



New Ray Medicine International Holding Limited

新銳醫藥國際控股有限公司

(Incorporated in Bermuda with limited liability)

Stock Code: 6108

Interim Report 2020

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CORPORATE INFORMATION

Board of Directors

Executive Directors

Mr. Liu Yang (*Chairman*)

Mr. Huo Zhihong (resigned as the Chief Executive Officer on 31 July 2020)

Ms. Wang Qiuqin (appointed as the Chief Executive Officer on 31 July 2020)

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

Registered Public Interest Entity Auditor

Stock Code

6108

Registered Office

Clarendon House

2 Church Street

Hamilton HM 11

Bermuda

Headquarters

B-C, 37/F

Dikai International Center

19 Dangui Road

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

Principal Place of Business in Hong Kong

Room 911B, 9th Floor

Tower 1, Silvercord

No. 30 Canton Road

Kowloon, Hong Kong

Principal Banker

Agricultural Bank of China

Hangzhou Fu Rong Sub-branch

No. 21 Cai He Road

Jiangan District

Hangzhou City

Zhejiang Province, the PRC

Principal Share Registrar and Transfer Office

Conyers Corporate Services (Bermuda) Limited

Clarendon House

2 Church Street

Hamilton HM 11

Bermuda

Hong Kong Branch Share Registrar and Transfer Office

Tricor Investor Services Limited

Level 54

Hopewell Centre

183 Queen's Road East

Hong Kong

Website

www.newraymedicine.com

FINANCIAL HIGHLIGHTS

For the six months ended 30 June 2020:

- The Group recorded a revenue of approximately HK\$69,470,000 for the six months ended 30 June 2020, which has increased by approximately 25.1% when compared to that of approximately HK\$55,511,000 for the corresponding period in 2019.
- Net loss attributable to owners of the Company for the six months ended 30 June 2020 was approximately HK\$36,434,000, which has increased by approximately 367.2% when compared to that of approximately HK\$7,798,000 for the corresponding period in 2019.
- The Board does not recommend the payment of any interim dividend for the six months ended 30 June 2020.

As at 30 June 2020:

- The Group had a gearing ratio (defined as total bank and other borrowings divided by total equity) of zero as at 30 June 2020 (31 December 2019: zero).

INDEPENDENT AUDITOR'S REVIEW REPORT



Moore Stephens CPA Limited

801-806 Silvercord, Tower 1,
30 Canton Road, Tsimshatsui,
Kowloon, Hong Kong

T +852 2375 3180

F +852 2375 3828

www.moore.hk

大
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Independent Auditor's Review Report to the Board of Directors of New Ray Medicine International Holding Limited

(Incorporated in Bermuda with limited liability)

Introduction

We have reviewed the condensed 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 7 to 24, which comprise the condensed consolidated statement of financial position as of 30 June 2020 and the related condensed consolidated statement of profit or loss and other comprehensive income, condensed consolidated statement of changes in equity and condensed consolidated statement of cash flows for the six-month period then ended, and other explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting", issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). The directors of the Company are responsible for the preparation and presentation of the interim financial report in accordance with HKAS 34.

Our responsibility is to express a conclusion on these condensed consolidated financial statements based on our review, and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of review

Except as explained in the "Basis for Qualified Conclusion" paragraph below, we conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" ("HKSRE 2410") issued by the HKICPA. A review of these condensed consolidated financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Basis for qualified conclusion

As disclosed in the auditor's report in respect of the consolidated financial statements for the year ended 31 December 2019 and note 1 to the condensed consolidated financial statements for the six months ended 30 June 2020, 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.

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

The Acquisitions relate to sale and purchase agreements which the Group entered into with purportedly independent third parties to acquire two associates, Saike International and WinHealth International, which were completed in 2015 and 2017 respectively and the costs of the Acquisitions amounted to RMB95,000,000 and RMB47,250,000, respectively. As at 30 June 2020, the carrying amount of the Group's interest in Saike International is approximately HK\$107,151,000 (31 December 2019: approximately HK\$131,445,000) and the fair value of the Group's interest in WinHealth International is approximately HK\$74,301,000 (31 December 2019: approximately HK\$76,694,000, 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 the year ended 31 December 2019 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 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 condensed 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 condensed 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 were in fact related party transactions.

Our review conclusion on the condensed consolidated financial statements for the six months ended 30 June 2020 is therefore modified.

Qualified conclusion

Except for the possible effects of the matter described in the Basis for Qualified Conclusion section of our report, based on our review, nothing has come to our attention that causes us to believe that the condensed consolidated financial statements for the six months ended 30 June 2020 are not prepared, in all material respects, in accordance with HKAS 34.

Other matter

The comparative condensed consolidated statement of profit or loss and other comprehensive income, condensed consolidated statement of changes in equity and condensed consolidated statement of cash flows for the six months ended 30 June 2019 and the relevant explanatory notes included in these condensed consolidated financial statements have not been reviewed in accordance with HKSRE 2410.

Moore Stephens CPA Limited

Certified Public Accountants

Hong Kong, 27 August 2020

The board (the “Board”) of directors (the “Directors”) of New Ray Medicine International Holding Limited (the “Company”) is pleased to present the unaudited condensed consolidated results of the Company and its subsidiaries (collectively, the “Group”) for the six months ended 30 June 2020 (“Period”) together with the comparative unaudited figures for the corresponding period in 2019 as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2020

		Six months ended 30 June	
	Notes	2020 (Unaudited) HK\$'000	2019 (Unaudited) HK\$'000
Revenue	4	69,470	55,511
Cost of sales		(64,567)	(48,678)
Other income, gains and losses	5	4,903	6,833
Selling and distribution expenses		(1,512)	405
Administrative expenses		(4,845)	(5,149)
Finance costs		(10,526)	(12,948)
Share of profit of associates	12	(51)	(8)
Impairment loss on trade and other receivables		488	3,573
Impairment loss on interest in an associate		(2,855)	–
		(22,235)	–
Loss before tax		(36,633)	(7,294)
Income tax credit (expense)	6	199	(504)
Loss for the period attributable to owners of the Company	7	(36,434)	(7,798)
Other comprehensive expense for the period:			
<i>Items that will not be reclassified to profit or loss:</i>			
Fair value loss on equity instruments at fair value through other comprehensive income		(17,857)	(9,607)
Exchange difference arising on translation of functional currency to presentation currency			
– Subsidiaries		(5,704)	(1,857)
– Associates		(1,069)	(192)
Other comprehensive expense for the period		(24,630)	(11,656)
Total comprehensive expense for the period		(61,064)	(19,454)
Loss for the period attributable to owners of the Company		(36,434)	(7,798)
Total comprehensive expense for the period attributable to owners of the Company		(61,064)	(19,454)
Loss per share			
– Basic and diluted (HK cent)	9	(2.18)	(0.47)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2020

