Group's view of economic conditions over the expected lives of the receivables.

33. FINANCIAL INSTRUMENTS *(Continued)*

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

Credit risk management *(Continued)*

Notes: *(Continued)*

ii. *(Continued)*

The following table shows the movement in lifetime expected credit loss that has been recognised for trade receivables under the simplified approach:

	Lifetime ECL (not credit-impaired) HK$'000	Lifetime ECL (credit-impaired) HK$'000	Total HK$'000
At 1 January 2018, 31 December 2018 and 1 January 2019	–	–	–
Impairment loss recognised	**1,940**	**3,032**	**4,972**
Exchange realignment	**(21)**	**(33)**	**(54)**
At 31 December 2019	**1,919**	**2,999**	**4,918**

The directors of the Company are of the opinion that certain customers who did not share the same credit risk characteristics were in delinquency of payments and their respective trade receivable balances amounting to approximately HK$3,032,000 (2018: nil) were fully impaired. Expected credit losses are also estimated by grouping the remaining trade receivables balances based on shared credit risk characteristics and collectively assessed for likelihood of recovery, taking into account its ageing category and applying the expected credit loss rates to the respective gross carrying amounts of these trade receivables and forecast of future economic conditions. Therefore, the expected credit loss of the trade receivables recognised for the year ended 31 December 2019 was approximately HK$4,972,000 (2018: nil).

iii.

	Gross amount HK$'000
Deposits paid to suppliers	
At 31 December 2019	**138,427**
At 31 December 2018	91,303

The following table shows the movement in lifetime expected credit loss that has been recognised for deposits paid to suppliers under the simplified approach:

	Lifetime ECL (not credit-impaired) HK$'000
At 1 January 2018, 31 December 2018 and 1 January 2019	–
Impairment loss recognised	**3,997**
Exchange realignment	**(28)**
At 31 December 2019	**3,969**

The directors of the Company are of the opinion that the calculation of expected credit loss based on the probability weighted outcome, time value of money, reasonable and supportable information that is available at the reporting date about current conditions and forecast of future economic conditions. The Group has concluded that impairment loss on deposits paid to suppliers recognised for the year ended 31 December 2019 was approximately HK$3,997,000 (2018: nil).

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

33. FINANCIAL INSTRUMENTS *(Continued)*

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

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.

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 year	Between 1 year and 5 years	Total undiscounted cash flows	Carrying amount
	%	HK$'000	HK$'000	HK$'000	HK$'000
At 31 December 2019					
Non-derivative financial liabilities					
Trade and other payables	**–**	**7,335**	**–**	**7,335**	**7,335**
Lease liabilities	**4.9%**	**494**	**1,929**	**2,423**	**2,184**
		7,829	**1,929**	**9,758**	**9,519**
At 31 December 2018					
Non-derivative financial liabilities					
Trade and other payables	–	25,799	–	25,799	25,799

33. FINANCIAL INSTRUMENTS *(Continued)*

(c) 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).

33. FINANCIAL INSTRUMENTS *(Continued)*

(c) 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 2019 HK$'000	31 December 2018 HK$'000				
Equity instruments at FVTOCI listed in Hong Kong	**1,861**	2,015	Level 1	Quoted bid prices in an active market	N/A	N/A
Club debenture	**558**	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	**17,064**	14,040	Level 3	Market approach	EV/EBITDA multiple	5.45–16.95 (11.44) (2018: 6.13–15.55 (11.45))
					P/S multiple	0.48–1.26 (0.79) (2018: 0.50–2.01 (1.25))
					Discount for lack of marketability	30%–50% (40%) (2018: 48%)
Equity instruments at FVTOCI for unlisted investments	**118,694**	140,494	Level 3	Discounted cash flow	Terminal growth rate	2.54%–3% (2.77%) (2018: 2.90%–3.00% (2.95%))
					Discount rate	12.58%–15.19% (13.89%) (2018: 14.86%–16.96% (15.91%)
Financial asset at FVTPL	**–**	398	Level 3	Monte-Carlo simulation analysis	Net operating profit	– (2018: RMB38,500,000 (equivalent to HK$43,940,000)
					Volatility	– (2018: 33.84%)

33. FINANCIAL INSTRUMENTS *(Continued)*

(c) 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 20 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.

During the years ended 31 December 2019 and 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.

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 2019 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.

