



## ANNUAL REPORT 2015

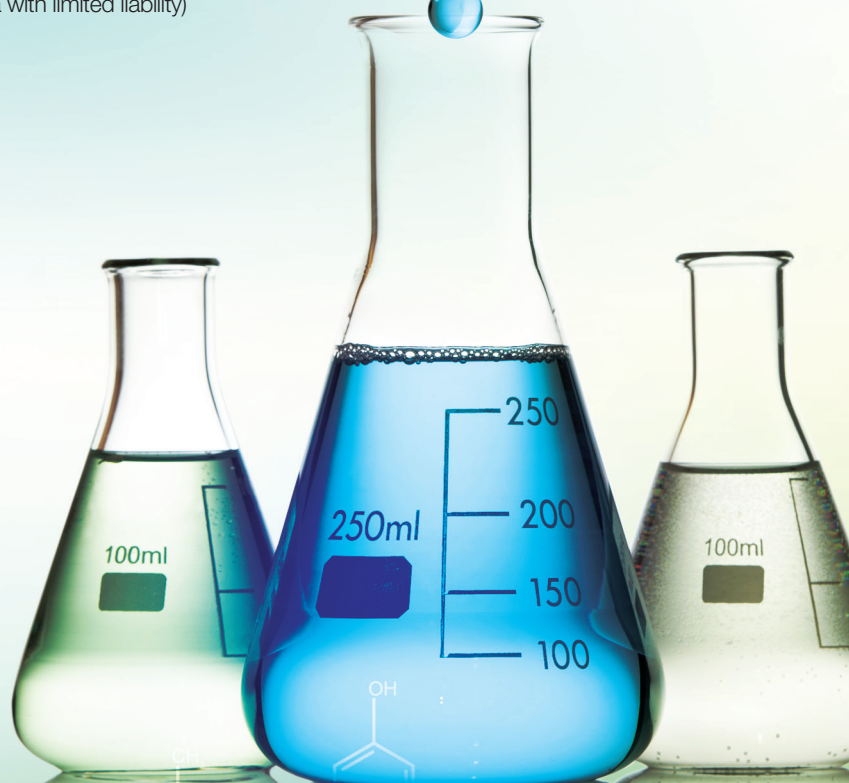


Rui Kang Pharmaceutical Group Investments Limited

銳康藥業集團投資有限公司

(Incorporated in the Cayman Islands and continued in Bermuda with limited liability)

Stock Code: 8037



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*This report, for which the directors ("**Directors**") of Rui Kang Pharmaceutical Group Investments Limited ("**Company**") collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the GEM ("**GEM Listing Rules**") for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief the information contained in this report is accurate and complete in all material respects and not misleading or deceptive; and there are no other matters the omission of which would make any statement herein or this report misleading.*



## CONTENTS

|            |   |
|------------|---|
| <b>2</b>   | Corporate Information   |
| <b>3</b>   | Chairman's Statement  |
| <b>6</b>   | Management Discussion and Analysis                                      |
| <b>16</b>  | Biographical Details of Directors and Senior Management                 |
| <b>19</b>  | Corporate Governance Report   |
| <b>29</b>  | Environmental, Social and Governance Report                             |
| <b>36</b>  | Directors' Report   |
| <b>46</b>  | Independent Auditor's Report  |
| <b>48</b>  | Consolidated Statement of Profit or Loss and Other Comprehensive Income |
| <b>50</b>  | Consolidated Statement of Financial Position                            |
| <b>51</b>  | Consolidated Statement of Changes in Equity                             |
| <b>52</b>  | Consolidated Statement of Cash Flows                                    |
| <b>54</b>  | Notes to the Consolidated Financial Statements                          |
| <b>133</b> | Financial Summary   |

## CORPORATE INFORMATION



### EXECUTIVE DIRECTORS

Mr. Cheung Hung (*Chairman*)  
Mr. Leung Pak Hou Anson  
Ms. Chen Miaoping (*Chief Executive Officer*)

### INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Ho Fung Shan Bob  
Mr. Leung Ka Fai  
Mr. Yuen Chun Fai

### AUDIT COMMITTEE

Mr. Yuen Chun Fai (*Committee Chairman*)  
Mr. Ho Fung Shan Bob  
Mr. Leung Ka Fai

### NOMINATION COMMITTEE

Mr. Cheung Hung (*Committee Chairman*)  
Mr. Ho Fung Shan Bob  
Mr. Leung Ka Fai  
Mr. Yuen Chun Fai

### REMUNERATION COMMITTEE

Mr. Yuen Chun Fai (*Committee Chairman*)  
Mr. Ho Fung Shan Bob  
Mr. Leung Ka Fai  
Mr. Leung Pak Hou Anson

### COMPLIANCE OFFICER

Mr. Leung Pak Hou Anson

### COMPANY SECRETARY

Mr. Lei Kin Keong, *HKICPA*

### AUTHORISED REPRESENTATIVES

Mr. Leung Pak Hou Anson  
Mr. Lei Kin Keong

### AUDITOR

Cheng & Cheng Limited  
Certified Public Accountants  
10/F., Allied Kajima Building  
138 Gloucester Road  
Wan Chai  
Hong Kong

### REGISTERED OFFICE

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2 Church Street  
Hamilton HM 11  
Bermuda

### HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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Kowloon  
Hong Kong

### PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Codar Services Limited  
Clarendon House  
2 Church Street  
Hamilton HM 11  
Bermuda

### HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Union Registrars Limited  
A18/F., Asia Orient Tower  
Town Place  
33 Lockhart Road  
Wan Chai  
Hong Kong

### PRINCIPAL BANKERS

Bank of Guiyang Co. Ltd.  
Bank of Suzhou Co., Ltd.  
Bank of China (Hong Kong) Limited  
Dah Sing Bank, Limited  
Hang Seng Bank Limited  
The Hongkong and Shanghai Banking Corporation Limited  
Shanghai Commercial Bank Limited

### COMPANY WEBSITE

[www.ruikang.com.hk](http://www.ruikang.com.hk)

### STOCK CODE

8037

# CHAIRMAN'S STATEMENT



Dear Shareholders,

On behalf of Rui Kang Pharmaceutical Group Investments Limited ("**Company**") and its subsidiaries (collectively, the "**Group**"), I am pleased to present the annual report and the audited consolidated financial statements of the Group for the year ended 31 December 2015 ("**2015 Year**") to the shareholders of the Company.

## FINANCIAL RESULTS

The Group recorded a loss from continuing and discontinued operations of approximately HK\$67,760,000 for the 2015 Year (year ended 31 December 2014 ("**2014 Year**"): HK\$82,946,000). The Group's consolidated loss from continuing and discontinued operations attributable to owners of the Company for the 2015 Year amounted to approximately HK\$62,269,000 (2014 Year: HK\$82,929,000).

## DIVIDEND

The Directors do not recommend the payment of a dividend for the 2015 Year (2014 Year: HK\$Nil).

## REVIEW OF OPERATIONS

### Continuing operations

The 2015 Year marked a milestone in the Group's expansion of business through (i) products expansion and (ii) diversification of healthcare related segments through acquisitions. The Group is actively exploring opportunities to extend its business activities in (i) healthcare related segments including the provision of molecular genetic testing and medical diagnostic testing services and (ii) money lending business in Hong Kong. The Group has acquired high-end equipment and has employed experts specialised in molecular genetic testing to establish a molecular laboratory which commenced operation in October 2015.

In order to strengthen the health related and pharmaceutical business of the Group, the Group had acquired companies engaging in the provision of medical laboratories testing services and healthcare maintenance service. The Group completed (i) the acquisition of a medical diagnostic testing services laboratory and (ii) the acquisition of DVF Holdco (Cayman) Limited and its subsidiaries, DVF Holdco Limited, PHC Medical Diagnostic Centre Limited, Premier MediCare Services Limited, Victory Medical Laboratory Limited, PHC Veterinary Laboratory Development Limited (collectively, the "**DVF Group**") which are engaged in the provision of medical laboratory testing services and health check services in Hong Kong on 2 October 2015 and 16 December 2015, respectively. The acquisitions allowed the Group to capture a larger market of a different market segment, which further extend the downstream sector of the Group's healthcare related business include analysis of blood, body fluid, excretion sample, radiology and imaging services. The acquisitions will provide synergistic effect to the Group's existing business by leveraging its expertise and enlarging its customer base, broadening its income source alongside with developing its existing businesses. The Directors believe that the acquisitions and establishment of the molecular laboratories take a giant step forward towards a more comprehensive development in the Group's healthcare related business. Given the increase of aging population and healthcare demand in Hong Kong, the acquisition and establishment of molecular laboratories will give positive financial effect of the Group.



## CHAIRMAN'S STATEMENT



### Discontinued operation

The discontinued operation represented the manufacturing plant and sale corporation in Suzhou and Shanghai. They are principally engaged in (i) manufacture and sale of commodities including but not limited to dietary products, cosmetics, body products and health supplement wine; and (ii) trading of dental materials and equipment in the People's Republic of China ("PRC"). On 17 December 2015, the Company entered into a sale and purchase agreement to dispose of 100% of the equity interests in Wallfaith Company Limited and its subsidiaries, Smiston Technology Limited, Suzhou Longlifu Health Food Co., Ltd., 蘇州朗力福商貿有限公司 (in English, for identification purpose only, Suzhou Longlifu Trading Co., Ltd.), Suzhou Beautiful Biochemistry Co., Ltd., 蘇州朗力福醫療器械有限公司 (in English, for identification purpose only, Suzhou Longlife Medical Devices Co., Ltd.) and 蘇州安德森醫療器械有限公司 (in English, for identification purpose only, Suzhou Anderson Medical Devices Co., Ltd.) (collectively, the "**Wallfaith Group**"), at a cash consideration of HK\$15 million and completion of the disposal of the Wallfaith Group took place on 16 March 2016.

The Directors have been constantly scrutinising the current businesses of the Group in order to increase the competitiveness of and strengthen the financial performance of the Group. The Wallfaith Group had recorded the net loss from discontinued operation for the 2015 Year of approximately HK\$8.1 million (2014 Year: HK\$8.1 million). Having taken into consideration that the performance of the Wallfaith Group for the past financial years was not satisfactory, the Directors consider that the disposal of the Wallfaith Group will enable the Company to free up the resources devoted to this business and redirect the resources to the Group's existing business which may have higher growth potential to maximise the benefit of the Shareholders.

### BUSINESS PROSPECTS

Looking forward, the Group is facing challenges, including (i) the high pressure of increasing labour costs, rental expenses and raw materials costs in health related and pharmaceutical products industry in the PRC and Hong Kong and the medical laboratory testing services and health check services in Hong Kong; (ii) the weak consumption sentiments in health related and pharmaceutical products in the PRC and Hong Kong; (iii) the intensifying competition in the healthcare related products industry and medical laboratory testing services and health check services in Hong Kong with ongoing discounts and promotion programs, which will have ongoing impact on profitability.

### Restructuring of the business of the Group

Given there are adverse effect of global economic growth downturn and keen competition in the market, the Group will continue to strengthen the health related and pharmaceutical products business through (i) upgrading and redesigning the websites of the operating subsidiaries of the Group in order to enhance the online sales of health related products; (ii) introducing new health related products and changing package design of the existing healthcare products in order to enlarge the products lists and attract different market segments of customers; (iii) leveraging on solid foundation and competitive strengths of the DVF Group in the provision of medical laboratory testing services and health check services to enhance the revenue sources and profitability; and (iv) developing and expanding distribution networks of the existing products and manufacturing new health related and pharmaceutical products through the factory held by 貴陽舒美達製藥廠有限公司 (in English, for identification purpose only, Guiyang Shu Mei Da Pharmaceutical Co., Ltd).

## CHAIRMAN'S STATEMENT



### Continue to identify appropriate securities investment opportunities

Given high uncertainty of the stock market in Hong Kong, the Group continued to record a net loss on financial assets at fair value through profit or loss of approximately HK\$9.1 million for the 2015 Year (2014 Year: HK\$36.9 million). The Group has narrowed the trading securities losses through revamping its investment strategies in securities trading business by investing in listed securities with potential returns. The board of the Directors ("**Board**") will remain cautious in the allocation of resources to identify and seize appropriate securities investment opportunities in order to generate securities gain to the Group.

### Participating in money lending business

Ferran Finance Limited, an indirect wholly-owned subsidiary of the Company, has obtained a money lenders licence in March 2015 pursuant to the Money Lenders Ordinance (Chapter 163 of the Laws of Hong Kong). During the 2015 Year, the Group has been approached by potential borrowers. With the increasing market demands of the micro-financing business in Hong Kong, the Company has raised HK\$20 million through the Rights Issue, which was completed on 18 September 2015, for the money lending business. The money lending business commenced in the fourth quarter of 2015. The Board believes that the money lending business can diversify the income stream of the Group in the coming future. The Group's main focus area will be personal loan and corporate loan for customers with good credit records in Hong Kong.

In the meantime, the Directors will continue to look for and identify potential acquisition opportunities for further development of the Group's health related and pharmaceutical products business segment and negotiating with potential suppliers in overseas and Hong Kong for exclusive distribution of health related products to enlarge the products lists of the Group.

### APPRECIATION

I would like to take this opportunity to express my sincere thanks and gratitude to all our business partners and shareholders for their continuing trust and support in the Group. I would also like to thank all staff and members of the Board for their dedicated efforts and contributions to the Group over the past year.

**Cheung Hung**

*Chairman*

Hong Kong, 22 March 2016

# MANAGEMENT DISCUSSION AND ANALYSIS



## FINANCIAL REVIEW

During the year ended 31 December 2015 ("**2015 Year**"), the principal activities of Rui Kang Pharmaceutical Group Investments Limited ("**Company**") and its subsidiaries (collectively, the "**Group**") are (i) manufacture, research and development, sale and distribution of consumer cosmetics, health related and pharmaceutical products, health supplement wine, dental materials and equipment in the People's Republic of China ("**PRC**") and Hong Kong, (ii) provision of medical laboratory testing services and health check services in Hong Kong, and (iii) trading of securities in Hong Kong.

### Discontinued operation

On 17 December 2015, the Company entered into a sale and purchase agreement to dispose of 100% of the equity interests in Wallfaith Company Limited and its subsidiaries, Smiston Technology Limited, Suzhou Longlifu Health Food Co., Ltd., 蘇州朗力福商貿有限公司 (in English, for identification purpose only, Suzhou Longlifu Trading Co., Ltd.), Suzhou Beautiful Biochemistry Co., Ltd., 蘇州朗力福醫療器械有限公司 (in English, for identification purpose only, Suzhou Longlife Medical Devices Co., Ltd.) and 蘇州安德森醫療器械有限公司 (in English, for identification purpose only, Suzhou Anderson Medical Devices Co., Ltd.) (collectively, the "**Wallfaith Group**"). The manufacture and sale of consumer cosmetics and health supplement wine, and trading of dental materials and equipment in the PRC were regarded as discontinued operation.

During the 2015 Year, the Group achieved a turnover of approximately HK\$85,259,000 (year ended 31 December 2014 ("**2014 Year**"): HK\$70,275,000) from discontinued operation, which is mainly attributable to the manufacture and sale of consumer cosmetics segment. Despite the consumer cosmetics segment continued to encounter challenging market conditions during the 2015 Year and the receding performance of some consumer cosmetics, which have become less competitive and being phased out in the PRC market, the total revenue increased steadily from approximately HK\$53,689,000 for the 2014 Year to approximately HK\$71,834,000 for the 2015 Year mainly due to the steady improvement in export of consumer cosmetics business by one of the subsidiaries of the Company in Suzhou.

The Group continued to record a loss from discontinued operation of approximately HK\$8,109,000, as compared with approximately HK\$8,075,000 from discontinued operation for the 2014 Year. Such loss was mainly attributable to the increasing pressure on the cost of sales, including labour costs and raw materials costs, and the decrease in the selling price for certain products due to fierce competition in the PRC, which have led a decrease in the gross profit margin notwithstanding there was an increase in turnover.

### Turnover

During the 2015 Year, the Group achieved a turnover of approximately HK\$34,127,000 (2014 Year: HK\$70,110,000) from continuing operations, representing a significant decrease of 51.32% as compared with the turnover for the 2014 Year. Despite the fact that such decrease was partially offset by the contribution made by 貴陽舒美達製藥廠有限公司 (in English, for identification purpose only, Guiyang Shu Mei Da Pharmaceutical Co., Ltd) ("**Shu Mei Da**"), the subsidiary acquired by the Group in November 2014 as its full period turnover had been recognised in the 2015 Year, the overall decrease in the turnover was mainly due to the deconsolidation of the results of 廣州獅馬龍藥業有限公司 (in English, for identification purpose only, Guangzhou Shimalong Pharmaceutical Co., Ltd.) (formerly known as 廣州瑩潤藥業有限公司 (in English, for identification purpose only, Guangzhou Yingrun Pharmaceutical Co., Ltd.) ("**Shimalong**") on 30 January 2015 ("**Deconsolidation**"), as a result of the disposal of 70% of the issued share capital of Magical Bloom Limited as described in the paragraph headed "Disposal of assets held for sale" below. Shimalong is principally engaged in the sale of medicated oil products and the Deconsolidation has caused a decrease in turnover of the Group.



# MANAGEMENT DISCUSSION AND ANALYSIS



## **Manufacture and sale of health related and pharmaceutical products**

Health related and pharmaceutical products segment recorded a significant reduction in total turnover during the 2015 Year. The total turnover of this segment significantly decreased from approximately HK\$70,110,000 for the 2014 Year to approximately HK\$26,718,000 for the 2015 Year from continuing operations mainly due to the Deconsolidation, which led to a decrease in sales of medicated oil products including CMALO Wood Lock Oil, CMALO Red Flower Oil and Strong Haling Oil in the PRC (excluding Hong Kong and Macau) by Shimalong, a then subsidiary of the Company, despite the fact that such decrease was partially offset by the contribution of 薑黃消癥搽劑 (in English, for identification purpose only, Jianghuang Xiaocuo Chaiji), the main product of Shu Mei Da. As Shimalong had become an associate from a subsidiary since 30 January 2015, only one month of turnover of Shimalong was recognised in the 2015 Year. On the other hand, Shu Mei Da was acquired by the Group in November 2014, the turnover of Shu Mei Da for the 2015 Year was fully recognised in the 2015 Year.

## **Provision of medical laboratory testing services and health check services**

Having completed the AMDL Acquisition and the DVF Acquisition as described in the paragraph headed "Acquisition of Subsidiaries" under note 30 to the consolidation financial statements below on 2 October 2015 and 16 December 2015 respectively, and the establishment of a molecular laboratory as described in the paragraph headed "Extension of business activities in other healthcare related segments" below, the Group has established a foothold in the provision of medical laboratory testing and health check services industry and the total revenue of the such business was approximately HK\$7,384,000 during the 2015 Year (from the respective dates of completion of the AMDL Acquisition, completion of the DVF Acquisition and commencement of business of the molecular laboratory to 31 December 2015).

## **Trading of financial assets at fair value through profit or loss ("FVTPL")**

The Group's investment portfolio comprises investments in listed securities in Hong Kong and Australia. While such business segment continued to record a net loss on financial assets at FVTPL during the 2015 Year, the Group has managed to reduce its loss to approximately HK\$9,094,000 (2014 Year: net loss of approximately HK\$36,916,000). The Directors attributed such reduction in loss in this segment to the revamping the Group's investment strategies in securities trading business by investing in listed securities with potential returns. The board of the Directors ("**Board**") will remain cautious in the allocation of resources and in the identification and seizure of appropriate securities investment opportunities with a view to generating gains for the securities trading business of the Group.

## **Gross profit and gross profit margin**

The gross profit in the 2015 Year of approximately HK\$9,630,000 dropped significantly when compared with that of approximately HK\$25,891,000 in the 2014 Year. The gross profit margin for the 2015 Year from continuing operations was approximately 28.22%, representing a decrease by approximately 8.71 percentage point when compared with the gross profit margin of approximately 36.93% for the 2014 Year. The decrease in the gross profit and gross profit margin were mainly due to (i) the increase in the cost of sales, including labour costs and raw materials costs and (ii) the decrease in the selling price for certain products due to fierce competition in the PRC and Hong Kong.

## **Selling and distribution expenses**

Selling and distribution expenses for the 2015 Year from continuing operations were approximately HK\$6,266,000, representing a decrease of approximately HK\$1,251,000 or 16.64% compared with such expenses for the 2014 Year. Such steady decrease was mainly attributable to (i) less transportation costs were incurred in the distribution and sale of medicated oil products by Shimalong as a result of the Deconsolidation; and (ii) fewer new products were launched by the subsidiaries in Hong Kong and Guizhou during the 2015 Year leading to downsizing of its promotion and sales team and reduced number of marketing campaigns in Hong Kong and Guizhou.