	Notes	As at 30 June 2020 (Unaudited) HK\$'000	As at 31 December 2019 (Audited) HK\$'000
Non-current assets			
Property, plant and equipment	10	12,723	14,086
Right-of-use assets	10	20,441	20,594
Prepayment for a distribution right		15,442	17,532
Intangible assets		8,904	9,973
Club debenture		547	558
Equity instruments at fair value through other comprehensive income	11	119,762	137,619
Interests in associates	12	107,151	131,445
Deposits paid to suppliers	14	45,667	46,567
		330,637	378,374
Current assets			
Inventories	13	9,168	793
Trade and other receivables	14	169,247	207,500
Prepayment for a distribution right		3,503	3,572
Bank balances and cash		101,334	88,668
		283,252	300,533
Current liabilities			
Trade and other payables	15	9,156	12,992
Lease liabilities	10	903	401
		10,059	13,393
Net current assets			
		273,193	287,140
Total assets less current liabilities			
		603,830	665,514
Non-current liabilities			
Lease liabilities	10	1,539	1,783
Deferred tax liabilities		8,872	9,248
		10,411	11,031
		593,419	654,483
Capital and reserves			
Share capital	16	83,592	83,592
Share premium and reserves		509,827	570,891
Equity attributable to owners of the Company		593,419	654,483

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2020

	Attributable to owners of the Company							
	Share capital HK\$'000	Share premium HK\$'000	Contributed surplus HK\$'000	PRC statutory reserve HK\$'000 (note)	Fair value through other comprehensive income (non-recycling reserve) HK\$'000	Translation reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000
At 1 January 2020	83,592	607,614	50,167	23,729	(174,517)	(30,191)	94,089	654,483
Loss for the Period	-	-	-	-	-	-	(36,434)	(36,434)
Other comprehensive expense for the Period	-	-	-	-	(17,857)	(6,773)	-	(24,630)
Total comprehensive expense for the Period	-	-	-	-	(17,857)	(6,773)	(36,434)	(61,064)
At 30 June 2020 (unaudited)	83,592	607,614	50,167	23,729	(192,374)	(36,964)	57,655	593,419
At 1 January 2019	83,592	607,614	50,167	23,729	(155,587)	(22,329)	138,198	725,384
Loss for the period	-	-	-	-	-	-	(7,798)	(7,798)
Other comprehensive expense for the period	-	-	-	-	(9,607)	(2,049)	-	(11,656)
Total comprehensive expense for the period	-	-	-	-	(9,607)	(2,049)	(7,798)	(19,454)
At 30 June 2019 (unaudited)	83,592	607,614	50,167	23,729	(165,194)	(24,378)	130,400	705,930

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

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

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2020

	Six months ended 30 June	
	2020 (Unaudited) HK\$'000	2019 (Unaudited) HK\$'000
Net cash inflow (outflow) from operating activities	13,492	(57,737)
Net cash inflow from investing activities	696	1,582
Net cash outflow from financing activities	(750)	(614)
Net increase (decrease) in cash and cash equivalents	13,438	(56,769)
Cash and cash equivalents at the beginning of the period	88,668	146,101
Effect of foreign exchange rate changes	(772)	(251)
Cash and cash equivalents at the end of the period		
Represented by bank balances and cash	101,334	89,081

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2020

1. GENERAL INFORMATION

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

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

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

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

As stated in the consolidated financial statements of the Company for the year ended 31 December 2019, 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 appeared to the SFC that, *inter alia*, the Company's announcements in relation to the acquisition of 50% interest in Saike International Medical Group Limited ("Saike International") and the Company's announcements in relation to the acquisition of 15% interest in Eternal Charm International Limited (now known as WinHealth International Company Limited) ("WinHealth International") (the "Acquisitions") may have contained materially false, incomplete or misleading information.

On 12 January 2018, the Company further announced that in view of the Suspension, the Board 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).

On 8 January 2020, the Company announced that 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. 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.

On 31 July 2020, the Company announced that the Company intends to make further submission to the SFC in relation to its application for resumption of trading of the Shares. 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.

As at the date on which these condensed 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 the investment procedure are still under progress.

1. GENERAL INFORMATION *(Continued)*

As disclosed in note 21 to the consolidated financial statements of the Company for the year ended 31 December 2019, 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 of the Company for the year ended 31 December 2019 for details), which were completed in 2015 and 2017 respectively and the costs of the Acquisitions amounted to RMB95,000,000 and RMB47,250,000 respectively.

As at 30 June 2020, the carrying amount of the Group's interest in Saike International is approximately HK\$107,151,000 (31 December 2019: approximately HK\$131,445,000) and the fair value of the Group's interest in WinHealth International is approximately HK\$74,301,000 (31 December 2019: approximately HK\$76,694,000), 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 of the Company for the year ended 31 December 2019 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 condensed 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. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with Hong Kong Accounting Standard 34 ("HKAS 34") "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") as well as with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on the Stock Exchange ("Listing Rules").

The condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements and should be read in conjunction with the Group's annual financial statements for the year ended 31 December 2019.

3. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis, except for certain financial instruments which are measured at fair value. Other than additional accounting policies resulting from application of amendments to Hong Kong Financial Reporting Standards ("HKFRSs"), the principal accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2020 are the same as those presented in the Group's annual financial statements for the year ended 31 December 2019.