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 2019 and 31 December 2018 and no share options were granted by the Company under the Scheme during the years ended 31 December 2019 and 31 December 2018.

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 per month in maximum of relevant payroll costs to the scheme, which contribution is matched by employees.

The total cost of HK$652,000 (2018: HK$714,000) for the year ended 31 December 2019 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 2019, the Group pledged the buildings and right-of-use assets with aggregate carrying values of approximately HK$9,347,000 (2018: buildings and prepaid lease payments with aggregate carrying value of approximately HK$9,588,000) to secure general banking facilities granted to the Group.

37. OPERATING LEASE

The Group as lessee

The Group has recognised the right-of-use assets for its operating lease since the date of initial application of HKFRS 16. At the respective reporting dates, the Group had no commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	2018 HK$'000
Within one year	870
In the second to fifth year inclusive	213
	1,083

37. OPERATING LEASE *(Continued)*

The Group as lessee *(Continued)*

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 and rentals are fixed over the lease terms for 2018.

The Group also has certain lease of warehouse with lease term ended within 12 months from the date of initial application of HKFRS 16. The Group applies the practical expedient for this lease.

38. 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.

	Lease liabilities HK$'000
At 1 January 2018 and 31 December 2018	–
Adjustment of adoption of HKFRS 16	**606**
Restated opening balance under HKFRS 16 as at 1 January 2019	**606**
Changes from financing cash flows:	
Payment for principal portion of lease liabilities	**(805)**
Payment for interest portion of lease liabilities	**(52)**
Total changes from financing cash flows	**(857)**
Exchange adjustments	**(25)**
Other changes:	
Additions to lease liabilities	**2,408**
Interest expense on lease liabilities	**52**
Total other changes	**2,460**
At 31 December 2019	**2,184**

39. 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	2019 HK$'000	2018 HK$'000
浙江醫學科技開發有限公司	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
				–
Mr. Zhou (Note)	Former director and substantial shareholder	Consultancy fee	**870**	421
Ms. Yang (Note)	Former director and substantial shareholder	Salaries	**848**	351

Note: Mr. Zhou and Ms. Yang retired as directors of the Company on 27 June 2018 and remained as substantial shareholder of the Company as at the date on which these consolidated financial statements are authorised for issue.

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.

39. 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 note 22 to the consolidated financial statements.

(iii) Compensation of key management personnel

	2019 **HK$'000**	2018 HK$'000
Short term benefits	**2,898**	5,899
Post employment benefits	**16**	96
	2,914	5,995

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

40. 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 2019	Equity interest attributable to the Group 2018	Issued and fully paid share capital/ registered capital	Principal activities
Direct					
Max Goodrich International Limited (note (i))	the BVI 21 September 2007	**100%**	100%	HK$163,800	Investment holding
Indirect					
China New Rich Medicine Holding Company Limited (note (i))	Hong Kong 7 February 2005	**100%**	100%	HK$1	Trading of pharmaceutical products and investment holding
Major Bright Holdings Limited (note (i))	the BVI 9 May 2014	**100%**	100%	HK$1	Investment holding
Brilliant Dream Holding Limited (note (i))	the BVI 7 July 2014	**100%**	100%	HK$1	Inactive
Clever Ocean Finance Limited (notes (i)&(ii))	Hong Kong 6 June 2014	**100%**	100%	HK$1	Inactive
Hong Rui Bio-medical 泓鋭(杭州)生物醫藥科技有限公司(note (iii))	the PRC 8 July 2008	**100%**	100%	HK$75,000,000	Investment holding
Zhejiang Xin Rui 浙江新鋭醫藥有限公司 (note (iii))	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 浙江泓鋭貿易有限公司 (note (iii))	the PRC 6 September 2005	**100%**	100%	RMB5,000,000	Inactive

Notes:

(i) A company incorporated with limited liability.

(ii) The company ceased to operate in October 2019.

(iii) A domestic company incorporated in the PRC 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.

41. Subsequent events

After the outbreak of Coronavirus Disease 2019 ("COVID-19 outbreak") in early 2020, a series of precautionary and control measures have been and continued to be implemented across the country/region. The Group will pay close attention to the development of the COVID-19 outbreak and evaluate its impact on the consolidated financial position and operating results of the Group. As at the date on which these consolidated financial statements were authorised for issue, the Group was not aware of any material adverse effects on these consolidated financial statements as a result of the COVID-19 outbreak.