## MANAGEMENT DISCUSSION AND ANALYSIS



### Administrative expenses

The administrative expenses for the 2015 Year from continuing operations were approximately HK\$37,680,000, representing a decrease of approximately 5.52%, as compared with that of approximately HK\$39,880,000 for the 2014 Year. The slight decrease of such administrative expenses was mainly due to the fact that the Group incurred less research and development costs of approximately HK\$2.4 million (2014 Year: HK\$3.6 million) and less staff costs of approximately HK\$14.1 million (2014 Year: HK\$16.7 million) in the 2015 Year as a result of effective cost control measures and the absence of one-off share-based payment expenses of approximately HK\$3.4 million recorded by the Group for the 2014 Year, despite the slight decrease was partially offset by more depreciation expense charged by property, plant and equipment of approximately HK\$1.5 million (2014: HK\$0.7 million) and more legal and professional fees of HK\$4.8 million (2014: HK\$4.1 million) incurred in the 2015 Year.

### Loss for the 2015 Year

The Group recorded a net loss from continuing operations of approximately HK\$59,651,000 for the 2015 Year (2014 Year: HK\$74,871,000). The decrease in net loss of the Group for the 2015 Year was mainly due to (i) the decrease in net loss on financial assets at FVTPL of approximately HK\$9.1 million for the 2015 Year as compared with that of approximately HK\$36.9 million during the 2014 Year; (ii) share of profits of associates of approximately HK\$1.1 million which was absent in the 2014 Year; (iii) the decrease of impairment loss on goodwill in respect of its certain subsidiaries of approximately HK\$1.0 million as compared with impairment loss of HK\$8.2 million as recognised during the 2014 Year; and (iv) the absence of one-off loss on deemed disposal of partial interest in a joint venture of approximately HK\$5.9 million as recorded during the 2014 Year. In spite of the slight improvement in business performance of the Group for the 2015 Year as described, such improvement was partially offset by (i) the write-off of certain property, plant and equipment of approximately HK\$7.5 million for the 2015 Year (2014 Year: HK\$0.8 million); (ii) the increasing pressure on the cost of sales, including labour costs and raw materials costs, and the decrease in the selling price for certain products due to fierce competition in the PRC, which have led a decrease in the gross profit margin; and (iii) share of loss of a joint venture of approximately HK\$8.4 million.

## CAPITAL STRUCTURE

The Group generally finances its operations with internal generated resources and proceeds raised from issue of new shares of the Company. As at 31 December 2015, the total issued share capital of the Company was HK\$65,698,675 divided into 1,313,973,500 ordinary shares of HK\$0.05 each.

### Issue of new shares under specific mandate

On 14 November 2014, the Company and China Wah Yan Healthcare Limited (“**Wah Yan Health**”) (formerly known as China Renji Medical Group Limited), the shares of which are listed on the Main Board of the Stock Exchange (Stock code: 648), entered into the subscription agreement pursuant to which Wah Yan Health conditionally agreed to subscribe for, and the Company conditionally agreed to allot and issue, 257,812,500 subscription shares (“**WY Subscription Shares**”) at the subscription price of HK\$0.128 per WY Subscription Share (“**WY Subscription**”). The completion of the WY Subscription took place on 23 January 2015. The net proceeds after deduction of expenses from the WY Subscription was approximately HK\$32.7 million (“**Subscription Proceeds**”).

# MANAGEMENT DISCUSSION AND ANALYSIS



Out of the Subscription Proceeds, (i) approximately HK\$3.60 million had been invested as intended in a fund investments in pharmaceutical and health related industries; (ii) approximately HK\$5.29 million (including HK\$4.83 million as consideration and HK\$0.46 million as related legal and professional fees) had been invested as intended in New Health Elite International Limited ("**New Health**") to diversify the business and revenue sources of the Group into the provision of health management and well-being services; and (iii) as at 31 December 2015, the remaining net proceeds of approximately HK\$23.81 million had not been utilised and remained in the bank and would be used for funding potential acquisitions of equity interests in companies that are principally engaged in (a) the provision of DNA diagnostic testing services; (b) the sale and manufacture of personal care products; and (c) online platform for trading and sale of health related and pharmaceutical products in the PRC ("**Possible Acquisition Projects**"). The net issue price per WY Subscription Share was approximately HK\$0.127 and the aggregate nominal value of the WY Subscription Shares was HK\$2,578,125. Details of the WY Subscription are disclosed in the announcements of the Company dated 14 November 2014 and 23 January 2015, and the circular of the Company dated 24 December 2014.

On 28 January 2016, approximately HK\$5.82 million from the Subscription Proceeds was utilised as intended for funding the partial consideration for the acquisition of Ultimate Synergy Limited and its subsidiaries. In addition, on 28 January 2016, the Board has resolved to allocate the remaining unused Subscription Proceeds of approximately HK\$17.99 million for investments in securities as part of the Group's ordinary course of business, details of which are disclosed in the announcement of the Company dated 28 January 2016. As at the date of this report, all of the Subscription Proceeds had been utilised as intended.

## Share consolidation

On 5 March 2015, the Board proposed, subject to passing the necessary shareholders' resolution, that every 5 existing shares of HK\$0.01 each in the issued and unissued share capital of the Company would be consolidated into 1 share of HK\$0.05 in the issued and unissued share capital of the Company ("**Share Consolidation**"). As a result of the Share Consolidation, the authorised share capital of the Company became HK\$200,000,000 divided into 4,000,000,000 consolidated shares of HK\$0.05 each, of which 252,687,300 consolidated shares were in issue immediately following the Share Consolidation becoming effective.

The resolution approving the Share Consolidation was duly passed as an ordinary resolution of the Company by the shareholders of the Company at the special general meeting held on 31 March 2015. The Share Consolidation became effective on 1 April 2015. For details, please refer to the announcements of the Company dated 5 March 2015 and 31 March 2015, and the circular of the Company dated 13 March 2015.

## Rights issue

On 10 July 2015, the Company announced to raise not less than approximately HK\$181.9 million and not more than approximately HK\$189.1 million before expenses on the basis of four rights shares ("**Rights Shares**") for every one existing share in issue held on the record date at the subscription price of HK\$0.18 per Rights Share by way of rights issue of not less than 1,010,749,200 Rights Shares and not more than 1,050,378,296 Rights Shares ("**Rights Issue**"). The subscription price of HK\$0.18 per Rights Share represented (i) a discount of approximately 38.98% to the closing price of HK\$0.295 per share as quoted on the Stock Exchange on 10 July 2015; (ii) a discount of approximately 36.80% to the average closing price of approximately HK\$0.2848 per share for the five consecutive trading days prior to 10 July 2015; (iii) a discount of approximately 47.28% to the average closing price of approximately HK\$0.3414 per share for the ten consecutive trading days prior to 10 July 2015; and (iv) a discount of approximately 11.33% to the theoretical ex-rights price of approximately HK\$0.203 per share based on the closing price of HK\$0.295 per share as quoted on the Stock Exchange on 10 July 2015.

## MANAGEMENT DISCUSSION AND ANALYSIS



A total of 1,010,749,200 Rights Shares were allotted and issued under the Rights Issue on 18 September 2015. The net proceeds after deduction of expenses from the Rights Issue were approximately HK\$175.0 million. The Company intended to use (i) approximately HK\$115.0 million for the extension of business in the healthcare related segments including the provision of molecular testing and medical diagnostic testing services which include (a) approximately HK\$100.0 million for the DVF Acquisition; and (b) approximately HK\$15.0 million for setting up a molecular genetic testing laboratory in Hong Kong; (ii) approximately HK\$24.0 million for funding the Possible Acquisition Projects; (iii) approximately HK\$20.0 million for new money lending business; and (iv) approximately HK\$16.0 million for general working capital of the Group. The net proceeds of approximately HK\$130.67 million had been utilised as intended. As at 31 December 2015, the remaining net proceeds of approximately HK\$44.33 million, including (i) approximately HK\$2.55 million for setting up a molecular genetic testing laboratory in Hong Kong; (ii) approximately HK\$22.13 million for funding the Possible Acquisition Projects; (iii) HK\$14 million for new money lending business; and (iv) approximately HK\$5.65 million for general working capital of the Group ("**Unused Rights Issue Proceeds**"), had not yet been utilised and remained in the bank for intended use. Details of the Rights Issue are disclosed in the announcements of the Company dated 11 June 2015, 10 July 2015 and 17 September 2015, the circular of the Company dated 27 July 2015, and the prospectus dated 26 August 2015.

On 28 January 2016, approximately HK\$22.13 million from the Unused Rights Issue Proceeds was utilised as intended for funding the partial consideration for the acquisition of Ultimate Synergy Limited and its subsidiaries, details of which are disclosed in the announcement of the Company dated 28 January 2016.

As at the date of this report, approximately HK\$39.08 million out of the Unused Rights Issue Proceeds (which includes HK\$22.13 million utilised as stated above) had been used as intended and the remaining net proceeds from the Rights Issue of approximately HK\$5.25 million have not been utilised and remained in the bank for intended use, including (i) approximately HK\$1.65 million for setting up a molecular genetic testing laboratory in Hong Kong and (ii) HK\$3.6 million for new money lending business.

### Placing of new shares under general mandate

On 21 December 2015, the Company and Convoy Securities Limited ("**Convoy**") entered into a placing agreement ("**Placing Agreement**"), pursuant to which Convoy has conditionally agreed to procure, as placing agent of the Company, not less than six placees, to subscribe, failing which, Convoy itself would subscribe for 50,537,000 ordinary shares ("**Placing Shares**") at a price of HK\$0.10 per Placing Share ("**Placing**"), which represented (i) discount of approximately 6.54% to the closing price of HK\$0.107 per Share as quoted on the Stock Exchange on the date of the Placing Agreement; and (ii) discount of approximately 5.66% to the average closing price of approximately HK\$0.106 per share as quoted on the Stock Exchange for the five consecutive trading days of the shares immediately prior to the date of the Placing Agreement. The net proceeds after deduction of expenses from the Placing were approximately HK\$4.76 million, which would be utilised for general working capital of the Group. The net issue price was approximately HK\$0.09 per Placing Share and the aggregate nominal value of the Placing Shares under the Placing was HK\$2,526,850. The completion of the Placing took place on 31 December 2015. Details of the Placing are disclosed in the announcements of the Company dated 21 December 2015 and 31 December 2015. As at the date of this report, approximately HK\$3.76 million out of the net proceeds from the Placing had been used as intended for general working capital (including but not limited to staff costs and professional fees) and the remaining net proceeds of approximately HK\$1 million have not been utilised and remained in the bank for intended use.

The Directors are of the view that the Placing represents a good opportunity for the Company to broaden its shareholders' base and raise additional funds at a reasonable cost. Taking into account the terms of the Placing Agreement, the Directors consider that the Placing is in the interest of the Company and the shareholders as a whole.



# MANAGEMENT DISCUSSION AND ANALYSIS



## BUSINESS REVIEW

### Extension of business activities in other healthcare related segments

The Group has been actively exploring opportunities to extend its business activities in healthcare related segments including the provision of molecular genetic testing and medical diagnostic testing services. During the 2015 Year, the Group had identified healthcare related businesses being/to be acquired by the Group including the DVF Acquisition (as defined below) and the AMDL Acquisition (as defined below).

In order to diversify the customer bases and target to the market segment, the Group has acquired high-end equipment, and has employed technician and staff specialised in molecular genetic testing to establish a molecular laboratory during the 2015 Year. The molecular genetic testing laboratory of the Group has commenced its operation in October 2015.

### Acquisition of subsidiaries

On 28 May 2015, the Company entered into a memorandum of understanding with Deep Value Financing Fund ("**Deep Value**") in relation to the proposed acquisition from Deep Value of a group of companies which are principally engaged in the provision of medical laboratory testing services and health check services in Hong Kong. Subsequently, on 18 September 2015, Fair Brilliant Group Limited ("**Fair Brilliant**"), an indirect wholly-owned subsidiary of the Company, entered into a sale and purchase agreement with Deep Value, pursuant to which Fair Brilliant conditionally agreed to purchase, and Deep Value conditionally agreed to sell (i) 100% of the issued share capital of DVF Holdco (Cayman) Limited ("**DVF**") (together with its subsidiaries, collectively the "**DVF Group**"), and (ii) the aggregate amount of loan owed by a subsidiary of DVF to Deep Value, at a cash consideration of HK\$103,000,000 ("**DVF Acquisition**"). The completion of the DVF Acquisition took place on 16 December 2015. Details of the DVF Acquisition are disclosed in the announcements of the Company dated 28 May 2015, 18 September 2015 and 16 December 2015, circular of the Company dated 25 November 2015.

On 18 September 2015, Fair Brilliant entered into a sale and purchase agreement with Mr. Ng Kam Cheung Stephen and Ms. Foo Wye Chan Marie as the vendors, pursuant to which Fair Brilliant conditionally agreed to purchase, and the vendors conditionally agreed to sell (i) the entire issued share capital of a diagnostic testing services laboratory ("**AMDL**"), and (ii) the aggregate amount of loans owed by AMDL to the vendors, at a cash consideration of approximately HK\$1.87 million ("**AMDL Acquisition**"). AMDL is principally engaged in the provision of medical diagnostic services in Hong Kong. The completion of AMDL Acquisition took place on 2 October 2015. Details of the AMDL Acquisition are disclosed in the announcement of the Company dated 18 September 2015.

The Directors consider that the DVF Acquisition and the AMDL Acquisition will further expand the provision of molecular testing and medical diagnostic services business of the Group, which is an expansion of and in line with the existing healthcare related business segment of the Group. The Directors believe that the DVF Acquisition and the AMDL Acquisition will provide synergistic effect to the Group's existing business by leveraging its expertise and enlarging its customer base, broadening its income source alongside with developing its existing businesses, and thus leading to a more comprehensive development in the Company's healthcare related business.



## MANAGEMENT DISCUSSION AND ANALYSIS



### Acquisition of an associate

In view of the business nature of Wah Yan Health and its subsidiaries which is also related to healthcare industry, the Directors consider that the WY Subscription was a strategic cooperation between the Group and Wah Yan Health and its subsidiaries which sets ground for future business cooperation if opportunity arises which will be beneficial to the business strategy and development of the Group. On 26 February 2015, Silver Wisdom Development Limited ("**Silver Wisdom**"), an indirect wholly-owned subsidiary of the Company, entered into a subscription agreement with New Health, a direct wholly-owned subsidiary of Wah Yan Health, and pursuant to which, Silver Wisdom has conditionally agreed to subscribe for, and New Health has conditionally agreed to allot and issue 23 subscription shares of New Health (representing 23% of its issued share capital as enlarged by the allotment and issue of such subscription shares) at the cash consideration of HK\$4.83 million ("**NH Subscription**"). Following the completion of the NH Subscription which took place on 22 April 2015, New Health became an associate of the Group. Details of the NH Subscription are disclosed in the announcement of the Company dated 26 February 2015. It is expected that the NH Subscription will enable the Group to diversify its business and revenue sources into the provision of health management and well-being services, which is the principal business activities of New Health. The Directors consider that both the WY Subscription and the NH Subscription will allow the Group and Wah Yan Health to explore more opportunities for potential business cooperation in the future in order to take advantage of its own expertise and introduce new income stream to the Group.

### Disposal of assets held for sale

In order to allow the Group to reallocate more resources to the manufacture of the pharmaceutical products in the PRC and other investments when opportunities arise, Icy Snow Limited, a direct wholly-owned subsidiary of the Company, entered into a sale and purchase agreement with four purchasers, all being independent third parties, to sell 70% of the issued share capital of Magical Bloom Limited together with its subsidiaries, Longlife Group Holdings Limited and Shimalong (collectively, the "**Magical Bloom Group**") at a consideration of HK\$12,600,000 on 31 December 2014 and completion of which took place on 30 January 2015. It was expected that the purchasers could bring resources and expertise in the sales and marketing of medicated oil in the PRC to benefit the operations and business of the Group. Details of the disposal are disclosed in the announcement of the Company dated 31 December 2014.

## OUTLOOK

Looking forward, the Group is facing challenges including (i) the high pressure of increasing the labour costs, rental expenses and raw materials costs in health related and pharmaceutical products industry in the PRC and Hong Kong and the medical laboratory testing services and health check services in Hong Kong; (ii) the weak consumption sentiments in health related and pharmaceutical products in the PRC and Hong Kong; (iii) the intensifying competition in the healthcare related products industry and medical laboratory testing services and health check services in Hong Kong is a further challenge, with ongoing discount and promotion programs having an ongoing impact on profitability.

### Restructuring of the business of the Group

The Group will continue to strengthen the health related and pharmaceutical products business through (i) upgrading and redesigning the websites of the operating subsidiaries of the Group in order to enhance the online sales of health related products; (ii) introducing new health related products and changing package design of the existing healthcare products in order to enlarge the products lists and attract different market segments of customers; (iii) leveraging on solid foundation and competitive strengths of the DVF Group in the provision of medical laboratory testing services and health check services to enhance the revenue sources and profitability; and (iv) developing and expanding distribution networks of the existing products and manufacturing new health related and pharmaceutical products through the factory held by Shu Mei Da.

# MANAGEMENT DISCUSSION AND ANALYSIS



## Continue to identify appropriate securities investment opportunities

The Board expects that the stock market in Hong Kong will be unstable in 2016. The Board will remain cautious in the allocation of resource to identify and seize appropriate securities investment opportunities in order to generate securities gain to the Group.

## Participating in money lending business

With the increasing market demands of the micro-financing business in Hong Kong, the Company has raised HK\$20 million through the Rights Issue, which was completed on 18 September 2015, for the money lending business. The money lending business commenced in the fourth quarter of 2015. The Group has been approached by potential borrowers for the provision of loans from time to time and considers the demand for money lending is increasing. The Group will closely monitor the potential development and will pay close attention to the market conditions so as to capture business opportunities in this segment when it arises. The Company's main focus area will be personal loan and corporate loan for customers with good credit records in Hong Kong.

With the aim of bringing better returns for investors, the Directors will continue to look for and identify potential acquisition opportunities for further development of the Group's health related and pharmaceutical products business segment and negotiating with potential suppliers in overseas and Hong Kong for exclusive distribution agreements of the health related products to enlarge the products lists of the Group.

## FINANCIAL RESOURCES AND LIQUIDITY

As at 31 December 2015, the Group held cash and bank balances of approximately HK\$75,234,000 (2014: HK\$39,163,000) for its continuing operations, and held cash and bank balances (included pledged cash deposit) of approximately HK\$3,003,000 (2014: HK\$8,711,000) for its discontinued operation.

The Group had bank and other borrowings of approximately HK\$1,917,000 (2014: HK\$Nil) and approximately HK\$17,904,000 (2014: HK\$19,014,000) relating to continuing operations and discontinued operation respectively. For continuing operations, the other borrowings of approximately HK\$1,917,000 (2014: HK\$Nil) were unsecured, of which RMB700,000 (equivalent to approximately HK\$836,000) carried interest at 12% per annum and is repayable on 23 August 2016; and (ii) RMB906,000 (equivalent to approximately HK\$1,081,000) carried interest at 8% per annum and is repayable on 26 November 2016, respectively. For discontinued operation, the bank borrowings of approximately HK\$17,904,000 (2014: HK\$19,014,000) were secured and carried interest floating at 135% of the prime rate offered by the People's Bank of China.

As at 31 December 2015, total assets of the Group (including assets classified as held for sale) were approximately HK\$478,018,000 (2014: HK\$327,016,000), whereas total liabilities (including liabilities associated with assets classified as held for sale) were approximately HK\$135,280,000 (2014: HK\$129,103,000). The gearing ratio of the Group, calculated as total liabilities over total assets, was 28.30% (2014: 39.48%). Current ratio (defined as total current assets (including assets classified as held for sale) divided by total current liabilities (including liabilities associated with assets classified as held for sale) was 2.51 times (2014: 1.77 times).

## MANAGEMENT DISCUSSION AND ANALYSIS



### MATERIAL ACQUISITION AND DISPOSAL OF SUBSIDIARIES AND AFFILIATED COMPANIES

Except for the acquisition of subsidiaries and an associate and disposal of assets held for sale as disclosed in the section headed "BUSINESS REVIEW" above, the Group did not have any other material acquisition or disposal of subsidiaries and affiliated companies for the 2015 Year.

### FOREIGN EXCHANGE AND INTEREST RATE EXPOSURE

During the 2015 Year, the business activities of the Group were mainly denominated in Hong Kong dollars and Renminbi.

When appropriate and at times of interest rate or exchange rate uncertainties or volatility, hedging instruments including interest rate swaps and foreign currency forwards contract will be used by the Group in the management of exposure affecting interest rates and foreign exchange rate fluctuations as appropriate.

### OPERATING LEASE COMMITMENTS

Details of operating lease commitments are stated in note 41 to the consolidated financial statements.

### CAPITAL COMMITMENT

Details of capital commitment are stated in note 42 to the consolidated financial statements.

### PLEDGE OF ASSETS

As at 31 December 2015, the Group had no bank borrowings for continuing operations. For discontinued operation, the Group's bank borrowings were secured by charges on its prepaid lease payments and certain buildings held by the Wallfaith Group with the carrying amounts of approximately HK\$4,401,000 and HK\$4,214,000 (2014: HK\$5,408,000 and HK\$4,590,000 respectively). The relevant assets and liabilities relate to discontinued operation and were reclassified as assets held for sale and liabilities associated with assets classified as held for sale as at 31 December 2015.