Application of new and amendments to HKFRSs

In the Period, the Group has applied, for the first time, the following new and amendments to HKFRSs issued by the HKICPA which are mandatorily effective for the annual period beginning on or after 1 January 2020 for the preparation of the Group's condensed consolidated financial statements:

Amendments to HKAS 1 and HKAS 8	Definition of Material
Amendments to HKFRS 3	Definition of a Business
Amendments to HKFRS 7, HKFRS 9 and HKAS 39	Interest Rate Benchmark Reform

Except as described below, the application of the Amendments to References to the Conceptual Framework in HKFRSs and the amendments to HKFRSs in the current period has had no material impact on the Group's financial positions and performance for the current and prior periods and/or on the disclosures set out in these condensed consolidated financial statements.

3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

3.1 Impacts of application of Amendments to HKAS 1 and HKAS 8 “Definition of Material”

The amendments provide a new definition of material that states “information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.”. The amendments also clarify that materiality depends on the nature or magnitude of information, either individually or in combination with other information, in the context of the financial statements taken as a whole.

The application of the amendments in the current period had no impact on the condensed consolidated financial statements. Changes in presentation and disclosures on the application of the amendments, if any, will be reflected on the consolidated financial statements for the year ending 31 December 2020.

4. REVENUE AND SEGMENT INFORMATION

The Group is principally engaged in the distribution and trading of pharmaceutical products and the provision of marketing and promotion services in the PRC. Information reported to the chief operating decision maker (the “CODM”), being the executive Directors of the Company, for the purposes of resources allocation and assessment of segment performance focuses on the types of business activities.

During the Period, the Group’s reportable and operating segments are as follows:

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

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

4. REVENUE AND SEGMENT INFORMATION (Continued)

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

Six months ended 30 June 2020 (unaudited)

	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	67,615	1,855	69,470
RESULT			
Segment profit	334	1,714	2,048
Other income, gains and losses			(1,512)
Selling and distribution expenses			(4,845)
Administrative expenses			(10,526)
Finance costs			(51)
Share of profit of associates			488
Impairment loss on interest in an associate			(22,235)
Loss before tax			(36,633)

Six months ended 30 June 2019 (unaudited)

	Distribution and trading of pharmaceutical products HK\$'000	Provision of marketing and promotion services HK\$'000	Total HK\$'000
REVENUE			
External sales and segment revenue	53,692	1,819	55,511
RESULT			
Segment profit	5,152	1,681	6,833
Other income, gains and losses			405
Selling and distribution expenses			(5,149)
Administrative expenses			(12,948)
Finance costs			(8)
Share of profit of associates			3,573
Loss before tax			(7,294)

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

4. REVENUE AND SEGMENT INFORMATION *(Continued)*

Geographical information

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

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

5. OTHER INCOME, GAINS AND LOSSES

	Six months ended 30 June	
	2020 (Unaudited) HK\$'000	2019 (Unaudited) HK\$'000
Bank interest income	740	1,595
Dividend income from equity instruments at FVTOCI	174	174
Net exchange loss	(2,556)	(1,271)
Fair value loss on financial asset at fair value through profit or loss ("FVTPL")	–	(93)
Gain on disposal of property, plant and equipment	1	–
Government subsidies (note)	116	–
Others	13	–
	(1,512)	405

Note: During the six months ended 30 June 2020, the Group was granted incentives of RMB31,000 (equivalent to approximately HK\$35,000) by local government in Hangzhou, the PRC for the purpose of enhancing the development of the Group. The remaining was granted by the Government of the Hong Kong Special Administrative Region for the Employment Support Scheme in response to the Covid-19 pandemic. The management of the Company consider there is reasonable assurance that the conditions of these incentives will be fulfilled and hence these government incentives were recognised in profit or loss.

6. INCOME TAX CREDIT (EXPENSE)

	Six months ended 30 June	
	2020 (Unaudited) HK\$'000	2019 (Unaudited) HK\$'000
Current tax:		
PRC Enterprise Income Tax ("EIT")	–	(504)
Deferred Tax	199	–
Total tax credit (expense) for the period	199	(504)

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

7. LOSS FOR THE PERIOD

	Six months ended 30 June	
	2020 (Unaudited) HK\$'000	2019 (Unaudited) HK\$'000
Loss for the period has been arrived at after charging:		
Depreciation of property, plant and equipment	1,147	1,568
Depreciation of right-of-use assets	760	553
Amortisation of intangible assets (included in cost of sales)	884	911
Amortisation of prepayment for a distribution right (included in cost of sales)	1,769	1,822
Operating lease expenses in respect of short term leases	–	238
Cost of inventories recognised as an expense	61,914	44,321

8. DIVIDENDS

The Board does not recommend the payment of any interim dividend for the Period (six months ended 30 June 2019: nil).

9. LOSS PER SHARE

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

	Six months ended 30 June	
	2020 (Unaudited) HK\$'000	2019 (Unaudited) HK\$'000
Loss		
Loss for the period attributable to owners of the Company for the purpose of basic and diluted loss per share	(36,434)	(7,798)
Number of shares		
Weighted average number of ordinary shares for the purpose of basic and diluted loss per share	1,671,846,657	1,671,846,657

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

10. PROPERTY, PLANT AND EQUIPMENT, RIGHT-OF-USE ASSETS AND LEASE LIABILITIES

During the Period, the Group acquired property, plant and equipment of approximately HK\$76,000 (six months ended 30 June 2019: approximately HK\$13,000).

During the Period, the Group disposed of certain plant and machinery with an aggregate carrying amount of approximately HK\$31,000 (six months ended 30 June 2019: nil) for selling proceeds of approximately HK\$32,000 (six months ended 30 June 2019: nil).

During the Period, the Group entered into two new lease agreements with lease terms of 2 years. On lease commencement, the Group recognised right-of-use assets of approximately HK\$997,000 (six months ended 30 June 2019: approximately HK\$606,000) and lease liabilities of approximately HK\$997,000 (six months ended 30 June 2019: approximately HK\$606,000).

11. EQUITY INSTRUMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

Equity instruments at FVTOCI comprise:

	As at 30 June 2020 (Unaudited) HK\$'000	As at 31 December 2019 (Audited) HK\$'000
Listed investments:		
– Equity securities listed in Hong Kong	19,421	18,925
Unlisted investments:		
– Equity securities	100,341	118,694
Total	119,762	137,619
Analysed for reporting purposes as:		
Non-current assets	119,762	137,619

Details of the fair value of equity instruments at FVTOCI are disclosed in note 18 to the condensed consolidated financial statements.

12. INTERESTS IN ASSOCIATES

	As at 30 June 2020 (Unaudited) HK\$'000	As at 31 December 2019 (Audited) HK\$'000
Cost of unlisted investments in associates	118,631	118,631
Share of post-acquisition profit and other comprehensive income	45,099	45,680
Exchange difference arising on translation	(13,834)	(11,952)
	149,896	152,359
Impairment loss	(42,745)	(20,914)
	107,151	131,445

As at 30 June 2020 and 31 December 2019, the interests in associates represented 20% equity interest in Sea Star International Limited ("Sea Star"), a company incorporated in the British Virgin Islands ("BVI") in March 2015 and 50% 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 investee companies, but did not have control or joint control over those policies. Accordingly, Sea Star and Saike International were regarded as associates of the Group as at 30 June 2020 and 31 December 2019.

12. INTERESTS IN ASSOCIATES (Continued)

Details of the Group's associates as at 30 June 2020 and 31 December 2019 are as follows:

Name	Place of incorporation	Proportion of ownership held by the Group		Principal activities
		As at 30 June 2020	As at 31 December 2019	
Sea Star (note a)	the BVI	20%	20%	Inactive
Saike International (note b)	the BVI	50%	50%	Trading of medical devices and equipment and medical consumables in the PRC

Notes:

- (a) On 11 December 2014, Brilliant Dream Holding Limited ("Brilliant Dream"), an indirect wholly-owned subsidiary of the Company and Sharp Shine International Limited ("Sharp Shine"), an indirect wholly-owned subsidiary of Town Health International Medical Group Limited ("Town Health"), 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 the proposed business. As at 30 June 2020, the carrying amount of the Group's interest in Sea Star was nil (31 December 2019: nil). As at 30 June 2020 and 31 December 2019, there was no shareholders' loan made to Sea Star.
- (b) On 20 March 2015, Major Bright Holdings Limited ("Major Bright"), a wholly-owned subsidiary of the Company, and Ms. Zhao Lei as vendor entered into a sale and purchase agreement ("S&P Agreement") in respect of the acquisition of 50% equity interest in Saike International at an aggregate consideration of RMB95,000,000 (equivalent to approximately HK\$118,631,000) ("Saike Acquisition"). Saike International and its subsidiaries (the "Saike Group") are principally engaged in the trading of medical devices and equipment and medical consumables in the PRC.

As at 30 June 2020 and 31 December 2019, although the Group held 50% equity interest in 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 votes. Therefore, in the opinion of the Directors of the Company, the Group has significant influence over Saike International.

During the period ended 30 June 2020 and 31 December 2019, the Directors of the Company reviewed the carrying amounts of the Group's associates. The carrying amounts of the Group's interests in each of the associates were tested for impairment in accordance with HKAS36 "Impairment of assets" as a single asset by comparing their recoverable amounts with their respective carrying amounts.

12. INTERESTS IN ASSOCIATES (Continued)

Notes: (Continued)

(b) (Continued)

The recoverable amount of the cash generating unit of Saike International (the "Unit") has been determined based on value in use calculation. That calculation uses cash flow projections based on financial budgets approved by management covering a 5-year (2019: 5-year) period, and discount rate of 18.82% (2019: 18.49%). 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 amount of the Unit as at 30 June 2020 was lower when compared with its carrying amount as at 30 June 2020, impairment loss in respect of the Group's interest in Saike International amounting to approximately HK\$22,235,000 (six months ended 30 June 2019: nil) was recognised during the Period.

13. INVENTORIES

	As at 30 June 2020 (Unaudited) HK\$'000	As at 31 December 2019 (Audited) HK\$'000
Finished goods	9,168	793

14. TRADE AND OTHER RECEIVABLES

	As at 30 June 2020 (Unaudited) HK\$'000	As at 31 December 2019 (Audited) HK\$'000
Trade receivables	42,245	46,439
Less: allowance for credit loss	(7,651)	(4,918)
Trade receivables (net of allowance for credit loss)	34,594	41,521
Other prepayments	343	559
Other deposits	393	399
Prepayments to suppliers	30,383	76,894
Deposits paid to suppliers (net of allowance for credit loss)	146,528	134,458
Value-added tax recoverable	2,196	–
Others	477	236
	214,914	254,067
Less: Non-current portion	(45,667)	(46,567)
Current portion	169,247	207,500

14. TRADE AND OTHER RECEIVABLES (Continued)

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

	As at 30 June 2020 (Unaudited) HK\$'000	As at 31 December 2019 (Audited) HK\$'000
Trade receivables:		
0 – 30 days	4,423	4,934
31 – 60 days	4,017	1,973
61 – 90 days	2,480	4,566
91 – 180 days	193	982
181 – 365 days	125	10,633
Over 365 days	23,356	18,433
	34,594	41,521

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

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

Included in the Group's deposits paid to suppliers balance with aggregate gross carrying amount of approximately HK\$150,420,000 (31 December 2019: approximately HK\$138,427,000) and the Group has provided for impairment loss of approximately HK\$3,892,000 (31 December 2019: approximately HK\$3,969,000) as at 30 June 2020.

15. TRADE AND OTHER PAYABLES

	As at 30 June 2020 (Unaudited) HK\$'000	As at 31 December 2019 (Audited) HK\$'000
Trade payables	–	2,522
Deposits received from customers	1,336	1,362
Contract liabilities	2,492	2,489
Value-added tax payable	–	1,625
Other tax payables	–	181
Accruals	5,328	4,813
	9,156	12,992

The following is an ageing analysis of trade payables presented based on the invoice dates at the end of the reporting periods:

	As at 30 June 2020 (Unaudited) HK\$'000	As at 31 December 2019 (Audited) HK\$'000
0 – 30 days	–	2,522

The credit period on purchase of goods ranges from 30 to 60 days. For certain suppliers, the Group is required to make prepayments and/or pay deposits to the suppliers based on the supplier agreements for purchase of goods. Details of the amounts of prepayments to suppliers and deposits paid to suppliers are set out in note 14 to the condensed consolidated financial statements.