As at 31 December 2015, listed securities and cash held in margin accounts with stock brokers held by the Group for continuing operations with carrying amounts of approximately HK\$54,793,000 (2014: HK\$18,697,000) and HK\$29,456,000 (2014: HK\$11,497,000) respectively have been charged in favour of the brokerage firms as collaterals for the Group's liabilities in respect of its margin trading accounts.

Pledged cash deposit amounting to HK\$Nil (2014: HK\$2,535,000) relates to discontinued operation and was pledged to a bank for the issuance of bills payable as at 31 December 2014 and has been released upon the termination of bills payable during the year ended 31 December 2015.

Details of the pledge of assets are set out in note 43 to the consolidated financial statements.

# MANAGEMENT DISCUSSION AND ANALYSIS



## CONTINGENT LIABILITIES

As at 31 December 2015 and 2014, the Group had no contingent liabilities.

## EMPLOYEES AND REMUNERATION POLICY

As at 31 December 2015, the Group had approximately 489 employees (2014: 417 employees) which were located in the PRC and Hong Kong for both continuing and discontinued operations. As at 31 December 2015, the Group had approximately 259 employees (2014: 269 employees) from discontinued operation which were all located in the PRC. Total staff costs for the 2015 Year was approximately HK\$26.2 million (2014 Year: HK\$25.6 million) for both continuing and discontinued operations. The total staff costs from the continuing operations recorded approximately HK\$18.1 million for the 2015 Year (2014 Year: HK\$18.2 million).

The Group remunerates its employees based on their performance, experience and the prevailing market condition. Performance related bonuses are also granted on a discretionary basis. Other employee benefits include mandatory provident fund, insurance and medical coverage, training and share option scheme.

The Group operates a Mandatory Provident Fund Scheme for all qualifying employees in Hong Kong. The assets of the scheme are held separately from those of the Group, in funds under the control of trustees. The Group contributes 5% of relevant payroll costs to the scheme subject to a maximum of HK\$1,250 per month prior to 1 June 2014 and HK\$1,500 per month with effect from 1 June 2014, which contribution is matched by employees.

The employees in the PRC are members of respective state-managed defined contribution retirement benefits scheme operated by the local government. The employer and the employees are obliged to make contributions at a certain percentage of the basic payroll under rules of the schemes. The only obligation of the Group with respect to the retirement benefit schemes is to make the specified contributions.

The total contributions payable to the above schemes by the Group and charged to the consolidated statement of profit or loss and other comprehensive income for the 2015 Year were approximately HK\$2.8 million (2014 Year: HK\$2.2 million). The total contributions payable from continuing operations shared approximately HK\$1.0 million (2014: HK\$0.6 million) for the 2015 Year.

## EVENTS AFTER THE REPORTING PERIOD

Details of the significant events after the reporting period are set out in note 49 to the consolidated financial statements.

## BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT



### DIRECTORS

#### Executive Directors

**Mr. Cheung Hung** (“**Mr. Cheung**”), aged 47, has been appointed as the chairman of the Company and an executive Director since 7 April 2010 and 19 January 2010 respectively. He has over 20 years of experience in securities industries.

Mr. Cheung holds a Master of Business Administration degree of an Executive MBA Programme and Bachelor’s degree in Business Administration from The Chinese University of Hong Kong.

**Mr. Leung Pak Hon Anson** (“**Mr. Anson Leung**”), aged 49, has been appointed as an executive Director since 15 May 2013. Mr. Anson Leung has been the compliance officer of the Company since 30 May 2013.

Mr. Anson Leung has experiences in dealing in securities, fund management, corporate management and corporate finance. He was employed by Jardine Fleming Holdings Limited from February 1994 to April 1998 and ABN AMRO Asset Management (Asia) Ltd from May 1998 to August 2000 respectively. He was also employed by CITIC Capital Markets Holdings Limited as manager from September 2000 to June 2002. Mr. Anson Leung has about 12 years of experience in the management and operation of manufacture and sale of medications in the pharmaceutical industry. Mr. Anson Leung is responsible for the overall corporate strategies and business development of the Group. He is also a director of a number of subsidiaries of the Company.

Mr. Anson Leung graduated from University of Newcastle, Australia with his Bachelor of Commerce in April 1994. Mr. Anson Leung also obtained his Master of Business Administration from The University of Western Ontario, Canada in September 2001.

**Ms. Chen Miaoping** (“**Ms. Chen**”), aged 37, has been appointed as an executive Director and the chief executive officer of the Company since 30 May 2013 and 16 August 2013 respectively. Ms. Chen has held various senior positions in various pharmaceutical companies. She is mainly responsible for the strategic planning and daily operations of the pharmaceutical manufacturing and retailing division in the PRC. Ms. Chen has extensive experience in the pharmaceutical industry in the PRC. Ms. Chen is also a director of a number of subsidiaries of the Company.

Ms. Chen graduated from China Pharmaceutical University (中國藥科大學) with Bachelor of Science in pharmacy.

#### Independent Non-executive Directors

**Mr. Yuen Chun Fai** (“**Mr. Yuen**”), aged 37, was appointed as an independent non-executive Director on 30 June 2014. Mr. Yuen has over 13 years of experiences in the field of financial reporting, financial management and audit experience in Hong Kong, the PRC, Malaysia and Singapore. Mr. Yuen was an executive director of Cybertowers Berhad (Stock Code: 0022. KL), a company listed in the ACE Market in Malaysia, from April 2012 to June 2013, and was appointed as a non-independent non-executive director of Cybertowers Berhad, from June 2013 to February 2014. Mr. Yuen has been acting as an independent non-executive director of Ping Shan Tea Group Limited, a company whose shares are listed on the Main Board of the Stock Exchange (Stock Code: 364) since 31 July 2014. Mr. Yuen is currently the company secretary and an executive director of WLS Holdings Limited, a company whose shares are listed on GEM (Stock Code: 8021).

Mr. Yuen holds a Bachelor of Science in accounting and finance awarded by The London School of Economics and Political Science in 2002. Mr. Yuen is a fellow of the Association of Chartered Certified Accountants and is also a certified public accountant of the Hong Kong Institute of Certified Public Accountants.



## BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT



**Mr. Leung Ka Fai ("Mr. Leung KF")**, aged 37, has been an independent non-executive Director since 26 June 2013. Mr. Leung KF was employed by a law firm in Hong Kong as the community service manager. He also worked in Beta Field Capital Limited as a business director from December 2011 to February 2012 and he has worked as the China Business director in Beta Field Capital Limited since April 2013.

Mr. Leung KF has been a district council member of Sha Tin District Council since 2008. Mr. Leung KF has also been a committee member of Yunfu City of the Chinese People's Political Consultative Conference (中國人民政治協商會議雲浮市委員會) in the PRC since January 2013. Mr. Leung KF is currently a member of Sha Tin District of Fight Crime Committee (沙田區撲滅罪行委員會), a vice-chairman of Sha Tin East District in New Territories East Region of District Scout Council of Scout Association of Hong Kong (香港童軍總會新界東地域沙田東區區務委員會). Mr. Leung KF has been a director of Hong Kong Association For The Development of Western China Limited (香港中國西部發展促進會有限公司) since 2011.

Mr. Leung KF graduated from Upper Iowa University in December 2005. Mr. Leung KF holds a Master of Arts degree in Chinese Language and Literature from The Hong Kong Polytechnic University in October 2008, a Postgraduate Diploma in Education (Teaching in Chinese) from Hong Kong Baptist University in November 2012 and a Master of Arts degree in Sociology from The Chinese University of Hong Kong in November 2014.

**Mr. Ho Fung Shan Bob ("Mr. Ho")**, aged 33, was appointed as an independent non-executive Director on 14 October 2014. From May 2006 to October 2009, Mr. Ho worked in Winterhur Life (Hong Kong) Limited, which was re-branded as AXA Wealth Management (HK) Limited ("**AXA**") in 2007, and his last position with AXA was assistant manager. Mr. Ho has been a career representative unit manager of AIA International Limited since November 2009. Mr. Ho is currently a director of each of AWM Investment Consultancy Limited and Ling Yuen Ju Company Limited.

Mr. Ho graduated from the City University of Hong Kong in November 2006 and obtained a Bachelor of Business Administration in Marketing.

### SENIOR MANAGEMENT

**Mr. Lei Kin Keong ("Mr. Lei")**, aged 39, was appointed as the company secretary and the financial controller of the Company on 30 May 2013. Mr. Lei holds a Bachelor of Arts (Honours) in Accountancy from The Hong Kong Polytechnic University and a Postgraduate Diploma in Corporate Compliance from The University of Hong Kong (School of Professional and Continuing Education). He is a certified public accountant of The Hong Kong Institute of Certified Public Accountants and an associate member of The Hong Kong Institute of Chartered Secretaries. Mr. Lei has extensive experiences in finance, accounting and company secretarial fields. Mr. Lei is also a director of a number of subsidiaries of the Company.

## BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT



### CHANGES IN INFORMATION OF DIRECTORS

Pursuant to Rule 17.50A(1) of the GEM Listing Rules, changes in information of the Directors are set out below:

| Name of Directors | Details of Changes |
|-------------------|--------------------|
|-------------------|--------------------|

|                 |   |
|-----------------|---|
| Mr. Cheung Hung | – the total emoluments (excluding the share-based payment expenses of approximately HK\$Nil (2014 Year: HK\$183,000)) for the 2015 Year was approximately HK\$600,000 (2014 Year: HK\$1,700,000). |
|-----------------|---|



|                         |   |
|-------------------------|---|
| Mr. Leung Pak Hou Anson | – the total emoluments (excluding the share-based payment expenses of approximately HK\$Nil (2014 Year: HK\$183,000)) for the 2015 Year was approximately HK\$1,071,000 (2014 Year: HK\$1,023,000). |
|-------------------------|---|



|                   |   |
|-------------------|---|
| Ms. Chen Miaoping | – the total emoluments (excluding the share-based payment expenses of approximately HK\$Nil (2014 Year: HK\$183,000)) for the 2015 Year was approximately HK\$388,000 (2014 Year: HK\$523,000). |
|-------------------|---|

# CORPORATE GOVERNANCE REPORT



Pursuant to the Rule 18.44(2) of the GEM Listing Rules, the board of Directors ("**Board**") is pleased to present the corporate governance report for the year ended 31 December 2015 ("**2015 Year**"). This report highlights the key corporate governance practices of the Company.

## CORPORATE GOVERNANCE PRACTICES

The Board believes that corporate governance is essential to the success of the Company. The Board is committed to maintaining corporate governance with high standard and ensuring compliance of the legal and regulatory requirements. The Company has put in place governance practices with emphasis on the integrity, quality of disclosures, transparency and accountability for the shareholders of the Company.

Throughout the 2015 Year, the Company has complied with the code provisions in the Corporate Governance Code ("**CG Code**") as set out in Appendix 15 to the GEM Listing Rules save for the deviation from code provisions A.2.7 and E.1.2 of the CG Code as disclosed below.

Under code provision A.2.7 of the CG Code, the chairman of the Company should at least annually hold meetings with the non-executive Directors (including independent non-executive Directors) without the executive Directors present. As the chairman of the Company, Mr. Cheung Hung, is also an executive Director, the Company was unable to hold such meeting where no executive Director was present.

Under code provision E.1.2 of the CG Code, the chairman of the Company should attend the annual general meeting of the Company. The chairman of the Board, Mr. Cheung Hung, did not attend the annual general meeting of the Company held on 19 May 2015 ("**2015 AGM**") due to other commitments. However, Mr. Leung Pak Hou Anson, the member of the remuneration committee of the Board and the executive Director, Ms. Chen Miaoping, the chief executive officer and the executive Director, and Mr. Lei Kin Keong, the company secretary and the financial controller of the Company, attended the 2015 AGM to answer questions and communicate with the shareholders of the Company present thereat.

## COMPLIANCE WITH CODE OF CONDUCT FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted a code of conduct regarding securities transactions by Directors on terms not less exacting than the required standard of dealings as set out in Rules 5.48 to 5.67 of the GEM Listing Rules. Having made specific enquiry with all Directors, the Company confirmed that all Directors have complied with the required standard of dealings and its code of conduct concerning securities transactions by the Directors during the 2015 Year.

# CORPORATE GOVERNANCE REPORT



## BOARD OF DIRECTORS

### Composition

As at 31 December 2015, the Board comprises three executive Directors and three independent non-executive Directors as follows:.

### Executive Directors

Mr. Cheung Hung (*Chairman*)

Mr. Leung Pak Hou Anson

Ms. Chen Miaoping (*Chief Executive Officer*)

### Independent non-executive Directors

Mr. Ho Fung Shan Bob

Mr. Leung Ka Fai

Mr. Yuen Chun Fai

The composition of the Board reflects the combination of skills and experience in different areas with different expertise of the Directors to provide independent opinions and implement strategic plans.

There is no relationship among members of the Board and the biographical details of the Directors are set out in the section headed "Biographical Details of Directors and Senior Management" of this report.

### Directors' Insurance

The Company has arranged appropriate insurance cover in respect of legal action against the Directors in compliance with code provision A.1.8 of the CG Code.

### Responsibilities, Accountabilities and Contributions of the Board and Management

The Company is governed by the Board, which is primarily responsible for formulating the overall strategy development of the Group and overseeing management, administration and operation of the Group. The Board should assume responsibility for leadership and control of the Group by directing and supervising its affairs. All Directors should make decisions objectively in the interests of the Company.

The Board reserves for its decision on all major matters relating to (i) monitoring and executing the internal control and risk management; (ii) evaluating the financial performance; (iii) seeking and evaluating of any potential material acquisitions, disposals, investments or transactions; and (iv) approving appointment of Directors and other significant operational matters of the Group including setting the overall strategies and directions for the Group with a view to developing its business and enhancing return to the shareholders.

Responsibilities relating to implementing decisions of the Board, directing and coordinating the daily operation and management of the Company are delegated to the management of the Group. The Board has reviewed the delegation to management periodically to ensure that they are remain appropriate.

The biographical details of the Directors are set out in the section above headed "Biographical Details of Directors and Senior Management" on pages 16 to 18 of this report. Their role and function are published on the websites of the Company and the Stock Exchange. Save as disclosed in this report, none of the Directors has any relationship (including financial, business, and family or other material/relevant relationship) with each other.

All Board committees of the Company are established with defined written terms of reference.

The respective terms of reference of the Audit Committee, the Remuneration Committee and the Nomination Committee have been published on the websites of the Company and the Stock Exchange.

# CORPORATE GOVERNANCE REPORT



## Attendance of Directors at Meetings

The attendance of the Directors at the general meetings of the Company, the meetings of each of the Board, the Audit Committee, the Remuneration Committee, and the Nomination Committee during the 2015 Year are set out below:

| Name of Directors                          | Board Meeting | Audit Committee Meeting | Remuneration Committee Meeting | Nomination Committee Meeting | General Meeting |
|--|---------------|-------------------------|--------------------------------|------------------------------|-----------------|
| <i>Executive Directors</i>                 |               |                         |                                |                              |                 |
| Mr. Cheung Hung                            | 23/24         | N/A                     | N/A                            | N/A                          | 2/5             |
| Mr. Leung Pak Hou Anson                    | 24/24         | N/A                     | 1/1                            | 1/1                          | 5/5             |
| Ms. Chen Miaoping                          | 22/24         | N/A                     | N/A                            | N/A                          | 4/5             |
| <i>Independent Non-executive Directors</i> |               |                         |                                |                              |                 |
| Mr. Ho Fung Shan Bob                       | 24/24         | 7/7                     | 1/1                            | 1/1                          | 4/5             |
| Mr. Leung Ka Fai                           | 24/24         | 7/7                     | 1/1                            | 1/1                          | 1/5             |
| Mr. Yuen Chun Fai                          | 24/24         | 7/7                     | 1/1                            | 1/1                          | 2/5             |

The Directors have received details of agenda and minutes of committee meetings in advances of and after each Board meeting respectively. The company secretary of the Company ("**Company Secretary**") has distributed relevant documents to the Directors in a timely manner to enable the Directors to make informed decisions on matters to be raised at the Board meeting. All Directors have access to the advices and services of the Company Secretary who is responsible for ensuring the procedures of the Board meetings are complied with, and in consultation with the compliance officer of the Company, advising the Board on compliance matters.

In addition, the Company has maintained a procedure for the Directors to seek independent professional advice, in appropriate circumstances, at the Company's expense in discharging their duties to the Company. Moreover, the Company Secretary have prepared minutes of the Board meetings and kept records of matters discussed and decisions resolved at all Board meetings. The Company Secretary also has kept the minutes of the Board meetings, which are open for inspection at any reasonable time on reasonable notice by any Director.

## APPOINTMENT, RE-ELECTION AND REMOVAL OF DIRECTORS

Pursuant to code provision A.4.1 of the CG Code stipulates that non-executive Directors should be appointed for a specific term, subject to re-election. All existing independent non-executive Directors are appointed for a specific term of one year.

According to Company's bye-laws, one-third of the Directors are required to retire from office at each annual general meeting, provided that every Director shall be subject to retirement by rotation at least once in every three years. Any Director appointed by the Board to fill a casual vacancy shall hold office until the first general meeting of the Company after his appointment and be subject to re-election at such meeting and any Director appointed by the Board as an addition to the existing Board shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election.



# CORPORATE GOVERNANCE REPORT



## INDEPENDENT NON-EXECUTIVE DIRECTORS

Pursuant to Rule 5.05 of the GEM Listing Rules, the Company has three independent non-executive Directors; one of them has appropriate professional qualification or accounting or related financial management expertise. The Company confirmed that annual confirmations of independence were received from each of the Company's independent non-executive Directors pursuant to Rule 5.09 of the GEM Listing Rules and all independent non-executive Directors are considered to be independent.

## BOARD COMMITTEES

As part of the corporate governance practices, the Board has established the Audit Committee, the Nomination Committee and the Remuneration Committee. The Audit Committee is composed of independent non-executive Directors whereas the Nomination Committee comprises all three independent non-executive Directors and one executive Director, Mr. Cheung Hung, and the Remuneration Committee comprise all three independent non-executive Directors and one executive Director, Mr. Leung Pak Hou Anson, with terms of reference in accordance with the principles set out in the CG Code. The compositions of the various committees of the Company on 31 December 2015 were set out below:

### Audit Committee

The Audit Committee is currently composed of three independent non-executive Directors, namely, Mr. Yuen Chun Fai, Mr. Ho Fung Shan Bob, and Mr. Leung Ka Fai. Mr. Yuen Chun Fai has been appointed as the chairman of the Audit Committee. The financial results for the 2015 Year have been reviewed by the Audit Committee.

The principal duties of the Audit Committee include:

- (a) to review the relationship with the external auditor to (i) make recommendations to the Board on the appointment, reappointment and removal of the external auditor, and to approve the remuneration and terms of engagement of the external auditor, and any questions of its resignation or dismissal; and (ii) review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standards;
- (b) to monitor integrity of the Company's financial statements and annual report and accounts, half-year report and quarterly reports, and review these reports and significant financial reporting judgments contained in them;
- (c) to review the Company's financial controls, risk management and internal control systems, discuss the risk management and internal control systems with management to ensure that management has performed its duty to have effective systems, and consider major investigation findings on risk management and internal control matters;
- (d) to consider any significant or unusual items that are, or may need to be, reflected in the report and accounts, it should give due consideration to any matters that have been raised by the Company's staff responsible for the accounting and financial reporting function, compliance officer or auditors; and
- (e) to review arrangements employees of the Company can use, in confidence, raise concerns about possible improprieties in financial reporting, internal control or other matters, and ensure that proper arrangements are in place for fair and independent investigation of these matters and for appropriate follow-up action.

# CORPORATE GOVERNANCE REPORT



During the 2015 Year, the Audit Committee has performed the above mentioned principal duties and reviewed the Company's monthly unaudited consolidated financial statements, annual results, annual report, interim report and quarterly reports and to advise and comments thereon to the Board. The Audit Committee has performed the duties to review the compliance procedures, report on the Company's internal control and risk management. The Audit Committee also met the external auditor twice without the presence of the executive Directors. Besides, there is no disagreement between the Board and the Audit Committee regarding the re-appointment of external auditor.

The Audit Committee established with written terms of reference in compliance with Rules 5.28 and 5.29 of the GEM Listing Rules. The full terms of reference setting out the Audit Committee's authority and its role and responsibilities are available on the websites of the Company ([www.ruikang.com.hk](http://www.ruikang.com.hk)) and the Stock Exchange.

## Remuneration Committee

The Remuneration Committee is currently composed of three independent non-executive Directors, namely Mr. Yuen Chun Fai, Mr. Ho Fung Shan Bob, and Mr. Leung Ka Fai and one executive Director, Mr. Leung Pak Hou Anson. Mr. Yuen Chun Fai has been appointed as the chairman of the Remuneration Committee.