16. SHARE CAPITAL

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

Ordinary shares

	Number of shares	Amount
	'000	HK\$'000
Authorised:		
At 1 January 2019, 30 June 2019, 31 December 2019 and 30 June 2020	3,000,000	150,000

Issued and fully paid:

At 1 January 2019, 30 June 2019, 31 December 2019 and 30 June 2020	1,671,847	83,592
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17. PLEDGE OF ASSETS

As at 30 June 2020, the Group had pledged the buildings and right-of-use assets with an aggregate carrying amount of approximately HK\$8,850,000 (31 December 2019: approximately HK\$9,347,000) to secure general banking facilities granted to the Group.

18. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS

a. 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.

- i. Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active market for identical assets or liabilities;
- ii. 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
- iii. 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).

18. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS (Continued)

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

Financial asset	Fair value as at		Fair value hierarchy	Valuation technique(s)	Significant unobservable input(s)	Range (weighted average)
	30 June 2020 (Unaudited) HK\$'000	31 December 2019 (Audited) HK\$'000				
Equity instruments at FVTOCI listed in Hong Kong	2,297	1,861	Level 1	Quoted bid prices in an active market	N/A	N/A
Club debenture	547	558	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	17,124	17,064	Level 3	Market approach (note i)	EV/EBITDA multiple P/S multiple Discount for lack of marketability	5.03–11.81 (8.97) (2019: 5.45–16.95 (11.44)) 0.40–1.20 (0.66) (2019: 0.48–1.26 (0.79)) 30%–50% (40%) (2019: 30%–50% (40%))
Equity instrument at FVTOCI for unlisted investment	74,301	–	Level 3	Market approach (note ii)	P/E multiple Discount for lack of marketability	10.12–19.80 (14.20) 25.97%–28.47% (27.22%)
				(2019: Discounted cash flow model)	Discount rate Terminal growth rate	(2019: 15.19%) (2019: 3%)
Equity instrument at FVTOCI for unlisted investment	26,040	118,694	Level 3	Discounted cash flow model	Discount rate Terminal growth rate	13.03% (2019: 12.58%) 2.54% (2019: 2.54%)

Notes:

- The fair value of investments in suspended listed equity securities which have not resumed trading subsequent to the end of the Period, for which there is an absence of quoted prices, were estimated as at the end of the Period by independent valuer by using the market approach.
- There is change in valuation technique on measuring the fair value of this investment from discounted cash flow model to market approach during the period ended 30 June 2020 because the management consider the measurement is more representative of fair value in the circumstances. The management has assessed the fair value of this investment as at 31 December 2019 by adoption of market approach, which is approximate to the fair value deriving from discounted cash flow model.

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

During the Period, there was no transfer between Level 1 and Level 2 and no transfer into or out of Level 3 fair value measurement.

b. 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 condensed consolidated financial statements are approximate at their fair values.

MANAGEMENT DISCUSSION AND ANALYSIS

The Group is an established pharmaceutical distributor originated from Zhejiang province headquartered in Hangzhou, Zhejiang province. The Group is principally engaged in the distribution and trading of pharmaceutical products and the provision of marketing and promotion services in the PRC, with a focus in Zhejiang province. The Group procures pharmaceutical products throughout the PRC and sells pharmaceutical products and provides marketing and promotion services through a network of customers spreading over different regions in the PRC, including Zhejiang province, Shanxi province, Hubei province, Hebei province, Hunan province and Guangdong province.

Overview

Covid-19, a new coronavirus, has first been detected in late 2019 and has widely spread across the PRC 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 various 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 precautionary measures of the PRC government to tackle the coronavirus outbreak discourage large-scale gatherings and functions and confine citizens to their homes, the Group's business, in particular, the provision of marketing and promotion services, has been impacted during the Period.

Despite the above unfavourable market condition, the total revenue of the Group was approximately HK\$69,470,000, representing an increase of approximately 25.1% as compared to that for the corresponding period in 2019. The increase in revenue was mainly attributable to the resumption of the production and sales of the Group's major product under the second generation of Cephalosporins (二代頭孢產品) ("Product") (1.0g) since September 2019 after the temporary suspension of the production and sales of the Product (1.0g) in 2019. As at 30 June 2020 and the date of this interim report, the production and sales of the Product (0.5g) remained suspended. The Group puts effort to relaunch the Product (1.0g) on the market and the sales performance of the Product (1.0g) has been improving steadily. However, the Group incurred more losses for the Period, which was approximately HK\$36,434,000, as compared with the loss attributable to owners of the Company of approximately HK\$7,798,000 for the six months ended 30 June 2019. The loss of the Group for the Period was primarily due to (i) the decrease in the gross profit due to the decrease in the average selling price of the Product (1.0g) under the newly implemented centralised drug procurement policy in some regions in the PRC; (ii) the slowdown in trading activities and business operations of the Group due to the outbreak of the Covid-19 pandemic in 2020; (iii) the decrease in share of profit of associates as a result of the slowdown in the trading activities due to the outbreak of the Covid-19 pandemic in 2020; (iv) the recognition of impairment losses in respect of the Group's interest in Saike International, an associate of the Group, of approximately HK\$22,235,000 for the Period (six months ended 30 June 2019: nil); and (v) the recognition of an expected credit loss allowance of approximately HK\$2,855,000 on the Group's trade and other receivables for the Period (six months ended 30 June 2019: nil).

Business review

During the Period, 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.

Revenue and segment information

The table below sets out the revenue of the Group (by business segment) for the six months ended 30 June 2020 and 2019 respectively.

		Revenue contributed by each business segment for the six months ended 30 June			
		2020 (Unaudited)		2019 (Unaudited)	
		HK\$'000	%	HK\$'000	%
(1)	Distribution and trading of pharmaceutical products	67,615	97.3	53,692	96.7
(2)	Provision of marketing and promotion services	1,855	2.7	1,819	3.3
Total		69,470	100.0	55,511	100.0

(1) *Distribution and trading of pharmaceutical products*

This segment generated a revenue of approximately HK\$67,615,000 for the Period (six months ended 30 June 2019: approximately HK\$53,692,000), representing an increase of approximately 25.9% as compared to that for the corresponding period in 2019. The increase in revenue was primarily attributable to the resumption of the production and sales of the Product (1.0g) since September 2019 after the temporary suspension of the production and sales of the Product (1.0g) in 2019. Despite the improvement of sales performance of the Product (1.0g) during the Period, the business of this segment was affected by the slowdown in trading activities and business operations of the Group due to the outbreak of the Covid-19 pandemic in 2020 and the decrease in the average selling price of the Product (1.0g) under the newly implemented centralised drug procurement policy in some regions in the PRC.

(2) *Provision of marketing and promotion services*

This segment generated a revenue of approximately HK\$1,855,000 for the Period (six months ended 30 June 2019: approximately HK\$1,819,000). Under the implementation of the "Two-Invoice" System (兩票制) in the PRC since 2017, the Group started to develop its business of the provision of marketing and promotion services in respect of pharmaceutical products in the PRC. The Group's marketing and promotion model involves formulating marketing and promotion strategies and conducting academic promotion programs of the Group's products in return for service income from the suppliers. The revenue of the Group generated from this segment was stable for the Period as compared to that for the corresponding period in 2019.

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, the aging population, urbanisation, increase in chronic diseases and household income and the wider coverage of medical insurance in the PRC will drive the demand for medical treatments and use of drugs. The Group believes that the pharmaceutical industry will be fueled with new opportunities and momentum for growth in the long term.

Continue to diversify the existing product portfolio

During the Period, the Group obtained the distribution rights of recombinant cytokine gene derived protein injection products (重組細胞因子基因衍生蛋白注射液產品) in Zhejiang province. These products are expected to be launched in the market by the end of 2020. The Group will seek to acquire distribution rights of new products to enhance its product portfolio. Looking ahead to the second half of 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.

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.

To focus on our core business

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.

Financial review

Revenue

The total revenue for the Period was approximately HK\$69,470,000, representing an increase of approximately 25.1% from approximately HK\$55,511,000 for the six months ended 30 June 2019. The increase in revenue from the distribution and trading of pharmaceutical products was primarily attributable to the resumption of the production and sales of the Product (1.0g) since September 2019 after the temporary suspension of the production and sales of the Product (1.0g) in 2019. Despite the improvement of sales performance of the Product (1.0g) during the Period, the business of this segment was affected by the slowdown in trading activities and business operations of the Group due to the outbreak of the Covid-19 pandemic in 2020 and the decrease in the average selling price of the Product (1.0g) under the newly implemented centralised drug procurement policy in some regions in the PRC. The revenue of the Group generated from the provision of marketing and promotion services was stable for the Period as compared to that for the corresponding period in 2019.

Cost of sales

The cost of sales for the Period was approximately HK\$64,567,000, representing an increase of approximately 32.6% from approximately HK\$48,678,000 for the six months ended 30 June 2019. The increase in cost of sales was mainly due to the increase in sales volume of the Product (1.0g) during the Period.

Gross profit and gross profit margin

Gross profit decreased by approximately HK\$1,930,000, or approximately 28.2%, from approximately HK\$6,833,000 for the six months ended 30 June 2019 to approximately HK\$4,903,000 for the Period mainly due to the decrease in average selling price of the Product (1.0g) under the newly implemented centralised drug procurement policy in some regions in the PRC. The Group's gross profit margin for the Period was approximately 7.1%, which has decreased by 5.2 percentage points when compared to corresponding period in 2019.

Other income, gains and losses

The net other losses for the Period were approximately HK\$1,512,000 (six months ended 30 June 2019: net other gains of approximately HK\$405,000). Such change was primarily attributable to (i) the increase in net exchange loss to approximately HK\$2,556,000 recorded for the Period (six months ended 30 June 2019: approximately HK\$1,271,000); and (ii) the decrease in bank interest income to approximately HK\$740,000 (six months ended 30 June 2019: approximately HK\$1,595,000).

Selling and distribution expenses

Selling and distribution expenses for the Period were approximately HK\$4,845,000, representing a decrease of approximately 5.9% from approximately HK\$5,149,000 for the six months ended 30 June 2019. The decrease in selling and distribution expenses was primarily attributable to the effective implementation of the Group's cost control measures during the Period.

Administrative expenses

Administrative expenses for the Period were approximately HK\$10,526,000, representing a decrease of approximately 18.7% from approximately HK\$12,948,000 for the six months ended 30 June 2019. 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 Acquisitions during the Period and the decrease in salary expenses under the implementation of the Group's cost control measures during the Period.

Share of profit of associates

Share of profit of associates was approximately HK\$488,000 for the Period which was contributed by Saike International, representing a decrease of approximately 86.3% from approximately HK\$3,573,000 for the six months ended 30 June 2019. The decrease in share of profit of associates was mainly due to the significant decline in sales of the medical health screening and surgery equipment and medical consumables as a result of the slowdown in the trading activities of Saike International due to the outbreak of the Covid-19 pandemic in 2020.

Income tax expense

Income tax expense for the Period was zero (six months ended 30 June 2019: approximately HK\$504,000). The decrease was primarily due to the decrease in taxable income for tax purposes.

Loss for the Period

Loss for the Period was approximately HK\$36,434,000, representing an increase of approximately 367.2% from approximately HK\$7,798,000 for the corresponding period in 2019.

The Group incurred more losses for the Period primarily due to (i) the decrease in the gross profit due to the decrease in the average selling price of the Product (1.0g) under the newly implemented centralised drug procurement policy in some regions in the PRC; (ii) the slowdown in trading activities and business operations of the Group due to the outbreak of the Covid-19 pandemic in 2020; (iii) the decrease in share of profit of associates as a result of the slowdown in the trading activities due to the outbreak of the Covid-19 pandemic in 2020; (iv) the recognition of impairment losses in respect of the Group's interest in Saike International, an associate of the Group, of approximately HK\$22,235,000 for the Period (six months ended 30 June 2019: nil); and (v) the recognition of an expected credit loss allowance of approximately HK\$2,855,000 on the Group's trade and other receivables for the Period (six months ended 30 June 2019: nil).

Liquidity and financial resources

The Group manages its capital to ensure that the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance.

The Group maintained a healthy liquidity position during the Period. During the Period, the operations of the Group were principally financed by internal resources.