The principal duties of the Remuneration Committee include:

- (a) making recommendations on the remuneration policy and structure of the Company, and determining the remuneration packages of, all Directors and senior management to the Board for the Board's final determination pursuant to Code Provision B.1.2(a) of the CG Code; and
- (b) establishing transparent procedures for developing such remuneration policy and structure to ensure that no Director or any of his/her associates will participate in deciding his/her own remuneration pursuant to Code Provision B.1.2(h) of the CG Code.

The Remuneration Committee held one meeting during the 2015 Year to perform the above mentioned principal duties.

Details of the Directors' remuneration and five individuals with highest emoluments are set out in note 16 to the consolidated financial statements.

In addition, pursuant to the Code Provision B.1.5 of the CG Code, the annual remuneration of the member of the current senior management of the Group by band for the 2015 Year is set out below:

| Emoluments band          | Number of individuals |
|--------------------------|-----------------------|
| HK\$Nil to HK\$1,000,000 | 1                     |

The Remuneration Committee established with written terms of reference in compliance with Rules 5.34 and 5.35 of the GEM Listing Rules. The full terms of reference setting out the Remuneration Committee's authority and its role and responsibilities are available on the websites of the Company ([www.ruikang.com.hk](http://www.ruikang.com.hk)) and the Stock Exchange.

## CORPORATE GOVERNANCE REPORT



### Nomination Committee

The Nomination Committee is currently composed of three independent non-executive Directors, namely Mr. Ho Fung Shan Bob, Mr. Leung Ka Fai, and Mr. Yuen Chun Fai, and one executive Director and chairman of the Company, Mr. Cheung Hung. Mr. Cheung Hung has been appointed as the chairman of the Nomination Committee.

The principal duties of the Nomination Committee include:

- (a) reviewing the structure, size; composition (including the skills, knowledge and experience) and diversity (including but not limited to gender, age, cultural and education background or professional experience or geography pursuant to Code Provision A.5.6 of the CG Code) of the Board on a regular basis and recommending any changes to the Board;
- (b) identifying qualified and suitable individuals to become Board members and selecting and making recommendations to the Board on the selection of individuals nominated for directorships;
- (c) assessing the independence of independent non-executive Directors; and
- (d) making recommendations to the Board on relevant matters relating to the appointment or re-appointment of Directors and succession planning for Directors in particular, the Chairman and the Chief Executive Officer of the Company.

During the 2015 Year, one meeting was held by the Nomination Committee to, among, other thing, review the structure, size, composition and diversity of the board, assess the independence of each of the independent non-executive Directors, and recommend to the Board for approval. The Nomination Committee reviewed the board diversity policy to ensure its effectiveness and considered that the Group has implemented the policy since its adoption.

The full terms of reference setting out the Nomination Committee's authority and its role and responsibilities are available on the website of the Company ([www.ruikang.com.hk](http://www.ruikang.com.hk)) and the Stock Exchange.

### CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Pursuant to the code provision A.2.1 of the CG Code, the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. The division of responsibilities between the chairman and the chief executive officer should be clearly established and set out in writing. The positions of chairman and the chief executive officer are held separately by Mr. Cheung Hung and Ms. Chen Miaoping respectively. This segregation ensures a clear distinction between the chairman's responsibility to manage the Board and the chief executive officer's responsibility, with support by the senior management, to manage the Company's business including the implementation of major strategies and initiatives adopted by the Board.

The responsibilities of the chairman is to ensure the Board to work effectively and perform its responsibilities, and all key and appropriate issues are discussed by the Board, draw up and approve the agenda for each board meeting and take into accounts, any matters proposed by others Directors for inclusion in the agenda.

# CORPORATE GOVERNANCE REPORT



## COMPANY SECRETARY

The Company Secretary supports the Board and Board committees by ensuring good information flow within the Board and that Board policy and procedures are followed. The Company Secretary is a full time employee of the Company and has day-to-day knowledge of the Company's affairs. The Company Secretary is appointed by the Board and reports to the chairman and the chief executive officer. The Company Secretary also plays an essential role in the relationship between the Company and its shareholders, and assists the Board in discharging its obligations to shareholders pursuant to the GEM Listing Rules.

Mr. Lei Kin Keong ("**Mr. Lei**") was the Company Secretary and undertook not less than 15 hours of relevant professional training to update his skills and knowledge during the 2015 Year.

Mr. Lei is also authorised representative of the Company under Rule 5.24 of the GEM Listing Rules and directors of several subsidiaries of the Company. The biographical details of Mr. Lei are set out in the section of "Biographical Details of Directors and Senior Management" of this report.

## CONTINUING PROFESSIONAL DEVELOPMENT OF DIRECTORS

Each newly appointed Director should be provided with necessary induction and information to ensure that he/she has a proper understanding of the Company's operations and businesses as well as his/her responsibilities under the relevant statutes, laws, rules and regulations.

Directors' training is an ongoing process. During the 2015 Year, the Directors are provided with monthly updates on the Company's performance and position to enable the Board as a whole and each Director to discharge their duties.

Under the code provision A.6.5 of the CG Code, all Directors should participate in continuous professional development to develop and refresh their knowledge and skills. The Directors are encouraged to participate in continuous professional development.

All Directors participated in continuous professional development by attending training and reading the materials relating to the latest development of the GEM Listing Rules and other applicable regulatory requirements during the 2015 Year in order to develop and refresh their knowledge and skills. The Company updates the Directors on the latest development regarding the GEM Listing Rules and other applicable regulatory requirements from time to time to ensure compliance and enhance their awareness of good corporate governance practices.

During the 2015 Year, the Directors have participated in the following trainings at the Company's expenses:

| Name of Directors                          | Type of trainings |                   |
|--|-------------------|-------------------|
|  | Seminars          | Reading Materials |
| <b>Executive Directors</b>                 |                   |                   |
| Mr. Cheung Hung                            | A & B             | C                 |
| Mr. Leung Pak Hou Anson                    | A & B             | C                 |
| Ms. Chen Miaoping                          | A & B             | C                 |
| <b>Independent non-executive Directors</b> |                   |                   |
| Mr. Ho Fung Shan Bob                       | A & B             | C                 |
| Mr. Leung Ka Fai                           | A                 | C                 |
| Mr. Yuen Chun Fai                          | A & B             | C                 |

# CORPORATE GOVERNANCE REPORT



- A: Seminar in relation to the fund raising exercise and financial reporting matters held on 16 January 2015 and the records of the training have been received by the Company.
- B: Seminar in relation to the frontier policy interpretations for foreign mergers and acquisitions and return investments and legal due diligence in connection with mergers and acquisitions held on 2 November 2015 and the records of the training have been received by the Company.
- C: Reading materials given by the Company in relation to the regular updates on GEM Listing Rules, corporate governance and other applicable legal and regulatory requirements.

## ACCOUNTABILITY AND AUDIT

### Financial Reporting

The Directors have received the monthly updates included the monthly consolidated financial statements with explanation information to enable them to make an informed assessment of financial of the Company. Discussion between the financial controller, Directors and external auditor of the annual results, annual report, interim report and quarterly reports can enable the Directors to discharge their duties under the code provision C.5.01 of the CG Code.

The Directors acknowledge their responsibility for preparing the consolidated financial statements of the Group that give a true and fair view of the state of affairs of the Group. In preparing the consolidated financial statements for the year ended 31 December 2015, the accounting principles generally accepted in Hong Kong have been adopted and the requirements of the Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards and Interpretations issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance have been complied with.

The Directors believe that they have complied all applicable accounting policies and applied them consistently, made judgments and estimates that are prudent and reasonable. The Directors also ensure the timely publication of the consolidated financial statements of the Group. As at 31 December 2015, the Directors were not aware of any material uncertainties or events which may have a significant impact on the Company's ability to operate as a going concern. Accordingly, the Directors have prepared the consolidated financial statements on a going concern basis, which contemplates continuity of normal business activities and the realisation of assets and settlement of liabilities in the ordinary course of business.

The reporting responsibilities of the Company's external auditor are set out in the "Independent Auditor's Report" on pages 46 to 47 in this annual report.

### Risk Management and Internal Control

The Board is responsible for maintaining an adequate risk management and internal control system on an ongoing basis to safeguard the interests of the Company's shareholders and the Group's assets and, with the support of the Audit Committee, for reviewing the effectiveness of such system on an annual basis. In addition, there is regular dialogue with the Group's internal and external auditors so that both are aware of the significant factors which may affect their respective scope of work.

The Company does not have internal audit department, during the 2015 Year, the Company appointed an independent internal control consultant, SHINEWING Risk Services Limited, assists the Board to perform high-level review of the risk management and internal control systems for its business operations and processes which cover the sales cycle, purchasing cycle, investment management cycle and enterprise risk assessment. The internal control review report for the 2015 Year listed out the findings of the weaknesses in regard to the relevant cycles and procedures with recommendations proposed for the Company to further improve its internal control system. The result of the review has been reported to the Board and areas of improvement, if any, have been identified and appropriate measures have been put in place to manage the risks. The Audit Committee reviewed the risk management and internal control system in respect of the 2015 Year and considered the system effective and adequate.



# CORPORATE GOVERNANCE REPORT



The Company has circulated the procedures for the handling and dissemination of inside information to the senior management and Directors when they are employed. During the 2015 Year, the Company has adopted the money lender business policy on 31 March 2015 which set out the guidelines to Group to carry on the money lending business in Hong Kong.

## Auditor's Remuneration

The auditor provides an objective assessment of the financial information presented by the management, and is considered one of the essential elements to ensure effective corporate governance. For the 2015 Year, the remuneration paid/payable to the auditor, Cheng & Cheng Limited, Certified Public Accountants, in respect of audit services amounted to HK\$1,160,000 (2014 Year: HK\$610,000) and non-audit service assignment amounted to HK\$90,000 (2014 Year: HK\$85,000). Non-audit services include due diligence exercises, advising on transactions and the calculations of the adjustments to the outstanding share options due to share consolidation and rights issue exercises.

## INVESTOR RELATIONS AND COMMUNICATION WITH SHAREHOLDERS

The Company believes that maintaining a high level of transparency is a key to enhancing investor relations. It is committed to a policy of open and timely disclosure of corporate information to its shareholders and investors.

During the 2015 Year, there was no change in the bye-laws of the Company.

The Company updates its shareholders on its latest business developments and financial performance through its corporation communications such as annual reports, interim reports and quarterly reports, notices, announcements and circulars issued in printed form and are available on the Stock Exchange's website at [www.hkex.com.hk](http://www.hkex.com.hk) and the Company's website at [www.ruikang.com.hk](http://www.ruikang.com.hk) in a timely and consistent manner as required by the GEM Listing Rules. The Company's website provides a communication platform to the public and the shareholders.

The Company regards the annual general meeting ("**AGM**") and special general meeting ("**SGM**") as a platform to provide an important opportunity for direct communications between the Board and the shareholders. Shareholders are encouraged to attend the AGM and other shareholders' meetings. The Company supports the CG Code principle to encourage shareholder's participation.

Shareholders may send any enquiries they have by addressing them to the Company Secretary in writing to the Company's head office and principal place of business in Hong Kong at Room 1213, Tower A, New Mandarin Plaza, 14 Science Museum Road, Kowloon, Hong Kong ("**Head Office and Principal Place of Business**") or by email to [info@ruikang.com.hk](mailto:info@ruikang.com.hk). The Board will seriously consider shareholders' enquiries and address them accordingly.

# CORPORATE GOVERNANCE REPORT



## SHAREHOLDERS' RIGHTS

### A. Procedures for Shareholders to Convene a Special General Meeting

According to the provision of bye-law 58 of the bye-laws of the Company, the shareholders of the Company holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the Company Secretary, to require a SGM to be called by the Board for the transaction of any business specified in such requisition. The SGM shall be held within two (2) months after the deposit of such requisition. The requisition must be lodged with the Company's Head Office and Principal Place of Business of Hong Kong.

According to the provision of bye-law 74(3) of the bye-laws of the Company, if within twenty-one (21) days of such deposit the Board fails to proceed to convene such meeting the requisitionist(s) may convene such meeting, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

### B. Procedures for Putting Enquiries to the Board

Shareholders may send their enquiries and concerns to the Board by addressing them to the Company Secretary by mail at Room 1213, Tower A, New Mandarin Plaza, 14 Science Museum Road, Kowloon, Hong Kong. The Company Secretary is responsible for forwarding communications relating to matters within the Board's direct responsibilities to the Board and communications relating to ordinary business matters, such as suggestions and inquiries, to the Directors.

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT



## REPORTING GUIDELINE

This is the “Environmental, Social and Governance Report” (“**ESG Report**”) issued by Rui Kang Pharmaceutical Group Investments Limited (“**Company**”). The ESG Report is prepared in accordance with the reporting guide set out in Appendix 20 “Environmental, Social and Governance Reporting Guide” of the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited and the actual situation of the Company. The ESG Report aims to improve stakeholders’ understanding and communication towards the Company’s sustainability initiatives. The board of directors of the Company has reviewed the ESG Report and the management has confirmed its accuracy, truthfulness and completeness.

## SCOPE OF REPORT

The ESG report covers the environmental, social and governance reporting performance of the Company, including the Hong Kong head office of the Company (excluding the subsidiaries acquired during the year ended 31 December 2015 which are engaged in the provision of medical laboratory testing services and health check services) as well as the businesses in Suzhou and Guizhou for the financial year ended 31 December 2015. Other subsidiaries will be gradually included in the ESG Report in the subsequent reporting cycles. The business data of the Company is sourced from the audited annual report and other data is obtained from relevant departments and stakeholders.

## CORPORATE CULTURE OF SUSTAINABILITY

We are willing to be monitored by the society and hope the ESG Report can strengthen the communication and enhance the understanding between the Company and the community. We look forward to sharing greater delight and achievement with our stakeholders while contributing more to the society.

Since the establishment of the Company, there has been a growing demand for enterprises to take up corporate social responsibilities around the globe. The public debates about various social issues, such as environmental protection, drug, and food safety, have also awakened the sense of responsibility among enterprises. We believe development and accountability are connected, and consider corporate social responsibility as the cornerstone of outstanding governance. Looking into the future, we will continue to leverage on innovative insights to promote sustainable development and our interaction with the community.

As an enterprise specialising in manufacture and sale of health related and pharmaceutical products, and provision of medical laboratory testing and health check services, we have maintained a diligent and cautious attitude in conducting our business, ensuring product quality and exercising care about our customers’ well-being. Transcending the notion of putting profit making as our sole corporate goal, we have been paying more attention to creating value for people and making contributions to consumers, environment, and society. We are committed to the Company’s mission – “Innovate with determination; Boost customers’ well-being.”

In 2015, the Company has strictly complied with the laws and regulations. Maintaining the perspective of a responsible corporate citizen, we appraise and improve our relations with consumers, customers, employees, and investors in the pursuit of reaching an all-win harmony. In 2016, the Company will continue to shoulder responsibility and bring satisfactory returns to all stakeholders, including shareholders, investors, and the society, and persist in its journey of sustainable development.

The Company is committed to providing high-quality health related and pharmaceutical products. Realising that its talent is the most valuable asset of the enterprise, the Company adopts a people-oriented management philosophy and strives to enhance the sense of responsibility of every employee. The Company implements an effective incentive and selection system to stimulate employee’s passion and creativity, preserving the competitiveness of the enterprise.

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT



## THE COMPANY'S MISSION AND VALUES

To the customers – The Company is committed to providing high-quality health related and pharmaceutical products through continuous innovations, satisfying the needs of our customers. The Company has built a long-term and stable relationship with its strategic partners of common interests while developing and growing with them together.

To the employees – The Company respects employees' right, providing a platform for all our employees to use their talents and achieve their ambitions. We align the Company's long-term development prospects with our employees' personal development.

To the community – The Company has actively shouldered corporate social responsibility and is committed to being a good corporate citizen and creating a harmonious society.

To the investors – The Company is responsible to our investors, striving to provide a reasonable, sustainable and steady return for them.

## STAKEHOLDER COMMUNICATION

The Company has been engaging stakeholders in understanding and caring for their needs through various channels, continuously improved its stakeholder engagement by optimising our communication strategies, taking concrete actions to respond to the issues concerned by stakeholders, and improving the performance of the Company's sustainable development. Below are the communications channels and the topics that stakeholders are concerned.

| Stakeholders               | Issues   | Engagement Channels   |
|----------------------------|--|---|
| Investors and shareholders | Corporate governance<br>Operational risk<br>Business operation<br>Disclosure | Investor conferences and roadshows<br>Annual general meeting<br>Financial reports and press release<br>The ESG report                     |
| Employees                  | Training and development<br>Remuneration<br>Occupational health and safety   | Employee grievance mechanism<br>Whistleblowing policy<br>Feedback of training workshops   |
| The Government             | Taxation compliance<br>Employment protection<br>Business ethics              | Compliance with laws and regulations<br>Active response to government policy<br>Ongoing communication with relevant government department |
| Customers                  | Product quality  | Maintain high product quality<br>Websites of the Company and its subsidiaries<br>Feedback from front-line employees                       |
| Community                  | Helping people in need and poverty relief                                    | Support charity organisation in the relevant field  |
| Suppliers                  | Corporate reputation<br>Responsible sourcing                                 | Site visits and assessments   |

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT



## QUALITY ASSURANCE

The Company has a well-established product quality management system, committing to maintaining quality supervision and safety assurance. The Company focuses on the execution of the procedure and Good Manufacturing Practice (“GMP”) training in order to raise employees’ sense of compliance. Suzhou Longlifu Health Food Co. Ltd. (“Suzhou Longlifu”) has established a health related product quality management system by adhering to ISO 9001 quality assurance standard, procedures and operating manual, and has set up (1) raw materials identification, verification and check before acceptance system, (2) product storage and delivery system, (3) product inspection, handling and discard mechanism, (4) workshop and facilities clean up mechanism, (5) staff personal hygiene management mechanism, (6) employees training and health check system, and (7) rules and regulations for production hygiene and environmental management.

Since the announcement on the revision of “Good Health Food Manufacturing Practice Audit” and the review of the health administrative approval procedures, GMP has been included as a part of the hygiene audit before a permit for healthcare product manufacturing companies could be issued. The Company has strictly followed the national GMP standards. An all-rounded certification, management, and control process have been carried out on staff, equipment and machinery, manufacturing processes and workplace environment. Physical, chemical and biological detection, management and control have been conducted during the entire production process, from raw materials, work-in-progress to finished products.

Health related products manufactured by Suzhou Longlifu received manufacturing licence from Jiangsu Food and Drug Administration in September 2013. After the audit, Powder of Tortoise and Snake, Pearl Powder Capsule, Pearl Amercian Ginseng Capsule, Collagen Capsule, Glossy-Ganoderma and Placenta Capsule, Freckles Removing Capsule, Calcium Capsule and Cordyceps Capsule have all met the requirements of GMP for health related products and were awarded the health related products manufacturing permits. Both the liniment and suppository 貴陽舒美達製藥廠有限公司 (in English, for identification purpose only, Guiyang Shu Mei Da Pharmaceutical Co., Ltd) (“Shu Mei Da”) were awarded the GMP certification by Guizhou Food and Drug Administration which is valid until 2019.

The Company strives to protect the health and safety for all of its customers, strictly follow national rules and regulations during the manufacturing and operation process, control the product quality along the value chain, including supply, production, sales, and customer service, and ensure that all the indicators of our products have met the industry and national standards. During the year, the health related and pharmaceutical business in Hong Kong received 413 sets of cosmetics products returned from the retailers, with a total value of approximately HK\$140,000. Main reasons for the returned product include products to be expired within six months, packaging damage, or unfit from customers requesting returns.

## DEALING WITH CUSTOMER COMPLAINTS

The Company will communicate with customers promptly to find out the root cause of the problem if a complaint is received, rectifying the problem, exercising precautionary measures, and providing feedback to customers. The Company is committed to learn from the experience and actively promote preventive measures to other related products, ensuring that the same problem will not occur again.



# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

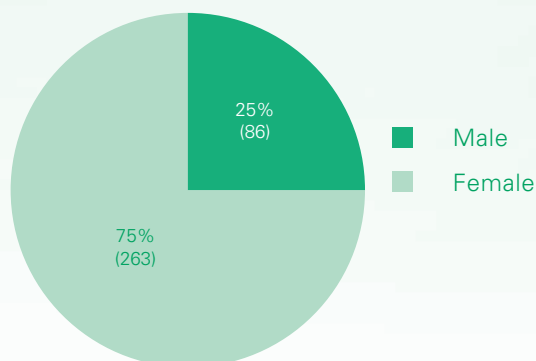


## COMMITMENT TO PEOPLE

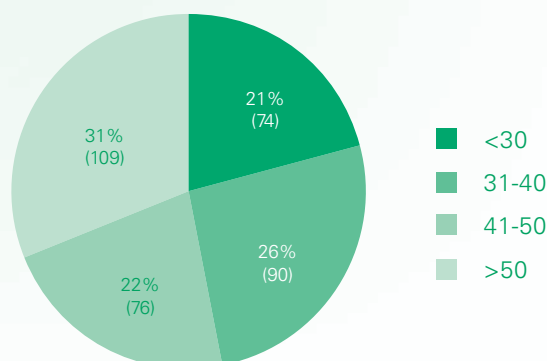
The Company emphasises on equal opportunity for employment, training, and promotion, regardless of race, gender, colour, family background, marital status and health. To encourage our employees to develop their career, the Company has provided different training programs and subsidies to nurture their potential. The Hong Kong head office and the factories in Suzhou and Guizhou have issued a comprehensive staff handbook, which provides the basis for human resources management.