As at 30 June 2020, the Group had net cash and cash equivalents amounting to approximately HK\$101,334,000 (31 December 2019: approximately HK\$88,668,000), among which approximately 70% (31 December 2019: approximately 44%) were denominated in Hong Kong dollars and approximately 30% (31 December 2019: approximately 56%) were denominated in Renminbi. The Group did not have any bank loan as at 30 June 2020 and 31 December 2019. The Group had a gearing ratio (defined as total bank and other borrowings divided by total equity) of zero as at 30 June 2020 (31 December 2019: zero).

Contingent liabilities

As at 30 June 2020, the Group had no material contingent liabilities.

Material investments, acquisitions and disposals

The Group did not make any material investments, acquisitions or disposals during the Period.

Investment in Saike International

As at 30 June 2020, 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 Period was approximately HK\$488,000 (six months ended 30 June 2019: approximately HK\$3,573,000).

Saike International and its subsidiaries are principally engaged in the trading of medical devices and equipment and medical consumables in the PRC. The Group carried out an impairment review on Saike International by comparing the recoverable amount of the Group's interest in Saike International with its carrying amount as at 30 June 2020. In view of the decrease in the consolidated net profit of Saike International, the weakened PRC economic condition due to the outbreak of the Covid-19 pandemic in 2020 and the significant decline in sales of the medical health screening and surgery equipment and medical consumables as a result thereof during the Period, 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 less than its carrying amount as at 30 June 2020. Hence, an impairment loss of approximately HK\$22,235,000 on the Group's interest in Saike International was recognised during the Period. The Group will continue to monitor the performance of the Saike Group cautiously.

Capital structure

There has been no change in the capital structure of the Company during the Period. The capital of the Company comprises one class of ordinary shares.

Pledge of assets

As at 30 June 2020, the Group pledged the buildings and right-of-use assets with an aggregate carrying amount of approximately HK\$8,850,000 (31 December 2019: approximately HK\$9,347,000) to secure general banking facilities granted to the Group.

Equity instruments at FVTOCI

The Group's equity instruments at FVTOCI include (i) equity instruments at FVTOCI listed in Hong Kong under suspension; (ii) equity instruments at FVTOCI listed in Hong Kong which have been determined based on the quoted market prices available on the Stock Exchange, except for 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 BVI with limited liability and stated at fair value based on valuations prepared by independent valuers.

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

As at 30 June 2020, the Group's securities investment in the shares of Town Health ("TH Shares") (a company whose shares are listed on the Main Board of the Stock Exchange with Stock Code: 3886) had a fair value of approximately HK\$17.1 million. On 27 November 2017, the SFC had, pursuant to Section 8(1) of the Securities and Futures (Stock Market Listing) Rules (Cap. 571V, the Laws of Hong Kong), directed the Stock Exchange to suspend trading in the TH Shares with effect from 9:00 a.m. on 27 November 2017 as it appeared to the SFC that, among other things, Town Health's interim report for the six months ended 30 June 2016 published on 7 September 2016 and Town Health's annual report for the year ended 31 December 2016 published on 27 April 2017 included materially false, incomplete or misleading information. As at the date of this interim report, the trading of the TH Shares remained suspended. The Group engaged an independent valuer to conduct a valuation on the fair value of the Group's investment in the TH Shares as at 30 June 2020. 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 for lack of marketability. As at 30 June 2020 and the date of this interim report, the Group held 120,000,000 TH Shares, representing approximately 1.59% of the then total issued share capital of Town Health. The Group recognised a fair value gain on its investment in the TH Shares of approximately HK\$0.1 million for the Period. Based on the 2019 annual report of Town Health, Town Health aims to build a prestigious healthcare brand in Hong Kong as well as in Mainland China and generate greater returns for investors and shareholders.

(ii) Equity instruments at FVTOCI listed in Hong Kong

As at 30 June 2020, the Group's securities investment listed in Hong Kong (other than the TH Shares) had a fair value of approximately HK\$2.3 million.

During the Period, the Group did not dispose of any equity securities listed in Hong Kong. Besides, due to an increase in the fair value of certain listed securities investments, a fair value gain of approximately HK\$0.4 million was recognised under the FVTOCI (non-recycling reserve) during the Period. The Group will continue to monitor its investments cautiously in view of recent uncertain market conditions.

(iii) Equity instruments at FVTOCI for unlisted investments

HCMPHS Healthcare Holdings Limited ("HCMPHS")

As at 30 June 2020, the Group held approximately 14% equity interest in HCMPHS (formerly known as C&C International Healthcare Group Limited) with an investment amount of approximately HK\$69.2 million and a fair value of approximately HK\$26.0 million. As at 30 June 2020, the fair value of the Group's investment in HCMPHS accounted for approximately 4.2% of the Group's total assets. A fair value loss on the Group's investment in HCMPHS of approximately HK\$16.0 million has been recognised in other comprehensive expense for the Period. No dividend income was received from HCMPHS for the Period.

HCMPHS and its subsidiaries are principally engaged in the provision of contracted medical schemes and medical services. Based on the latest unaudited consolidated financial statements of HCMPHS for the three months ended 31 March 2020, it recorded an unaudited consolidated profit of approximately HK\$1.4 million. The social unrest and the outbreak of the Covid-19 pandemic have exerted pressure on the Hong Kong healthcare business. However, the aging population and the increasing demand for corporate medical solutions services in Hong Kong are favourable to the continuing development of HCMPHS' business in the long term.

WinHealth International

As at 30 June 2020, the Group held approximately 8.11% equity interest in WinHealth International with an investment amount of approximately RMB47.25 million (equivalent to approximately HK\$53.4 million) and a fair value of approximately RMB67.9 million (equivalent to approximately HK\$74.3 million). As at 30 June 2020, the fair value of the Group's investment in WinHealth International accounted for approximately 12.1% of the Group's total assets. A fair value loss on the Group's investment in WinHealth International of approximately HK\$2.4 million has been recognised in other comprehensive expense for the Period. No dividend income was received from WinHealth International for the Period.

WinHealth International and its subsidiaries are principally engaged in the distribution of pharmaceutical products in the PRC and have an extensive distribution network through possessing distribution rights of various imported prescription drugs in the PRC. Based on the latest unaudited consolidated financial statements of WinHealth International for the five months ended 31 May 2020, it recorded an unaudited consolidated profit of approximately RMB24.3 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.