The Company is committed to attracting talents. In addition to public recruitment, the Company provides equal opportunity for every employee through appraisal, remuneration and incentive system. The charts summarise the employment data from the Hong Kong head office (excluding the subsidiaries acquired during the year 2015 which are engaged in the provision of medical laboratory testing services and health check services) and the Suzhou and Guizhou factories in employment type, age, and gender.

**Gender breakdown**



**Age breakdown**



To maintain transparency and promote integrity and accountability, the Company has laid out clearly in its Code of Conduct about equal opportunity and anti-corruption. The Company has also established an official grievance mechanism so that employees can submit written complaint to and set up a follow-up meeting with the department manager. If the grievance is not handled properly, employees are allowed to submit written complaint to Administration and Human Resources Department directly. During the year, the Company has established a whistleblowing policy to encourage employees, suppliers, and other stakeholders to report any misconduct and impropriety occurred in the Company, the relevant reports can be submitted to Administration and Human Resources Department. If the report is related to directors or a member of the Administration and Human Resources Department, the relevant reports could be submitted directly to the Chairman of the Audit Committee.

The Company is committed to maintaining good labour-management relationship through showing concern for staff welfare, raising team cooperation, and enhancing work satisfaction. The employee turnover rate remains relatively small. Hong Kong recorded zero turnover during the year, and while Guizhou and Suzhou recorded 13% and 15% respectively.

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT



## TRAINING AND DEVELOPMENT

Different training and development opportunities are stated explicitly in the staff handbook. Committing to enhance personal qualities and capabilities, cultivate well-rounded skill sets and expertise, and instil integrity and professionalism into the employees, the Company has a well-established training management system in place. Training plans are set at the beginning of every year. On the selection of training courses, the Company aims to meet the needs of employees by customising the training based on their levels. Different types and categories of training will be offered in order to cater for different needs of our employees.

Aiming to develop ideas for senior management personnel and principal business personnel, broaden management capabilities and strengthen internal and external enterprise communication, apart from organising various internal trainings to improve staff quality, the Company will also regularly select employees for short-term training courses in external training centers. External training follows the agreement stated in the employee handbook, of which the cost is borne by the Company.

To assist staff to get a promotion, the Company will also participate in the promotion and training of employees, including new job skills, management expertise, coordinating staff to switch roles as management responsibilities. Also, the Company regularly scheduled various seminars on topics such as business management and communications on various aspects of full discussion. Shu Mei Da regularly provides internal training to its employees, including production management, GMP, production safety, fire prevention and compliance, etc. Hong Kong head office regularly provides training of new product knowledge for its employees every month. A multi-media training created by Occupation Safety and Health Council is also provided for Hong Kong employees starting from 2015 onwards.

During the probation period, to enable new recruits to quickly integrate into the Company and understand the nature and content of the job, the Company arranges senior staff to provide induction trainings for newly hired employees. The induction training is carried out by the Administration and Human Resources Department, the contents includes an introduction to the Company, corporate development, corporate culture, departmental functions and relations, policies and basic business knowledge. After the training, the department manager will introduce the role and duties of an employee to maintain proper operation of the Company.

## ENVIRONMENTAL PROTECTION

As a manufacturer of health related and pharmaceutical products, environmental protection is put as one of the top sustainability priorities in addition to committing to regulatory compliance. Due to the continuous updates about the requirements and applicable scope of the environmental regulations, the Company regularly monitors the regulations which apply to our operations and conducts necessary risk assessment. In addition, environmental performance indicators are defined based on the direct and indirect environmental impact due to our operation and are used to improve our performance.

For manufacturing process, the Company encourages energy saving, implements clean production and complies with the regulatory audit. For waste management, the Company supervises every part of the production process, and extend the responsibility of producers, aiming to enhance the reuse and recycling of waste. In respect of supply chain, the Company will take into consideration the performance and policy on environmental protection of our suppliers, and actively promote the concept of green procurement.

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT



## ENVIRONMENTAL MANAGEMENT SYSTEM

The Company proactively introduces advanced environmental management system based on its standardised management system. Through the strict implementation on performance evaluation, we make sure our environmental management system operates effectively. In addition to launching initiatives about environmental protection and sustainable development, the Company has strengthened the effort in monitoring the environment, through setting up prescribed indicator, the Company could accurately assess the environmental impact of the Company's operations. In 2015, the Company's factory in Suzhou recorded 3,642 tonnes of water discharge.

## EMISSION AND USE OF RESOURCES

Greenhouse gas emission cause climate change, adversely affect the environment and human beings to a different extent, including extreme weather, food crisis, water shortage and so on. Governments, enterprises, investors and non-governmental organisations around the globe have an ever increasing emphasis on this issue. At the 21st meeting of United Nations Framework Convention on Climate Change held in Paris, delegates from 195 nations had finally passed the historic L'accord de Paris to curb global warming. Therefore, we also promote energy saving and assess the level of efficiency to reduce energy consumption and carbon emissions.

### Resources consumption in Hong Kong head office (Note)

|                         |                       |
|-------------------------|-----------------------|
| Water usage             | 184.66 m <sup>3</sup> |
| Electricity consumption | 63,037 kWh            |
| Gas consumption         | 3,408 megajoule       |

### Resources consumption at the factories in Suzhou and Guizhou

|                         |               |
|-------------------------|---------------|
| Water usage             | 29,615 tonnes |
| Electricity consumption | 1,483,491 kWh |

*Note:* Excluding the subsidiaries acquired during the year 2015 which are engaged in the provision of medical laboratory testing services and health check services

## RAISING THE ENVIRONMENTAL AWARENESS

To ensure the employees' understanding of environmental management policies and the implementation of an effective environmental policy, and active participation and understanding of the employees is indispensable, therefore, the Company has organised various forms of training, both inside and outside, and hire external expertise for corporate seminars, enabling our employees to achieve a deeper understanding of the environmental management system and causes the administrative personnel to grasp the concrete operating procedure for the environment management. Also, the Company regularly organises seminars with subjects relating to the environment protection and sustainability development issue for employees, such as low carbon living and climate change, in order to raise the environmental protection consciousness of employees and facilitating the introduction and implementation of the new concepts of environmental protection.

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT



## COMMUNITY CARE

The Company is committed to shouldering corporate social responsibility and encourages its employees to serve the community. The Company has established long-term partnerships with charitable organisations in the PRC and Hong Kong promoting social well-being. By combining the pursuit of profits and corporate social responsibility, the Company aims to revitalise the local economy by its own development. Going forward, the Company will continue to contribute to the harmonious society through broadening the perspective of charity and exploring diversified ways of conducting charitable donations.

The Company made a donation of HK\$175,000 in 2015. Of which HK\$170,000 was donated to Egive For You Charity Foundation (hereinafter referred to as the “**Egive**”), a charity organisation established in Hong Kong in 2014 and became eligible in 2015 as a tax-exempt charity by the Inland Revenue Department (File Number: 91/13823). Egive is founded by a group of civic-minded community leaders, aiming to influence others’ life by uniting personal power. Through an online fund-raising platform, Egive connects beneficiaries, donors, and the public, regardless of their geographical, cultural, ethnic background and language used, aligning with the Company’s vision in supporting charitable activities.

Meanwhile, the Company is also actively involved in pharmaceutical donations and poverty relief projects. For example, cash donation for a clinic construction project in Maoli mountain village of Guizhou was made in January 2015 and pharmaceutical products were donated to a charitable organisation in Kunming during the Ludian earthquake in August 2014.

## DIRECTORS' REPORT



The Directors are pleased to present their report together with the audited consolidated financial statements of the Company for the year ended 31 December 2015 ("**2015 Year**").

### PLACE OF INCORPORATION AND PRINCIPAL PLACE OF BUSINESS

The Company was incorporated and registered as an exempted company in Cayman Islands under the Company Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands on 5 June 2003 and duly continued in Bermuda as an exempted company under the laws of Bermuda. The registered office of the Company is located at Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda. The head office and the principal place of business of the Company in Hong Kong is located at Room 1213, Tower A, New Mandarin Plaza, 14 Science Museum Road, Kowloon, Hong Kong.

### PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal activities of its subsidiaries are set out in note 46 to the consolidated financial statements.

### RESULTS AND DIVIDENDS

The results of the the Company and its subsidiaries (collectively, the "**Group**") for the 2015 Year are set out in the consolidated statement of profit or loss and other comprehensive income on page 48. The state of affairs of the Group and the Company as at 31 December 2015 are set out in the consolidated statement of financial position on page 50 and note 45 to the consolidated financial statements of this report respectively.

The Board does not recommend the payment of a dividend for 2015 Year (year ended 31 December 2014 ("**2014 Year**"): HK\$Nil).

### SEGMENT INFORMATION

An analysis of the principal activities and geographical locations of operations of the Group for the 2015 Year is set out in note 8 to the consolidated financial statements.

### CHARITABLE DONATIONS

During the 2015 Year, the Group made charitable donations amounting to approximately HK\$177,000 (2014 Year: HK\$63,800).

### MAJOR CUSTOMERS AND SUPPLIERS

For the 2015 Year, the percentages of turnover and purchases (including discontinued operation) attributable to the Group's major customers and suppliers are set out below:

|                                       |  |        |
|---------------------------------------|--|--------|
| Turnover                              |  |        |
| – The largest customer                |  | 9.50%  |
| – Five largest customers in aggregate |  | 23.36% |
| Purchases                             |  |        |
| – The largest supplier                |  | 7.14%  |
| – Five largest suppliers in aggregate |  | 22.49% |



## DIRECTORS' REPORT



As far as the Directors are aware, neither the Directors nor their associates nor any shareholders (which to the knowledge of Directors own more than 5% of the Company's issued share capital) had any interest in the five largest customers and suppliers of the Group.

### SHARE CAPITAL

Details of the movements in the share capital of the Company during the 2015 Year are set out in note 37 to the consolidated financial statements.

#### Rights issue

On 10 July 2015, the Company announced to raise not less than approximately HK\$181.9 million and not more than approximately HK\$189.1 million before expenses on the basis of four rights shares ("**Rights Shares**") for every one existing share in issue held on the record date at the subscription price of HK\$0.18 per Rights Share by way of rights issue of not less than 1,010,749,200 Rights Shares and not more than 1,050,378,296 Rights Shares ("**Rights Issue**"). The net proceeds after deduction of expenses from the Rights Issue were approximately HK\$175.0 million. Details of the use of proceeds from the Rights Issue are set out in the section headed "Management Discussion and Analysis – Capital Structure – Rights Issue". Details of the Rights Issue are disclosed in the announcements of the Company dated 11 June 2015, 10 July 2015 and 17 September 2015, the circular of the Company dated 27 July 2015, and the prospectus dated 26 August 2015.

The Directors consider that it is prudent to finance the Group's long term growth by way of the Rights Issue which would not only strengthen the Group's capital base and enhance its financial position without increasing finance costs, but would also allow all qualifying shareholders of the Company the opportunity to participate in the growth of the Group through the Rights Issue at a deeper discount to the current market price of the Shares. Accordingly, the Board considers that the fund raising through the Rights Issue is in the interests of the Company and the shareholders of the Company as a whole.

### EQUITY-LINKED AGREEMENTS

Details of the equity-linked agreements entered into by the Company during the year or subsisting at the end of the year are set out below:

#### (a) Issue of new shares under specific mandate

On 14 November 2014, the Company and China Wah Yan Healthcare Limited ("**Wah Yan Health**") (formerly known as China Renji Medical Group Limited), the shares of which are listed on the Main Board of the Stock Exchange (Stock code: 648), entered into the subscription agreement pursuant to which Wah Yan Health conditionally agreed to subscribe for, and the Company conditionally agreed to allot and issue, 257,812,500 subscription shares ("**WY Subscription Shares**") at the subscription price of HK\$0.128 per WY Subscription Share ("**WY Subscription**"). The completion of the WY Subscription took place on 23 January 2015. The net proceeds after deduction of expenses from the WY Subscription was approximately HK\$32.7 million.

Completion of the WY Subscription shall be subject to the following conditions being satisfied:

- (i) the passing of an ordinary resolution by the shareholders of the Company at the special general meeting of the Company approving the allotment and issue of the WY Subscription Shares by the Company under the specific mandate;
- (ii) the Stock Exchange granting the approval for the listing of, and permission to deal in, the WY Subscription Shares;

## DIRECTORS' REPORT



- (iii) the compliance with the applicable requirements under the GEM Listing Rules by the Company; and
- (iv) the compliance with the applicable requirements under the Rules Governing the Listing of Securities on the Stock Exchange by Wah Yan Health.

The Board believes that the WY Subscription represents good opportunities to enhance its shareholders' base to introduce Wah Yan Health as its substantial shareholder and raise additional funds at a reasonable cost for itself. In particular, in view of the business nature of Wah Yan Health and its subsidiaries, which is also related to healthcare industry, the WY Subscription is a strategic cooperation between the Group and Wah Yan Health and its subsidiaries which sets ground for future business cooperation if opportunity arises which will be beneficial to the business strategy and development of the Group.

### (b) Placing of new shares under general mandate

On 21 December 2015, the Company and Convoy Securities Limited ("**Convoy**") entered into a placing agreement ("**Placing Agreement**") pursuant to which Convoy has conditionally agreed to procure, as placing agent of the Company, not less than six placees, to subscribe, failing which, Convoy itself would subscribe for 50,537,000 shares ("**Placing Shares**") at a price of HK\$0.10 per Placing Share ("**Placing**").

Completion of the Placing is conditional upon the Stock Exchange granting the listing of, and permission to deal in, the Placing Shares to be placed pursuant to the Placing Agreement on or before 11 January 2016 or such later date as the Company and Convoy may agree in writing.

The Directors are of the view that the Placing represents a good opportunity for the Company to broaden its shareholders' base and raise additional funds at a reasonable cost. Taking into account the terms of the Placing Agreement, the Directors consider that the Placing is in the interest of the Company and the shareholders as a whole.

### (c) Share option scheme

On 26 May 2004, the Company approved and adopted a share option scheme ("**Expired Scheme**") which expired on 25 May 2014. The Company adopted a new share option scheme on 29 May 2014 for the purpose of enabling the Group to grant share options to selected participants as incentives or rewards for their contribution to the Group.

The details of the share option scheme of the Company are set out in note 38 to the consolidated financial statements.

## RESERVES

Details of the movements in the reserves of the Group and the Company during the 2015 Year are set out in the consolidated statement of changes in equity on page 51 and in note 45 to the consolidated financial statements respectively.

## DISTRIBUTABLE RESERVES

For the 2015 Year, the Company's distributable reserves are set out in note 45 to the consolidated financial statements.

## PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the 2015 Year are set out in note 17 to the consolidated financial statements.

## DIRECTORS' REPORT



### PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive right under the Company's bye-laws and there was no restriction against such rights under the laws of Bermuda.

### EVENTS AFTER THE REPORTING PERIOD

Details of the Group's events after the reporting period are set out in note 49 to the consolidated financial statements.

### FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the past five financial years is set out in the financial summary on page 133 of this report. This summary does not form part of the audited consolidated financial statements.

### BUSINESS REVIEW

The business review, including (i) review of the business of the Group during the year, (ii) particulars of important events affecting the Group that have occurred since the end of the 2015 year, (iii) key financial and business performance indicators, and (iv) discussion on the Group's future business development are set out in the section headed "Management Discussion and Analysis" on pages 6 to 15 of this report.

### ENVIRONMENTAL POLICIES AND PERFORMANCE

As a responsible corporate citizen, the Group recognises the importance of good environmental stewardship. The Group implemented green policies to raise energy efficiency and minimise energy consumption. For details, please refer to the section headed "Environmental, Social and Governance Report" on pages 29 to 35 of this report.

### COMPLIANCE WITH LAWS AND REGULATIONS

The Group recognises the importance of compliance with applicable laws and regulations and the risk of non-compliance with such requirements. The Group has implemented system and allocated staff resources to ensure ongoing compliance with applicable laws, rules and regulations. During the 2015 Year and up to the date of this report, save as disclosed in this report, the Group has complied with the relevant laws and regulations that have significant impact on the Group in Hong Kong and the PRC.

### PRINCIPAL RISKS AND UNCERTAINTIES

The Directors are aware that the Group is exposed to various risks, including some which are specific to the Group or the industries in which the Group operates. The Directors have established a policy to ensure that significant risks which may adversely affect the Group, are identified, reported, monitored, and managed on a continuous basis.

The Group has identified the following key risks that are considered to be significant to the Group, which may adversely and/or materially affect the Group's businesses, financial conditions, results of operations and growth prospects. Key risks relating to the Group's businesses and to the industries in which the Group operates are including but not limited to:

## DIRECTORS' REPORT



### (a) Competition

The industries that the Group operates are highly competitive. Areas of competition include product designs, production costs, marketing campaign, customer services and distribution network. If the Group does not respond timely to cope with the market conditions, it would affect the consumer demand for the Group's products and services, the reputation of the Group and the Group's financial performance.

### (b) Financial

The Group is exposed to financial risks, including credit, interest rate, currency, liquidity and other price risks. The Group actively and regularly reviews and manages its capital structure to maintain a balance between shareholder return and a sound capital position. Adjustments are made, when necessary, to maintain an optimal capital structure in light of changes in economic conditions.

### (c) Technology

The Group is dependent on information technology systems and networks, including the internet and third-party hosted services for the Group's operation, including laboratory management, sales and distribution, ordering and purchases, inventory management and financial reporting. Any material disruption or slowdown of information technology systems, including a disruption or slowdown caused by failure to successfully upgrade the Group's systems, system failures, viruses or cyber attacks could cause a loss of data or operation interruption. Therefore, the Group will continuously monitor and implement, if necessary, relevant information technology systems and networks so as to keep up with the pace of technology.

### (d) Macroeconomic environment

The downturn of macro economy has negative impact on the business environment. Health related and pharmaceutical products may not be considered as necessity for customers which may result in reduced demand and order for the Group's products from the customers or distributors and lower revenue and profit margins. It is therefore important that the Group is aware of any such changes of economic environment and adjusts the product diversification plan and marketing strategies as well as overall business plan under different market conditions.

### (e) Employees

The Group's success and ability to grow depends largely on its ability to attract, train, retain, and motivate highly skilled and qualified managerial, sales, marketing, administrative, operating, and technical personnel. The loss of key personnel could materially and adversely affect the Group's prospects and operations.

## DIRECTORS' REPORT



### RELATIONSHIP WITH KEY STAKEHOLDERS

The Company is committed to operating in a sustainable manner while balancing the interests of various stakeholders including the Group's employees, customers, suppliers and the community.

#### Employees

The Group recognises the value and importance of its employees and the Group has been devoting resources in staff training and review of their development. The Group ensures that all employees are reasonable remunerated and also continues to improve and regularly review and update its policies on remuneration and benefits, training, occupational health and safety.

#### Customers

The Group is committed to provide safe and healthy products and quality services to its customers. A customer complaint handling mechanism is in place to receive, analyse and handle complaints and make recommendations on remedies with the aim of improving quality of the Group's services and products and maintaining established relationship with customers.

#### Suppliers

The Group has developed long-standing relationships with a number of suppliers. The Group selects the suppliers in a prudent manner and requires them to satisfy certain assessment criteria including track records, financial strength, reputation and ability to deliver the products on time and quality standards.

#### Community

The Company will continue to contribute to the harmonious society through social contributions and participations in public service activities. For details, please refer to the section headed "Environmental, Social and Governance Report" on pages 29 to 35 of this annual report.

### DIRECTORS

The Directors during the 2015 Year and up to the date of this report were:

#### Executive Directors

Mr. Cheung Hung (*Chairman*)  
Mr. Leung Pak Hou Anson  
Ms. Chen Miaoping (*Chief Executive Officer*)

#### Non-executive Directors

Mr. Leung Ka Fai  
Mr. Yuen Chun Fai  
Mr. Ho Fung Shan Bob

Pursuant to bye-law 84 of the bye-laws of the Company, at each annual general meeting one-third of the Directors for the time being (or, if their number is not a multiple of three (3), the number nearest to but not less than one-third) shall retire from office by rotation provided that every Director shall be subject to retirement at least once every three years. The retiring Directors shall be eligible for re-election. Ms. Chen Miaoping and Mr. Leung Ka Fai will retire and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

### DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the Directors and the senior management of the Company are set out on pages 16 to 18 of this report.



## DIRECTORS' REPORT



### DIRECTORS' SERVICE CONTRACTS

All of the Directors are subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the Company's bye-laws and the GEM Listing Rules.

All Directors have entered into service contracts with the Company for a term of one year commencing from 1 June 2015.

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

### DIRECTORS' MATERIAL INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

No Directors or entity connected with any Directors had material interests, either directly or indirectly, in any transactions, arrangements or contracts of significance to the business of the Group to which the Company or any of its subsidiaries was a party subsisting at any time during or at the end of the 2015 Year.

### MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Group were entered into or existed during the 2015 Year.

### COMPETING INTERESTS

None of the Directors, nor their respective associates (as defined in the GEM Listing Rules) had any interest in a business, apart from the business of the Group, which competes or is likely to compete, either directly or indirectly, with the business of the Group during the 2015 Year.

### EMOLUMENT POLICY

The emolument policy of the Directors and senior management of the Group is set up by the remuneration committee of the Board on the basis of their merits, qualifications and competences. The emoluments of the Directors are decided by the Board on the recommendation of the remuneration committee of the Board, having regard to market competitiveness, individual performance and achievement. The Company has adopted a share option scheme as an incentive to Directors and eligible participants, details of the scheme is set out in note 38 to the consolidated financial statements.

Pursuant to code provision B.1.5 of the CG Code, the remuneration of the members of Directors and senior management of the Company for the 2015 Year by bands is as follows:

| Emoluments bands               | Number of individuals |
|--------------------------------|-----------------------|
| HK\$Nil to HK\$1,000,000       | 6                     |
| HK\$1,000,001 to HK\$1,500,000 | 1                     |

Further particulars in relation to Directors' remuneration and the five individuals with highest emoluments are set out in note 16 to the consolidated financial statements.

# DIRECTORS' REPORT



## DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2015, the interests or short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong ("SFO")) as recorded in the register required to be kept by the Company under Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the required standard of dealings by the Directors as referred to in Rule 5.46 of the GEM Listing Rules were as follows:

### Long positions in underlying shares of the Company ("Shares")

#### Share options granted

| Name of Directors       | Nature of interest | Date of grant  | Exercise period                    | Exercise price per Share<br>HK\$ | Aggregate long positions in the underlying Shares | Approximate percentage<br>(Note) |
|-------------------------|--------------------|----------------|------------------------------------|----------------------------------|---|----------------------------------|
| Mr. Cheung Hung         | Beneficial owner   | 28 August 2014 | 1 January 2015 to 31 December 2016 | 0.6337                           | 679,081   | 0.052%                           |
| Mr. Leung Pak Hou Anson | Beneficial owner   | 28 August 2014 | 1 January 2015 to 31 December 2016 | 0.6337                           | 679,081   | 0.052%                           |
| Ms. Chen Miaoping       | Beneficial owner   | 28 August 2014 | 1 January 2015 to 31 December 2016 | 0.6337                           | 679,081   | 0.052%                           |

Note: As at 31 December 2015, the number of the total issued shares of the Company was 1,313,973,500 ordinary shares of HK\$0.05 each of the Company.

Save as disclosed above, none of the Directors nor the chief executive of the Company had, as at 31 December 2015, any interest or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meanings of Part XV of the SFO) as recorded in the register required to be kept by the Company under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the required standard of dealings by the Directors as referred to in Rule 5.46 of the GEM Listing Rules.

## DIRECTORS' REPORT



### NOTIFIABLE INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS IN THE SHARES AND UNDERLYING SHARES

As at 31 December 2015, the following person or entity (other than a Director or chief executive of the Company) had interests or short positions in the Shares or underlying Shares as recorded in the register required to be kept by the Company under Section 336 of the SFO:

#### Long position in Shares and underlying Shares

| Name of shareholders  | Nature of interest | No. of Shares held | Approximate percentage<br>(Note) |
|---|--------------------|--------------------|----------------------------------|
| China Wah Yan Healthcare Limited<br>(formerly known as China Renji Medical Group Limited) | Beneficial owner   | 257,812,500        | 19.62%                           |

Note: As at 31 December 2015, the number of the total issued shares of the Company was 1,313,973,500 ordinary shares of HK\$0.05 each of the Company.

Save as disclosed above, as at 31 December 2015, no other person or entity (other than a Director or chief executive of the Company) who had interests or short positions in the Shares or underlying Shares as recorded in the register required to be kept by the Company under Section 336 of the SFO.

### RIGHT TO ACQUIRE COMPANY'S SECURITIES

Save as disclosed in the sections headed "DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES" above and "SHARE OPTION SCHEME" below, at no time during the 2015 was the Company or any of its subsidiaries, or any of its fellow subsidiaries, a party to any arrangement to enable the Directors or chief executive of the Company or their respective associates (as defined in the GEM Listing Rules) to have any right to subscribe for securities of the Company or any of its associated corporations as defined in the SFO or to acquire benefits by means of acquisition of share in, or debentures of, the Company or any other body corporate.

### PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the 2015 Year.

### MATERIAL ACQUISITION AND DISPOSAL OF SUBSIDIARIES AND AFFILIATED COMPANIES

Except the acquisition of subsidiaries and an associate and disposal of assets held for sale as disclosed in the section headed "BUSINESS REVIEW" in "MANAGEMENT DISCUSSION AND ANALYSIS" above, the Group did not have any other material acquisition or disposal of subsidiaries and affiliated companies for the 2015 Year.

## DIRECTORS' REPORT



### RELATED PARTY AND CONNECTED TRANSACTIONS

Details of the significant related party and connected transactions undertaken by the Group during the 2015 Year in the ordinary course of business are set out in note 47 to the consolidated financial statements, which is relating to the disposal of 100% of the equity interests in the Wallfaith Group to Mr. Yang Shunfeng, a director of certain subsidiaries of Wallfaith Company Limited, at a cash consideration of HK\$15,000,000. Such transaction constitutes a connected transaction of the Company under Chapter 20 of the GEM Listing Rules. Except for such disposal, the Group had not entered into any other transactions with related parties during the 2015 Year and 2014 Year.

### CORPORATE GOVERNANCE

Principal corporate governance practices as adopted by the Company are set out in the Corporate Governance Report section set out on pages 19 to 28.

### EVENTS AFTER THE REPORTING PERIOD

Details of events after the reporting period are set out in note 49 to the consolidated financial statements.

### RETIREMENT BENEFITS SCHEMES

Details of the Group's retirement benefits schemes in operation for the 2015 Year are set out in note 44 to the consolidated financial statements.

### CONFIRMATION OF INDEPENDENCE

The Company has received from each of the independent non-executive Directors an annual confirmation of independence pursuant to Rule 5.09 of the GEM Listing Rules and considers all the independent non-executive Directors are independent.

### SUFFICIENCY OF PUBLIC FLOAT

Based on information publicly available to the Company and within the knowledge of the Directors as at the date of this report, the Company has maintained the prescribed public float under the GEM Listing Rules.

### PERMITTED INDEMNITY PROVISIONS

The Company has arranged for appropriate insurance cover for Directors' and officers' liabilities in respect of legal actions against its Directors and senior management arising out of corporate activities. During the year ended 31 December 2015 and up to the date of this annual report, no permitted indemnity provision (as defined in section 9 of the Companies (Directors' Report) Regulation (Chapter 622D of the Laws of Hong Kong)) was or is being in force for the benefit at any of the Directors (whether made by the Company or otherwise) or an associated company (if made by the Company).

### INDEPENDENT AUDITOR

The consolidated financial statements of the Group for the 2015 Year have been audited by Cheng & Cheng Limited, Certified Public Accountants, who will retire and be eligible to offer themselves for re-appointment. A resolution will be submitted to the forthcoming annual general meeting to reappoint auditor and to fix their remuneration.

There has been no change of auditor of the Company in any of the preceding three financial years.

ON BEHALF OF THE BOARD

**Rui Kang Pharmaceutical Group Investments Limited**  
**Cheung Hung**  
*Chairman*

Hong Kong, 22 March 2016

# INDEPENDENT AUDITOR'S REPORT



**CHENG & CHENG LIMITED**  
CERTIFIED PUBLIC ACCOUNTANTS

鄭鄭會計師事務所有限公司

10/F, Allied Kajima Building, 138 Gloucester Road, Wanchai, Hong Kong

## To the shareholders of Rui Kang Pharmaceutical Group Investments Limited

*(Incorporated in the Cayman Islands and continued in Bermuda with limited liability)*

We have audited the consolidated financial statements of Rui Kang Pharmaceutical Group Investments Limited ("**Company**") and its subsidiaries (collectively referred to as the "**Group**") set out on pages 48 to 132, which comprise the consolidated statement of financial position as at 31 December 2015, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year ended 31 December 2015, and a summary of significant accounting policies and other explanatory information.

## Directors' responsibility for the consolidated financial statements

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

## Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. This report is made solely to you, as a body, in accordance with Section 90 of the Bermuda Companies Act 1981, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



# INDEPENDENT AUDITOR'S REPORT



## Opinion

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as at 31 December 2015 and of its financial performance and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

## Cheng & Cheng Limited

*Certified Public Accountants*

**Yeung Chun Yue, David**

*Practising Certificate Number: P05595*

Hong Kong  
22 March 2016

# CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2015



|  | Notes     | 2015<br>HK\$'000 | 2014<br>HK\$'000<br>(Restated) |
|--|-----------|------------------|--------------------------------|
| <b>Continuing operations</b>                                   |           |                  |                                |
| <b>Gross proceeds</b>  | 8, 9      | <b>115,693</b>   | 143,316                        |
| Turnover   | 8, 9      | <b>34,127</b>    | 70,110                         |
| Cost of sales  |           | <b>(24,497)</b>  | (44,219)                       |
| <b>Gross profit</b>  |           | <b>9,630</b>     | 25,891                         |
| Other income and gains/(losses)                                | 10        | <b>(15,946)</b>  | (36,847)                       |
| Selling and distribution expenses                              |           | <b>(6,266)</b>   | (7,517)                        |
| Administrative expenses  |           | <b>(37,680)</b>  | (39,880)                       |
| Loss from operations   |           | <b>(50,262)</b>  | (58,353)                       |
| Finance costs  | 11        | <b>(402)</b>     | (1,575)                        |
| Loss on disposal of assets held for sale                       | 32(c)     | <b>(986)</b>     | –                              |
| Loss on deemed disposal of partial interest in a joint venture |           | –                | (5,892)                        |
| Share of profits of associates                                 |           | <b>1,055</b>     | –                              |
| Share of (loss)/profit of a joint venture                      |           | <b>(8,445)</b>   | 83                             |
| Impairment loss recognised on goodwill                         | 19        | <b>(1,000)</b>   | (8,240)                        |
| Impairment loss recognised on intangible assets                | 20        | –                | (421)                          |
| <b>Loss before tax</b>   | 12        | <b>(60,040)</b>  | (74,398)                       |
| Income tax credit/(expenses)                                   | 13        | <b>389</b>       | (473)                          |
| Loss for the year from continuing operations                   |           | <b>(59,651)</b>  | (74,871)                       |
| <b>Discontinued operation</b>                                  |           |                  |                                |
| Loss for the year from discontinued operation                  | 12, 32(a) | <b>(8,109)</b>   | (8,075)                        |
| <b>Loss for the year</b>                                       |           | <b>(67,760)</b>  | (82,946)                       |
| <b>Loss for the year attributable to:</b>                      |           |                  |                                |
| Owners of the Company  |           |                  |                                |
| – from continuing operations                                   |           | <b>(54,160)</b>  | (74,854)                       |
| – from discontinued operation                                  |           | <b>(8,109)</b>   | (8,075)                        |
| Non-controlling interests                                      |           |                  |                                |
| – from continuing operations                                   |           | <b>(5,491)</b>   | (17)                           |
|  |           | <b>(67,760)</b>  | (82,946)                       |

# CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2015



|   | Notes | 2015<br>HK\$'000 | 2014<br>HK\$'000<br>(Restated) |
|---|-------|------------------|--------------------------------|
| <b>Loss for the year</b>  |       | <b>(67,760)</b>  | <b>(82,946)</b>                |
| <b>Other comprehensive (loss)/income for the year</b>                 |       |                  |                                |
| <b>Items that may be reclassified subsequently to profit or loss:</b> |       |                  |                                |
| Exchange differences arising on translation of foreign operations     |       | <b>(3,061)</b>   | 77                             |
| Release of exchange difference upon disposal of assets held for sale  | 32(c) | <b>14</b>        | –                              |
| Share of exchange differences of investments in associates            |       | <b>617</b>       | –                              |
| Share of exchange difference of an investment in a joint venture      |       | <b>(1,010)</b>   | (7)                            |
| <b>Other comprehensive (loss)/income for the year, net of tax</b>     |       | <b>(3,440)</b>   | 70                             |
| <b>Total comprehensive loss for the year</b>                          |       | <b>(71,200)</b>  | <b>(82,876)</b>                |
| <b>Total comprehensive loss for the year attributable to:</b>         |       |                  |                                |
| Owners of the Company   |       | <b>(64,253)</b>  | (82,946)                       |
| Non-controlling interests   |       | <b>(6,947)</b>   | 70                             |
|   |       | <b>(71,200)</b>  | <b>(82,876)</b>                |
| <b>Dividends</b>  | 14    | –                | –                              |
| <b>Loss per share (HK\$) – Continuing and discontinued operations</b> | 15    |                  |                                |
| – Basic and diluted   |       | <b>(0.212)</b>   | (0.970)                        |
| <b>Loss per share (HK\$) – Continuing operations</b>                  |       |                  |                                |
| – Basic and diluted   |       | <b>(0.184)</b>   | (0.876)                        |
| <b>Loss per share (HK\$) – Discontinued operation</b>                 |       |                  |                                |
| – Basic and diluted   |       | <b>(0.028)</b>   | (0.094)                        |

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

AT 31 DECEMBER 2015



|  | Notes | 2015<br>HK\$'000 | 2014<br>HK\$'000 |
|--|-------|------------------|------------------|
| <b>NON-CURRENT ASSETS</b>                                      |       |                  |                  |
| Property, plant and equipment                                  | 17    | 31,005           | 46,816           |
| Prepaid lease payments   | 18    | 8,619            | 13,884           |
| Goodwill   | 19    | 29,411           | 2,478            |
| Intangible assets  | 20    | 58,570           | 12,169           |
| Investment in a joint venture                                  | 21    | –                | 22,963           |
| Investments in associates                                      | 22    | 12,319           | –                |
| Available-for-sale financial assets                            | 23    | 3,600            | –                |
|  |       | <b>143,524</b>   | <b>98,310</b>    |
| <b>CURRENT ASSETS</b>  |       |                  |                  |
| Prepaid lease payments   | 18    | 240              | 370              |
| Inventories  | 24    | 9,705            | 63,880           |
| Trade and bills receivables                                    | 25    | 22,529           | 28,068           |
| Loan receivable  | 26    | 6,025            | –                |
| Deposits, prepayments and other receivables                    | 27    | 49,095           | 32,896           |
| Tax recoverable  |       | 466              | 453              |
| Held for trading securities                                    | 28    | 54,793           | 18,697           |
| Pledged cash deposit   | 29    | –                | 2,535            |
| Cash and cash equivalents                                      | 29    | 75,234           | 39,163           |
|  |       | <b>218,087</b>   | <b>186,062</b>   |
| Assets classified as held for sale                             | 32    | 116,407          | 42,644           |
|  |       | <b>334,494</b>   | <b>228,706</b>   |
| <b>CURRENT LIABILITIES</b>                                     |       |                  |                  |
| Trade and bills payables                                       | 33    | 4,270            | 21,048           |
| Other payables and accruals                                    | 34    | 28,475           | 68,945           |
| Bank and other borrowings                                      | 35    | 1,917            | 19,014           |
| Tax payable  |       | 71               | 29               |
|  |       | <b>34,733</b>    | <b>109,036</b>   |
| Liabilities associated with assets classified as held for sale | 32    | 98,535           | 20,067           |
|  |       | <b>133,268</b>   | <b>129,103</b>   |
| <b>NET CURRENT ASSETS</b>                                      |       | <b>201,226</b>   | <b>99,603</b>    |
| <b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>                   |       | <b>344,750</b>   | <b>197,913</b>   |
| <b>NON-CURRENT LIABILITY</b>                                   |       |                  |                  |
| Deferred tax liabilities                                       | 36    | 2,012            | –                |
| <b>NET ASSETS</b>  |       | <b>342,738</b>   | <b>197,913</b>   |
| <b>CAPITAL AND RESERVES</b>                                    |       |                  |                  |
| Share capital  | 37    | 65,699           | 10,056           |
| Reserves   |       | 255,359          | 159,214          |
| <b>Equity attributable to owners of the Company</b>            |       | <b>321,058</b>   | <b>169,270</b>   |
| Non-controlling interests                                      |       | 21,680           | 28,643           |
| <b>TOTAL EQUITY</b>  |       | <b>342,738</b>   | <b>197,913</b>   |

The consolidated financial statements on pages 48 to 132 were approved and authorised for issue by the Board on 22 March 2016 and are signed on its behalf by :

**Cheung Hung**  
DIRECTOR

**Leung Pak Hou Anson**  
DIRECTOR

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2015

|  | Attributable to owners of the Company |                           |                                   |   |                                       |  |   |                               |                                |                       |                                       |                   |
|--|---------------------------------------|---------------------------|-----------------------------------|---|---------------------------------------|--|---|-------------------------------|--------------------------------|-----------------------|---------------------------------------|-------------------|
|  | Share capital<br>HK\$'000             | Share premium<br>HK\$'000 | Share option reserves<br>HK\$'000 | Special reserve<br>HK\$'000<br>(Note a) | Other reserve<br>HK\$'000<br>(Note b) | Statutory surplus reserve fund<br>HK\$'000<br>(Note c) | Statutory enterprise expansion fund<br>HK\$'000<br>(Note d) | Exchange reserves<br>HK\$'000 | Accumulated losses<br>HK\$'000 | Sub-total<br>HK\$'000 | Non-controlling interests<br>HK\$'000 | Total<br>HK\$'000 |
| At 1 January 2014  | 3,144                                 | –                         | 13,374                            | 235,391                                 | –                                     | 15,479   | 3,098   | 23,692                        | (165,987)                      | 128,191               | –                                     | 128,191           |
| Loss for the year  | –                                     | –                         | –                                 | –                                       | –                                     | –  | –   | –                             | (82,929)                       | (82,929)              | (17)                                  | (82,946)          |
| Other comprehensive (loss)/income for the year:                                  |                                       |                           |                                   |   |                                       |  |   |                               |                                |                       |                                       |                   |
| Exchange differences arising on translation of foreign operations                | –                                     | –                         | –                                 | –                                       | –                                     | –  | –   | (10)                          | –                              | (10)                  | 87                                    | 77                |
| Share of exchange difference of an investment in a joint venture                 | –                                     | –                         | –                                 | –                                       | –                                     | –  | –   | (7)                           | –                              | (7)                   | –                                     | (7)               |
| Other comprehensive (loss)/income for the year, net of tax                       | –                                     | –                         | –                                 | –                                       | –                                     | –  | –   | (17)                          | –                              | (17)                  | 87                                    | 70                |
| Total comprehensive (loss)/income for the year                                   | –                                     | –                         | –                                 | –                                       | –                                     | –  | –   | (17)                          | (82,929)                       | (82,946)              | 70                                    | (82,876)          |
| Cancellation of share options  | –                                     | –                         | (1,801)                           | –                                       | –                                     | –  | –   | –                             | 1,801                          | –                     | –                                     | –                 |
| Lapse of share options   | –                                     | –                         | (11,573)                          | –                                       | –                                     | –  | –   | –                             | 11,573                         | –                     | –                                     | –                 |
| Recognition of equity settled share-based payment expenses (Note 38)             | –                                     | –                         | 3,385                             | –                                       | –                                     | –  | –   | –                             | –                              | 3,385                 | –                                     | 3,385             |
| Acquisition of a subsidiary (Note 30)  | –                                     | –                         | –                                 | –                                       | –                                     | –  | –   | –                             | –                              | –                     | 28,573                                | 28,573            |
| Issue of ordinary shares (Note 37)   | 6,912                                 | 120,033                   | –                                 | –                                       | –                                     | –  | –   | –                             | –                              | 126,945               | –                                     | 126,945           |
| Less: Shares issue expenses  | –                                     | (6,305)                   | –                                 | –                                       | –                                     | –  | –   | –                             | –                              | (6,305)               | –                                     | (6,305)           |
| At 31 December 2014 and 1 January 2015   | 10,056                                | 113,728                   | 3,385                             | 235,391                                 | –                                     | 15,479   | 3,098   | 23,675                        | (235,542)                      | 169,270               | 28,643                                | 197,913           |
| Loss for the year  | –                                     | –                         | –                                 | –                                       | –                                     | –  | –   | –                             | (62,269)                       | (62,269)              | (5,491)                               | (67,760)          |
| Other comprehensive (loss)/income for the year:                                  |                                       |                           |                                   |   |                                       |  |   |                               |                                |                       |                                       |                   |
| Exchange differences arising on translation of foreign operations                | –                                     | –                         | –                                 | –                                       | –                                     | –  | –   | (1,605)                       | –                              | (1,605)               | (1,456)                               | (3,061)           |
| Release of exchange difference upon disposal of assets held for sale (Note 32)   | –                                     | –                         | –                                 | –                                       | –                                     | –  | –   | 14                            | –                              | 14                    | –                                     | 14                |
| Share of exchange differences of investments in associates                       | –                                     | –                         | –                                 | –                                       | –                                     | –  | –   | 617                           | –                              | 617                   | –                                     | 617               |
| Share of exchange difference of an investment in a joint venture                 | –                                     | –                         | –                                 | –                                       | –                                     | –  | –   | (1,010)                       | –                              | (1,010)               | –                                     | (1,010)           |
| Other comprehensive loss for the year, net of tax                                | –                                     | –                         | –                                 | –                                       | –                                     | –  | –   | (1,984)                       | –                              | (1,984)               | (1,456)                               | (3,440)           |
| Total comprehensive loss for the year  | –                                     | –                         | –                                 | –                                       | –                                     | –  | –   | (1,984)                       | (62,269)                       | (64,253)              | (6,947)                               | (71,200)          |
| Changes in ownership interests in subsidiaries without loss of control (Note 39) | –                                     | –                         | –                                 | –                                       | 3,154                                 | –  | –   | –                             | –                              | 3,154                 | (16)                                  | 3,138             |
| Issue of ordinary shares (Note 37)   | 55,643                                | 164,346                   | –                                 | –                                       | –                                     | –  | –   | –                             | –                              | 219,989               | –                                     | 219,989           |
| Less: Shares issue expenses  | –                                     | (7,102)                   | –                                 | –                                       | –                                     | –  | –   | –                             | –                              | (7,102)               | –                                     | (7,102)           |
| At 31 December 2015  | 65,699                                | 270,972                   | 3,385                             | 235,391                                 | 3,154                                 | 15,479   | 3,098   | 21,691                        | (297,811)                      | 321,058               | 21,680                                | 342,738           |

## Notes:

- Special reserve of (i) approximately HK\$22,443,000 represents the difference between the paid-up capital and share premium of the subsidiary acquired and the nominal value of the Company's shares issued for the acquisition at the time of the Group reorganisation on 26 May 2004; and (ii) approximately HK\$212,948,000 was recorded after setting off the capital reduction and the cancellation of the share premium with the accumulated losses as at the date of the change of domicile and the capital reorganisation of the Company which became effective on 28 August 2013 and 19 September 2013 respectively.
- Other reserve arose from the deemed disposal of partial interests in subsidiaries through issue and allotment of new shares by a then subsidiary to an independent third party. Details of the changes in ownership interests in subsidiaries without loss of control are disclosed in note 39 to the consolidated financial statements.
- Pursuant to the Articles of Association of certain subsidiaries of the Company in the People's Republic of China ("PRC"), those subsidiaries should transfer not less than 10% of net profit to the statutory surplus reserve fund, while the rest of the subsidiaries of the Company in the PRC can make appropriation of net profit to the statutory surplus reserve fund on a discretionary basis.