The Group's interest in WinHealth International was diluted from approximately 9.63% as at 31 December 2019 to approximately 8.11% upon the completion of the allotment and issue of new shares of WinHealth International to third parties on 2 April 2020.

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.

Future plans for material investments

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.

Employee information

As at 30 June 2020, the Group had 33 employees (31 December 2019: 35). Staff costs, including Directors' emolument for the Period, amounted to approximately HK\$4,210,000 (six months ended 30 June 2019: approximately HK\$6,525,000). The Group's remuneration policy is based on positions, duties and performance of the employees. The employees' remuneration varies according to their positions, which include salaries, overtime allowances, bonuses and/or various subsidies. The Group offers comprehensive and competitive remuneration and benefits packages to all its employees. In addition, the Group has adopted a share option scheme for the purpose of providing incentives and rewards to eligible persons who contribute to the success of the Group's operations.

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

Foreign currency risk

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

Suspension of trading in shares of the Company

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

The Company is also seeking legal advice to address and resolve the SFC's concerns with the aim of resuming trading in the shares of the Company. The Company intends to make further submission to the SFC in relation to its application for resumption of trading of the shares of the Company. 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 of the Company as soon as practicable.

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 interim 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, 31 January 2020, 29 April 2020 and 31 July 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.

Net proceeds from Rights Issue

On 9 December 2016, the Company announced to raise approximately HK\$343.6 million before expenses on the basis of three rights shares (“Rights Shares”) for every one existing share in issue held on the record date at the subscription price of HK\$0.275 per Rights Share by way of the rights issue of 1,249,344,000 ordinary shares (“Rights Issue”). The completion of the Rights Issue took place on 6 March 2017 and the net proceeds after deduction of expenses from the Rights Issue were approximately HK\$330.0 million. Details of the Rights Issue are disclosed 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 30 June 2020 was as follows:

Intended use of proceeds

Actual use of proceeds as at 30 June 2020

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

Intended use of proceeds

- (4) approximately HK\$17.0 million for the repayment of the Group's bank borrowings in the PRC
- (5) approximately HK\$40.0 million for expanding the product range of imported prescription drugs
- (6) approximately HK\$8.0 million 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")

Actual use of proceeds as at 30 June 2020

- approximately HK\$17.0 million has been utilised for the repayment of the bank borrowing of a subsidiary of the Company in the PRC
- approximately HK\$40.0 million has been utilised for the payment of the distribution right of an imported prescription tablet drug in the PRC
- approximately HK\$8.0 million has been utilised for improving marketing, sales and promotional capabilities
- 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 Period, the Company did not use any net proceeds from the Rights Issue. As at 30 June 2020, the total unutilised proceeds were approximately HK\$39.6 million. The unutilised 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 interim 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.

OTHER INFORMATION

Directors’ and chief executive’s interests and short positions in shares, underlying shares and debentures

As at 30 June 2020, none of the Directors and chief executive of the Company had any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (“SFO”) (Chapter 571, the Laws of Hong Kong)) as recorded in the register required to be kept by the Company under section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (“Model Code”).

Substantial shareholders’ interests and short positions in shares and underlying shares

As at 30 June 2020, the following persons (other than the Directors and chief executive of the Company) had interests or short positions in the shares or underlying shares of the Company as recorded in the register required to be kept by the Company pursuant to section 336 of the SFO.

Interest in shares and underlying shares of the Company

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

Note 1: The total number of 1,671,846,657 shares of the Company in issue as at 30 June 2020 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% and 35% 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 30 June 2020, no person (other than the Directors and chief executive of the Company) had any interests or short positions in the shares or underlying shares of the Company as recorded in the register required to be kept by the Company under section 336 of the SFO.

Share option scheme

The Company adopted a share option scheme ("Scheme") on 25 October 2013 to provide the Company with a flexible means of giving incentive to rewarding, remunerating, compensating and/or providing benefits to eligible persons and for such other purposes as the Board may approve from time to time. The Scheme is implemented in compliance with the requirements of Chapter 17 of the Listing Rules. No share option was granted, exercised, lapsed or cancelled under the Scheme during the Period. There was no outstanding share option under the Scheme as at 30 June 2020.

Directors' rights to acquire company's shares or debentures

At no time during the Period was the Company or any of its subsidiaries a party to any arrangement to enable the Directors or chief executive of the Company or their spouse or children under 18 years of age to acquire benefits by means of acquisition of shares in, or debentures of, the Company or any other body corporate.

Compliance with corporate governance code

The Company adopted its own code of corporate governance based on the principles and the code provisions as set out in the Corporate Governance Code contained in Appendix 14 to the Listing Rules (“CG Code”).

The Company had complied with the CG Code to the extent applicable and permissible to the Company during the Period.

Model code for securities transactions by directors

The Company has adopted the Model Code contained in Appendix 10 to the Listing Rules as the code of conduct regarding the Directors’ securities transactions. Having made specific enquiry of all Directors, all Directors have confirmed that they have complied with the required standard set out in the Model Code throughout the Period.

Purchase, sale or redemption of the Company’s listed securities

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

Audit committee

The primary duties of the audit committee of the Board (“Audit Committee”) are to review the Company’s financial statements, accounts and interim and annual results and to provide advice and comments thereon to the Board. The Audit Committee is also responsible for reviewing and supervising the Group’s financial reporting, risk management and internal control procedures.

The Audit Committee comprises three independent non-executive Directors, namely, Ms. Li Sin Ming, Ivy, Mr. Leung Chi Kin and Mr. Sy Lai Yin, Sunny. Ms. Li Sin Ming, Ivy is the chairman of the Audit Committee.

Review of Interim Results

The Audit Committee has reviewed the unaudited condensed consolidated financial statements of the Group for the Period and this interim report. Moore Stephens CPA Limited, as the Company’s auditor, has reviewed the condensed consolidated financial statements of the Group for the Period in accordance with HKSRE 2410 issued by the HKICPA.

On behalf of the Board

New Ray Medicine International Holding Limited

Liu Yang

Chairman & Executive Director

Hong Kong, 27 August 2020