The statutory surplus reserve fund can be used to offset previous year's losses, expand the existing operations or convert into additional capital of those PRC subsidiaries.

- Pursuant to the Articles of Association of certain subsidiaries of the Company in the PRC, those subsidiaries can make appropriation of net profit to the statutory enterprise expansion fund on a discretionary basis.

The statutory enterprise expansion fund can be used to expand the capital of those subsidiaries by means of capitalisation.



**CONSOLIDATED STATEMENT OF CASH FLOWS**

FOR THE YEAR ENDED 31 DECEMBER 2015



|  | Notes  | 2015<br>HK\$'000 | 2014<br>HK\$'000 |
|--|--------|------------------|------------------|
| <b>OPERATING ACTIVITIES</b>  |        |                  |                  |
| Loss before tax  |        |                  |                  |
| – Continuing operations  |        | (60,040)         | (74,398)         |
| – Discontinued operation   |        | (8,095)          | (7,935)          |
|  |        | <b>(68,135)</b>  | (82,333)         |
| Adjustments for:   |        |                  |                  |
| – Write-down of inventories  | 12     | 290              | 928              |
| – Impairment loss recognised on goodwill   | 19     | 1,000            | 8,240            |
| – Impairment loss recognised on intangible assets                                    | 20     | –                | 421              |
| – Impairment loss recognised on trade receivables                                    | 12     | 224              | –                |
| – Depreciation of property, plant and equipment                                      | 12, 17 | 5,363            | 2,421            |
| – Finance costs  | 11     | 3,118            | 4,433            |
| – Amortisation of prepaid lease payments   | 12, 18 | 363              | 136              |
| – Amortisation of intangible assets  | 12, 20 | 51               | –                |
| – Share-based payment expenses   | 12, 38 | –                | 3,385            |
| – Loss on disposal of assets held for sale   | 32(c)  | 986              | –                |
| – Loss on deemed disposal of partial interest<br>in a joint venture                  |        | –                | 5,892            |
| – Share of profits of associates   |        | (1,055)          | –                |
| – Share of loss/(profit) of a joint venture  |        | 8,445            | (83)             |
| – Interest income  | 10     | (325)            | (208)            |
| – Dividend income  | 10     | (97)             | (33)             |
| – Fixed assets written off   | 10     | 7,503            | 820              |
| – Net loss on disposal of property, plant and equipment                              | 10     | 50               | –                |
| – Net loss on financial assets at fair value through<br>profit or loss               |        | 9,094            | 36,916           |
| <b>Operating cash flows before movements in working capital</b>                      |        | <b>(33,125)</b>  | (19,065)         |
| Increase in inventories  |        | (5,117)          | (15,045)         |
| Decrease/(increase) in trade and bills receivables                                   |        | 6,190            | (4,946)          |
| Increase in loan receivable  |        | (6,025)          | –                |
| Increase in deposits, prepayments and other receivables                              |        | (62,094)         | (2,187)          |
| Increase in trade and bills payables   |        | 3,332            | 7,881            |
| Increase/(decrease) in other payables and accruals                                   |        | 58,141           | (195)            |
| Net fund used in trading of financial assets at fair value<br>through profit or loss |        | (45,190)         | (5,632)          |
| <b>Cash used in operations</b>   |        | <b>(83,888)</b>  | (39,189)         |
| Income taxes paid  |        | (1,235)          | (822)            |
| <b>NET CASH USED IN OPERATING ACTIVITIES</b>   |        | <b>(85,123)</b>  | (40,011)         |

# CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2015



|   | Notes | 2015<br>HK\$'000 | 2014<br>HK\$'000 |
|---|-------|------------------|------------------|
| <b>INVESTING ACTIVITIES</b>   |       |                  |                  |
| Purchases of property, plant and equipment  | 17    | (9,840)          | (2,763)          |
| Proceeds from disposal of property, plant and equipment                               |       | 100              | –                |
| Acquisition of interests in associates  | 22    | (4,830)          | –                |
| Purchases of available-for-sale financial assets                                      | 23    | (3,600)          | –                |
| Net cash outflow arising on acquisition of subsidiaries                               | 30    | (87,218)         | (26,736)         |
| Net cash outflow arising on acquisition of assets through acquisition of a subsidiary | 31    | –                | (4,008)          |
| Net cash inflow arising on disposal of assets held for sale                           | 32(c) | 8,955            | –                |
| Interest received   |       | 325              | 208              |
| Dividend received   |       | 97               | 33               |
| <b>NET CASH USED IN INVESTING ACTIVITIES</b>  |       | <b>(96,011)</b>  | <b>(33,266)</b>  |
| <b>FINANCING ACTIVITIES</b>   |       |                  |                  |
| Repayment of bank and other borrowings  |       | –                | (50,096)         |
| Interest paid   |       | (3,118)          | (4,433)          |
| Decrease/(increase) in pledged cash deposit   |       | 2,535            | (1,161)          |
| New bank and other borrowings raised  |       | 1,917            | 19,014           |
| Proceeds from shares allotment of a subsidiary  | 39    | 3,138            | –                |
| Net proceeds from issue of shares   |       | 212,887          | 120,640          |
| <b>NET CASH GENERATED FROM FINANCING ACTIVITIES</b>                                   |       | <b>217,359</b>   | <b>83,964</b>    |
| <b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>                                      |       | <b>36,225</b>    | <b>10,687</b>    |
| Effect of foreign exchange rate changes   |       | (764)            | (3)              |
| <b>CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR</b>                             |       | <b>42,776</b>    | <b>32,092</b>    |
| <b>CASH AND CASH EQUIVALENTS AT END OF THE YEAR</b>                                   |       | <b>78,237</b>    | <b>42,776</b>    |
| Represented by:   |       |                  |                  |
| Cash and bank balances  | 29    | 75,234           | 39,163           |
| Cash and cash equivalents included in assets classified as held for sale              | 32    | 3,003            | 3,613            |
|   |       | <b>78,237</b>    | <b>42,776</b>    |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2015



## 1. General Information

Rui Kang Pharmaceutical Group Investments Limited ("**Company**", together with its subsidiaries, the "**Group**") was incorporated and registered as an exempted company in the Cayman Islands under the Company Law, Cap.22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands on 5 June 2003. On 29 August 2013, the Company deregistered in the Cayman Islands and duly continued in Bermuda as an exempted company under the laws of Bermuda. The registered office of the Company is located at Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda. The head office and the principal place of business of the Company in Hong Kong is located at Room 1213, Tower A, New Mandarin Plaza, 14 Science Museum Road, Kowloon, Hong Kong.

The issued shares of the Company have been listed on the Growth Enterprise Market ("**GEM**") of The Stock Exchange of Hong Kong Limited ("**Stock Exchange**") since 17 June 2004.

The consolidated financial statements are presented in Hong Kong dollars ("**HK\$**"). Other than those subsidiaries established in the PRC whose functional currency is Renminbi ("**RMB**"), the functional currency of the Company and its subsidiaries is HK\$. The reason for selecting HK\$ as its presentation currency is because the Company is a public company listed on GEM, where most of the investors are located in Hong Kong.

The principal activity of the Company is investment holding. The principal activities of its subsidiaries are (i) manufacture, research and development, sale and distribution of consumer cosmetics, health related and pharmaceutical products, health supplement wine, dental materials and equipment in the PRC and Hong Kong, (ii) provision of medical laboratory testing services and health check services in Hong Kong, and (iii) trading of securities in Hong Kong.

## 2. Summary of Significant Accounting Policies

### Basis of Preparation

The consolidated financial statements of the Group have been prepared in accordance with Hong Kong Financial Reporting Standards ("**HKFRSs**") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("**HKASs**") and interpretations) issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**"), accounting principles generally accepted in Hong Kong and disclosure requirements of the Hong Kong Companies Ordinance. These consolidated financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on GEM of the Stock Exchange ("**GEM Listing Rules**").

The consolidated financial statements have been prepared on the historical cost basis, except for certain financial instruments which are measured at fair value.

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

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2015



## 2. Summary of Significant Accounting Policies – Continued

### Basis of Preparation – Continued

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

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

### Basis of Consolidation

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

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

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

When the Group has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Group considers all relevant facts and circumstances in assessing whether or not the Group's voting rights in an investee are sufficient to give it power, including:

- the size of the Group's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Group, other vote holders or other parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Group has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2015



## 2. Summary of Significant Accounting Policies – Continued

### Basis of Consolidation – Continued

Profit or loss and each component of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total consolidated comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

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

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

Non-controlling interests in subsidiaries are presented separately from the Group's equity therein.

### Changes in the Group's ownership interests in existing subsidiaries

Changes in the Group's ownership interests in existing subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary, a gain or loss is recognised in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable HKFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under HKAS 39, when applicable, the cost on initial recognition of an investment in an associate.

### Investments in subsidiaries

In the Company's statement of financial position, the investments in subsidiaries are stated at cost less impairment loss.

The results of the subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

### Investments in associates and joint ventures

An associate is an entity over which the investor has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

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



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2015



## 2. Summary of Significant Accounting Policies – Continued

### Investments in associates and joint ventures – Continued

The results and assets and liabilities of associates or joint ventures are incorporated in these consolidated financial statements using the equity method of accounting, except when the investment, or a portion thereof, is classified as held for sale, in which case it is accounted for in accordance with HKFRS 5. Under the equity method, an investment in an associate or a joint venture is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of profit or loss and other comprehensive income of the associate or joint venture. When the Group's share of losses of an associate or a joint venture exceeds the Group's interest in that associate or joint venture (which includes any long-term interests, that, in substance, form part of the Group's net investment in the associate or joint venture), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate or joint venture.

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

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

The Group discontinues the use of the equity method from the date when the investment ceases to be an associate or a joint venture. When the Group retains an interest in the former associate or joint venture and the retained interest is a financial asset, the Group measures the retained interest at fair value at that date and the fair value is regarded as its fair value on initial recognition in accordance with HKAS 39. The difference between the carrying amount of the associate or joint venture at the date the equity method was discontinued, and the fair value of any retained interest and any proceeds from disposing of a part interest in the associate or joint venture is included in the determination of the gain or loss on disposal of the associate or joint venture. In addition, the Group accounts for all amounts previously recognised in other comprehensive income in relation to that associate or joint venture on the same basis as would be required if that associate or joint venture had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income by that associate or joint venture would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) when the equity method is discontinued.

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2015



## 2. Summary of Significant Accounting Policies – Continued

### Investments in associates and joint ventures – Continued

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

### Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value at the acquisition date, except that:

- deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognised and measured in accordance with HKAS 12 "Income Taxes" and HKAS 19 "Employee Benefits" respectively;
- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered to replace share-based payment arrangements of the acquiree are measured in accordance with HKFRS 2 "Share-based Payment" at the acquisition date (see the accounting policy below); and
- assets (or disposal groups) that are classified as held for sale in accordance with HKFRS 5 "Non-current Assets Held for Sale and Discontinued Operations" are measured in accordance with that standard.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after re-assessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at their fair value or, when applicable on the basis specified in another HKFRS.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2015



## 2. Summary of Significant Accounting Policies – Continued

### Business combinations – Continued

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

When a business combination is achieved in stages, the Group’s previously held equity interest in the acquiree is remeasured to fair value at the acquisition date (i.e. the date when the Group obtains control), and the resulting gain or loss, if any, is recognised in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss where such treatment would be appropriate if that interest were disposed of.

### Goodwill

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

For the purposes of impairment testing, goodwill is allocated to each of the Group’s cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually or more frequently whenever there is an indication that the unit may be impaired. For goodwill arising on an acquisition in a reporting period, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that reporting period. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit on a pro rata basis based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in profit or loss. An impairment loss recognised for goodwill is not reversed in subsequent periods.

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2015



## 2. Summary of Significant Accounting Policies – Continued

### Property, plant and equipment

Property, plant and equipment including buildings held for use in the production or supply of goods or services, or for administrative purposes (other than construction in progress) are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and subsequent accumulated impairment losses.

Depreciation is recognised so as to write off the cost of items of property, plant and equipment other than construction in progress, less their residual values, if any, over their estimated useful lives, using straight-line method, as follows:

|  |  |
|--|--|
| Land and buildings                       | Over remaining unexpired terms of the relevant lease or 20 years |
| Furniture, fixtures and office equipment | 3-10 years   |
| Motor vehicles                           | 3-10 years   |
| Plant and machinery                      | 3-20 years   |
| Leasehold improvements                   | 5 years or over the terms of the lease, if shorter               |

The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

Properties in the course of construction for production, supply or administrative purposes (i.e. construction in progress) are carried at cost, less any recognised impairment loss. Costs include professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Such properties are classified to the appropriate category of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

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

### Prepaid lease payments

Payments for obtaining land use rights are accounted for as prepaid lease payments. Prepaid lease payments are stated at cost less accumulated amortisation and accumulated impairment losses. Amortisation is charged to profit or loss on a straight-line basis over the period of the rights.

### Intangible assets (other than goodwill)

#### Intangible assets acquired in a business combination

Intangible assets acquired in a business combination and recognised separately from goodwill are initially recognised at their fair value at the acquisition date (which is regarded as their cost).

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

Pharmaceutical licences and brand name with indefinite useful lives are not amortised. The customer relationship has finite useful lives and is amortised on a straight-line basis over 10 years. Amortisation of research and development costs begins when development is complete and the asset is available for use, and it is amortised over the period of expected future benefit.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2015



## 2. Summary of Significant Accounting Policies – Continued

### Intangible assets (other than goodwill) – Continued

#### Internally-generated intangible assets – Research and development costs

Expenditure on research activities is recognised as an expense in the period in which it is incurred. An internally-generated intangible assets arising from development (or from the development phase of an internal project) is recognised if, and only if, all of the following have been demonstrated:

- The technical feasibility of completing the intangible asset so that it will be available for use or sale.
- The intention to complete the intangible asset and use or sell it.
- The ability to use or sell the intangible asset.
- How the intangible asset will generate probable future economic benefits.
- The availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset.
- The ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognised for internally-generated intangible asset is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognised, development expenditure is recognised in profit or loss in the period in which it is incurred.

Subsequent to initial recognition, internally-generated intangible assets are reported at cost less any accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets that are acquired in a business combination.

### Derecognition of intangible assets

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

### Financial instruments

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

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2015



## 2. Summary of Significant Accounting Policies – Continued

### Financial instruments – Continued

#### Financial assets

The Group's financial assets are classified into following specified categories: financial assets at fair value through profit or loss ("FVTPL"), available-for-sale financial assets and loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

#### Effective interest method

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

Income is recognised on an effective interest basis for the debt instruments, other than those financial assets classified as at FVTPL.

#### Financial assets at FVTPL

Financial assets at FVTPL of the Group are financial assets held for trading.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near term; or
- on initial recognition it is a part of portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

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

#### Available-for-sale financial assets

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

Equity instruments held by the Group that are classified as available-for-sale investments and are traded in an active market are measured at fair value at the end of each reporting period. Changes in the carrying amount of available-for-sale financial assets are recognised in other comprehensive income and accumulated under the heading of investment revaluation reserve. When the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the investment revaluation reserve is reclassified to profit or loss (see the accounting policy in respect of impairment loss on financial assets below).

Dividends on available-for-sale equity instruments are recognised in profit or loss when the Group's right to receive the dividends is established.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2015



## 2. Summary of Significant Accounting Policies – Continued

### Financial instruments – Continued

#### Financial assets – Continued

##### Available-for-sale financial assets – Continued

Available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured, they are measured at cost less any identified impairment losses at the end of the reporting period (see accounting policy on impairment of financial assets below).

##### Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables (including trade and bills receivables, loan receivable, deposits and other receivables, pledged cash deposit and cash and cash equivalents) are carried at amortised cost using the effective interest method, less any identified impairment losses.

##### Impairment of financial assets

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

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

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation; or
- the disappearance of an active market for that financial asset because of financial difficulties.

For certain categories of financial assets, such as trade and other receivables, assets are assessed for impairment on a collective basis even if they were assessed not to be impaired individually. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments as well as observable changes in national or local economic conditions that correlate with default on receivables.

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

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

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

For unquoted equity securities carried at cost, the impairment loss is measured as the difference between the carrying amount of the financial asset and the estimated future cash flows, discounted at the current market rate of return for a similar financial asset where the effect of discounting is material. Impairment losses for equity securities carried at cost are not reversed.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2015



## 2. Summary of Significant Accounting Policies – Continued

### Financial instruments – Continued

#### Financial liabilities and equity

Debt and equity instruments issued by a group entity are classified as either financial liabilities or as equity according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

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

#### Effective interest method

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

Interest expense is recognised on an effective interest basis.

#### Financial liabilities

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

#### Derecognition

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group continues to recognise the asset to the extent of its continuing involvement and recognises as an associated liability. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

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

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2015



## 2. Summary of Significant Accounting Policies – Continued

### Inventories

Inventories are stated at the lower of cost and net realisable value.

Cost is calculated using the weighted average cost formula and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down on loss occurs. The amount of any reversal of any of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

### Cash and cash equivalents

For the purpose of the consolidation statement of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits with maturities of three months or less, which are not restricted as to use.

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

At the end of the reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss.

If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired.

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

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

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2015



## 2. Summary of Significant Accounting Policies – Continued

### Non-current assets (or disposal groups) held for sale and discontinued operation

#### (i) Non-current assets (or disposal groups) held for sale

A non-current asset (or disposal group) is classified as held for sale if it is highly probable that its carrying amount will be recovered through a sale transaction rather than through continuing use and the asset (or disposal group) is available for sale in its present condition. A disposal group is a group of assets to be disposed of together as a group in a single transaction, and liabilities directly associated with those assets that will be transferred in the transaction.

When the Group is committed to a sale plan involving loss of control of a subsidiary, all the assets and liabilities of that subsidiary are classified as held for sale when the above criteria for classification as held for sale are met, regardless of whether the Group will retain a non-controlling interest in the subsidiary after the sale.

Immediately before classification as held for sale, the measurement of the non-current assets (and all individual assets and liabilities in a disposal group) is brought up-to-date in accordance with the accounting policies before the classification. Then, on initial classification as held for sale and until disposal, the non-current assets (except for certain assets as explained below), or disposal groups, are recognised at the lower of their carrying amount and fair value less costs to sell. The principal exceptions to this measurement policy so far as the financial statements of the Group and the Company are deferred tax assets, assets arising from employee benefits and financial assets (other than investments in subsidiaries, associates and joint ventures). These assets, even if held for sale, would continue to be measured in accordance with the policies set out elsewhere in note 2. Impairment losses on initial classification as held for sale, and on subsequent remeasurement while held for sale, are recognised in profit or loss. As long as a non-current asset is classified as held for sale, or is included in a disposal group that is classified as held for sale, the non-current asset is not depreciated or amortised.

#### (ii) Discontinued operation

A discontinued operation is a component of the Group's business, the operations and cash flows of which can be clearly distinguished from the rest of the Group and which represents a separate major line of business or geographical area of operations, or is part of a single coordinated plan to dispose of a separate major line of business or geographical area of operations, or is a subsidiary acquired exclusively with a view to resale.

Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale (see (i) above) if earlier. It also occurs if the operation is abandoned.

Where an operation is classified as discontinued, a single amount is presented on the face of the consolidated statement of profit or loss and other comprehensive income, which comprises:

- the post-tax profit or loss of the discontinued operation; and
- the post-tax gain or loss recognised on the measurement to fair value less costs to sell, or on the disposal, of the assets or disposal group(s) constituting the discontinued operation.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2015



## 2. Summary of Significant Accounting Policies – Continued

### Revenue recognition

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

Revenue from sale of goods is recognised when goods are delivered and title has passed to customers.

Medical laboratory testing services income and health check services income, when the related services have been rendered.

Sales of financial assets at FVTPL are recognised on a trade date basis. Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably.

Interest income from a financial asset and interest income on loans are recognised when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

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

Rental income received under operating leases is recognised as other operating income in equal instalments over the periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives granted are recognised in the consolidated statement of profit or loss and other comprehensive income as an integral part of the aggregate net lease payments receivable. Contingent rentals receivable are recognised as income in the accounting period in which they are earned.

### Taxation

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

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

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2015



## 2. Summary of Significant Accounting Policies – Continued

### Taxation – Continued

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

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

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

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

### Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at the end of the reporting period. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the year except for exchange differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in other comprehensive income, in which cases, the exchange differences are also recognised directly in other comprehensive income.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. Hong Kong dollars) using the exchange rates prevailing at the end of the reporting period, and their income and expenses are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity (and attributed to non-controlling interests as appropriate).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2015



## 2. Summary of Significant Accounting Policies – Continued

### Foreign currencies – Continued

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

In addition, in relation to a partial disposal of a subsidiary that does not result in the Group losing control over the subsidiary, the proportionate share of accumulated exchange differences are re-attributed to non-controlling interests and are not recognised in profit or loss. For all other partial disposals (i.e. partial disposals of joint arrangements and associate that do not result in the Group losing joint control), the proportionate share of the accumulated exchange differences is reclassified to profit or loss.

Goodwill and fair value adjustments on identifiable assets acquired arising on an acquisition of a foreign operation are treated as assets and liabilities of that foreign operation and translated at the rate of exchange prevailing at the end of the reporting period. Exchange differences arising are recognised in the other comprehensive income.

### Leasing

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

#### The Group as lessor

Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease.

#### The Group as lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed. Contingent rentals rising under operating leases are recognised as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expenses on straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

#### Leasehold land and buildings

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

To the extent the allocation of the lease payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as "prepaid lease payments" in the consolidated statement of financial position and is amortised over the lease term on a straight-line basis except for those that are classified and accounted for as investment properties under the fair value model. When the lease payments cannot be allocated reliably between the land and building elements, the entire lease is generally classified as a finance lease and accounted for as property, plant and equipment.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2015



## 2. Summary of Significant Accounting Policies – Continued

### Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle that obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value is material).

### Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

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

### Retirement benefits costs

Payments to state-managed retirement benefits scheme and Mandatory Provident Fund Schemes are charged as an expense when employees have rendered service entitling them to the contributions.

### Equity-settled share-based payment transactions

Share options granted to directors ("**Directors**"), employees and service providers of the Group. For grants of share options that are conditional upon satisfying specified vesting conditions, the fair value of services received is determined by reference to the fair value of share options granted at the date of grant and is expensed on a straight-line basis over the vesting period, based on the Group's estimate of equity instruments that will eventually vest, with a corresponding increase in equity (share option reserve).

At the end of the reporting period, the Group revises its estimates of the number of options that are expected to vest. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to share option reserve.

For share options that vest immediately at the date of grant, the fair value of the share options granted is expensed immediately to profit or loss.

When the share options are exercised, the amount previously recognised in share option reserve will be transferred to share capital and share premium. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share option reserve will be transferred to accumulated losses.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2015



## 2. Summary of Significant Accounting Policies – Continued

### Related parties

A party is considered to be related to the Group if:

- (a) A person, or a close member of that person's family, is related to the Group if that person:
  - (i) has control or joint control over the Group;
  - (ii) has significant influence over the Group; or
  - (iii) is a member of the key management personnel of the Group or the Group's parent.
- (b) An entity is related to the Group if any of the following conditions applies:
  - (i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
  - (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a Group of which the other entity is a member).
  - (iii) Both entities are joint ventures of the same third party.
  - (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
  - (v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.
  - (vi) The entity is controlled or jointly controlled by a person identified in (a).
  - (vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).
  - (viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the Group's parent.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2015



## 3. Going Concern Convention

In preparing the consolidated financial statements, the Directors have given careful consideration to the liquidity of the Group as the Group has sustained operating losses for five consecutive years and incurred loss of approximately HK\$67,760,000 from continuing and discontinued operations for the year ended 31 December 2015 (2014: HK\$82,946,000).

In order to improve the situation, the Group will continue to strengthen the health related and pharmaceutical products business through (i) upgrading and redesigning the websites of the operating subsidiaries of the Group in order to enhance the online sales of health related products; (ii) introducing new health related products and changing package design of the existing healthcare products in order to enlarge the products lists and attract the different market segments of customers; (iii) leveraging on solid foundation and competitive strengths of DVF Holdco (Cayman) Limited ("**DVF**") (together with its subsidiaries) in the provision of medical laboratory testing services and health check services to enhance the revenue sources and profitability; and (iv) developing and expanding distribution networks of existing products and manufacturing new health related and pharmaceutical products through the factory held by 貴陽舒美達製藥廠有限公司 (in English, for identification purpose only, Guiyang Shu Mei Da Pharmaceutical Co., Ltd.) ("**Shu Mei Da**"). The Company has narrowed the trading securities losses through revamping its investment strategies in securities trading business by investing in listed securities with potential returns. The board of the Directors ("**Board**") will remain cautious in the allocation of internal resources and in the identification and seizure of appropriate securities investment opportunities with a view to generating gains for the securities trading business of the Group.

In the opinion of the Directors, as the measures described above accomplish the expected results, the Directors are satisfied that the Group is able to have sufficient working capital to meet in full its financial obligations as they fall due in the foreseeable future and be able to return to a commercially viable concern. Accordingly, the Directors considered that it is appropriate to prepare the consolidated financial statements on a going concern basis.

## 4. Application of New and Revised HKFRSs

In the current year, the Group has applied a number of new and revised HKFRSs issued by the HKICPA that are mandatorily effective for an accounting period that begins on or after 1 January 2015:

|                       |   |
|-----------------------|---|
| Amendments to HKFRSs  | Annual Improvements to HKFRSs 2010-2012 Cycle |
| Amendments to HKFRSs  | Annual Improvements to HKFRSs 2011-2013 Cycle |
| Amendments to HKAS 19 | Defined Benefit Plans: Employee Contributions |

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2015



## 4. Application of New and Revised HKFRSs – Continued

The Group has not early adopted the following new and revised HKFRSs that have been issued but not yet effective:

|  |  |
|--|--|
| Amendments to HKFRSs                         | Annual Improvements to HKFRSs 2012-2014 Cycle <sup>1</sup>   |
| Amendments to HKAS 1                         | Disclosure Initiative <sup>1</sup>   |
| Amendments to HKAS 16 and HKAS 38            | Clarification of Acceptable Methods of Depreciation and Amortisation <sup>1</sup>                  |
| Amendments to HKAS 16 and HKAS 41            | Agriculture: Bearer Plants <sup>1</sup>  |
| Amendments to HKAS 27                        | Equity Method in Separate Financial Statements <sup>1</sup>  |
| Amendments to HKFRS 10 and HKAS 28           | Sale or Contribution of Assets between an Investor and its Associate or Joint Venture <sup>3</sup> |
| Amendments to HKFRS 10, HKFRS 12 and HKAS 28 | Investment Entities: Applying the Consolidation Exemption <sup>1</sup>                             |
| Amendments to HKFRS 11                       | Accounting for Acquisitions of Interests in Joint Operations <sup>1</sup>                          |
| HKFRS 9                                      | Financial Instruments <sup>2</sup>   |
| HKFRS 14                                     | Regulatory Deferred Accounts <sup>1</sup>  |
| HKFRS 15                                     | Revenue from Contracts with Customers <sup>2</sup>   |

<sup>1</sup> Effective for annual periods beginning on or after 1 January 2016

<sup>2</sup> Effective for annual periods beginning on or after 1 January 2018

<sup>3</sup> Available for application – the mandatory effective date will be determined when the outstanding phases of amendments to HKFRS 10 and HKAS 28 are finalised

The Directors anticipate that the application of these new and revised HKFRSs will have no material impact on the Group's financial performance and positions and/or on the disclosures set out in these consolidated financial statements.

## 5. Critical Accounting Judgment and Key Sources of Estimation Uncertainty

Estimates and judgements are continually evaluated and are made based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that may have a risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

### Useful lives and impairment of property, plant and equipment and intangible assets with finite useful lives (other than goodwill)

The Group's management determines the estimated useful lives, residual values and related depreciation and amortisation charges for the property, plant and equipment and intangible assets (other than goodwill) with reference to the estimated periods that the Group intends to derive future economic benefits from the use of these assets. Management will revise the depreciation and amortisation charges where useful lives are different to previously estimated, or it will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold. Actual economic lives may differ from estimated useful lives; actual residual values may differ from estimated residual values. Periodic review could result in a change in depreciable lives and residual values and therefore depreciation and amortisation expense in the future periods.

The Group reviews property, plant and equipment and intangible assets with finite useful lives for impairment whenever events or changes in circumstances indicate that the related carrying amounts may not be recovered. Assessing the impairment loss requires a determination of fair value which is based on the best estimates and information available.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2015



## 5. Critical Accounting Judgment and Key Sources of Estimation Uncertainty – Continued

### Assessment of impairment of goodwill and intangible assets with indefinite useful lives

The Group tests annually whether goodwill and intangible assets with indefinite useful lives has suffered any impairment, in accordance with the accounting policy stated in note 2. The recoverable amounts of cash-generating units have been determined based on value in use calculations. These calculations require the use of estimates.

### Allowance for inventories

The management of the Group reviews an ageing analysis at the end of each reporting period, and makes allowance for obsolete and slow-moving inventory items identified that are no longer suitable for sales.

The management estimates the net realisable value for such finished goods based primarily on the latest invoice prices and current market conditions. The Group carries out an inventory review on a product-by-product basis at the end of each reporting period and makes allowance for obsolete and slow-moving items.

### Allowance for bad and doubtful debts

Management regularly reviews the recoverability and the aged status of the trade and other receivables. Appropriate impairment for estimated irrecoverable amounts is recognised in the consolidated statement of profit or loss and other comprehensive income when there is objective evidence that the asset is impaired.

In determining whether allowance for bad and doubtful debts is required, the Group takes into consideration the current credit worthiness, the past collection history, the aged status and likelihood of collection. Specific allowance is only made for receivables that are unlikely to be collected and is recognised on the difference between the estimated future cash flow expected to receive discounted using the original effective interest rate and its carrying amount. If the financial conditions of customers of the Group were to deteriorate, resulting in an impairment of their ability to make payments, additional impairment may be required. As at 31 December 2015, the carrying amounts of trade and bills receivables are approximately HK\$22,529,000 (2014: HK\$28,068,000), net of allowance for doubtful debts of approximately HK\$116,000 (2014: HK\$407,000). While the carrying amounts of deposits, prepayments and other receivables are approximately HK\$49,095,000 (2014: HK\$32,896,000), net of allowance for doubtful debts of approximately HK\$Nil (2014: HK\$800,000).

### Operating lease commitments – the Group as lessor

The Group has entered into commercial property leases on its property. The Group has determined, based on an evaluation of the terms and conditions of the arrangements, such as the lease term not constituting a substantial portion of the economic life of the commercial property, that it retains all the significant risks and rewards of ownership of these properties and accounts for the contracts as operating leases.

### Impairment allowances on loan receivable

The Group regularly reviews its loan portfolios to assess impairment. In determining whether an impairment loss should be recorded in the consolidated statement of profit or loss and other comprehensive income, the Group make judgements as to whether there is any observable data indicating that there is a measuring decrease in the estimated future cash flows. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2015



## 6. Capital Risk Management

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

The capital structure of the Group consists of debts (which include bank and other borrowings as detailed in note 35), cash and cash equivalents and equity attributable to owners of the Company, comprising issued share capital and reserves. The Directors review the capital structure on a regular basis. As a part of this review, the Directors consider the cost of capital and the associated risks and take appropriate actions to adjust the Group's capital structure.

## 7. Financial Instruments

### a. Financial risk management objectives and policies

The Group's major financial instruments include financial assets at FVTPL, available-for-sale financial assets, trade and bills receivables, loan receivable, deposits and other receivables, pledged cash deposit, cash and cash equivalents, trade and bills payables, other payables and accruals, bank and other borrowings. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management of the Group manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

#### **Credit risk**

The Group's maximum exposure to credit risk in the event of the counterparties' failure to perform their obligations as at 31 December 2015 in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated statement of financial position.

As at 31 December 2015, the Group has certain concentration of credit risk as 12% (2014: 15%) and 33% (2014: 37%) of the total trade receivables (including discontinued operation) were due from the Group's the largest and the five largest trade receivables respectively. In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews regularly the recoverable amount of each individual trade receivables to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the Directors consider that the Group's credit risk is significantly reduced.

For the loan receivable, prior to the lending of loan, the Group will review the financial strength, purpose of the borrowing, repayment ability of the borrower to ensure that the borrower has sound financial repayment ability. The Group assesses the credit profiles of each individual debtors by analysing many factors that influence the default probability, including (but not limited to) the counterparty's financial profile, business prospects and management, macroeconomic development, industrial and sovereign risk, and historical performance. The Group also meets quarterly and reviews from time to time the financial conditions of the borrowers or the guarantors.

The credit risk on liquid funds is limited because the counterparties are financial institutions with high credit ratings.

#### **Interest rate risk**

The Group's interest rate risk arises primarily from (a) loan receivable (as detailed in note 26) and other borrowings (as detailed in note 35) issued at fixed rates expose the Group to fair value interest rate risk, and (b) cash and bank balances, cash held in margin accounts with stock brokers, margin payable with securities trading account and bank borrowings (as detailed in note 35) expose the Group to cash flow interest rate risk, respectively. The Group does not use financial derivatives to hedge against the interest rate risk.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2015



## 7. Financial Instruments – Continued

### a. Financial risk management objectives and policies – Continued

#### **Interest rate risk – Continued**

At 31 December 2015, it is estimated that a general increase/decrease of 100 basis points in interest rates, with all other variables held constant, would decrease/increase the Group's loss after tax and accumulated losses by approximately HK\$161,000 (2014: increase/decrease the Group's loss after tax and accumulated losses by approximately HK\$68,000).

The sensitivity analysis above indicates the instantaneous change in the Group's loss after-tax and accumulated losses assuming that the change in interest rates had occurred at the end of the reporting period and had been applied to the exposure to interest rate risk for non-derivative financial instruments in existence at that date. The 100 basis point increase or decrease represents management's assessment of a reasonably possible change in interest rates over the period until the next annual reporting date. The analysis is performed on the same basis for 2014.

#### **Currency risk**

Most of the Group's monetary assets and liabilities are denominated in RMB and HK\$, and the Group conducts its business transactions principally in RMB and HK\$. The exchange rate risk of the Group is not significant.

#### **Liquidity risk**

The Group has implemented several measures to improve its working capital position and net financial position during the year, details of which are set out in note 3. The Group's policy is to regularly monitor current and expected liquidity requirements and its compliance with lending covenants to ensure that it maintains sufficient amount of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and long terms.

The Group has no covenants with banks for the banking facilities granted.

The Group's remaining contractual maturity for its financial liabilities are set out in the following table. For non-derivative financial liabilities, the table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows.

|                              | On demand or<br>within one<br>year<br>HK\$'000 | Total<br>undiscounted<br>cash flow<br>HK\$'000 | Carrying<br>amount<br>HK\$'000 |
|------------------------------|--|--|--------------------------------|
| <b>2015</b>                  |  |  |                                |
| <b>Financial liabilities</b> |  |  |                                |
| Trade and bills payables     | 4,270  | 4,270  | 4,270                          |
| Other payables and accruals  | 28,322   | 28,322   | 28,322                         |
| Bank and other borrowings    | 1,917  | 1,917  | 1,917                          |
|                              | <b>34,509</b>                                  | <b>34,509</b>                                  | <b>34,509</b>                  |



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2015



## 7. Financial Instruments – Continued

### a. Financial risk management objectives and policies – Continued

#### Liquidity risk – Continued

|                              | On demand<br>or within<br>one year<br>HK\$'000 | Total<br>undiscounted<br>cash flow<br>HK\$'000 | Carrying<br>amount<br>HK\$'000 |
|------------------------------|--|--|--------------------------------|
| 2014                         |  |  |                                |
| <b>Financial liabilities</b> |  |  |                                |
| Trade and bills payables     | 21,048   | 21,048   | 21,048                         |
| Other payables and accruals  | 63,969   | 63,969   | 63,969                         |
| Bank and other borrowings    | 19,014   | 19,014   | 19,014                         |
|                              | 104,031  | 104,031  | 104,031                        |

### b. Fair value

The fair value of financial assets and financial liabilities is determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions and dealer quotes for similar instruments.

The Directors consider that the fair values of financial assets and financial liabilities recorded at amortised cost in the consolidated statement of financial position approximate to the corresponding carrying amounts due to their short-term maturities.

### c. Categories of financial instruments

|   | 2015<br>HK\$'000 | 2014<br>HK\$'000 |
|---|------------------|------------------|
| <b>Financial assets</b>                                     |                  |                  |
| Financial assets at FVTPL                                   | 54,793           | 18,697           |
| Available-for-sale financial assets                         | 3,600            | –                |
| Loans and receivables (including cash and cash equivalents) |                  |                  |
| – Trade and bills receivables                               | 22,529           | 28,068           |
| – Loan receivable   | 6,025            | –                |
| – Deposits and other receivables                            | 46,079           | 28,783           |
| – Pledged cash deposit                                      | –                | 2,535            |
| – Cash and cash equivalents                                 | 75,234           | 39,163           |
|   | 208,260          | 117,246          |
| <b>Financial liabilities</b>                                |                  |                  |
| Financial liabilities measured at amortised cost            |                  |                  |
| – Trade and bills payables                                  | 4,270            | 21,048           |
| – Other payables and accruals                               | 28,322           | 63,969           |
| – Bank and other borrowings                                 | 1,917            | 19,014           |
|   | 34,509           | 104,031          |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2015



## 7. Financial Instruments – Continued

### d. Other price risk

The Group's held for trading securities are measured at fair value at end of the reporting period. Therefore, the Group is exposed to equity price risk. Management manages this exposure by maintaining a portfolio of investments with different risk profiles.

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

In respect of the held for trading securities, the following table demonstrates the impact on the Group's loss after tax and accumulated losses if the quoted market price of the Group's listed securities had been 5% (2014: 5%) higher/lower.

|                                    | Carrying<br>amount of equity<br>investments<br>HK\$'000 | Decrease or<br>increase in<br>loss after tax<br>HK\$'000 | Decrease or<br>increase in<br>accumulated<br>losses<br>HK\$'000 |
|------------------------------------|---|--|---|
| <b>2015</b>                        |   |  |   |
| Held for trading securities listed |   |  |   |
| – in Hong Kong                     | 33,428  | 1,396  | 1,396   |
| – outside Hong Kong                | 21,365  | 1,068  | 1,068   |
|                                    | <b>54,793</b>   | <b>2,464</b>   | <b>2,464</b>  |
| <b>2014</b>                        |   |  |   |
| Held for trading securities listed |   |  |   |
| – in Hong Kong                     | 18,697  | 781  | 781   |

## 8. Segment Information

Information reported to the Company's executive Directors, being the chief operating decision maker, for the purposes of resources allocation and assessment of segment performance, mainly focuses on types of goods or services delivered or provided. The Group is principally engaged in (i) manufacture, research and development, sale and distribution of consumer cosmetics, health related and pharmaceutical products, health supplement wine, dental materials, equipment in the PRC and Hong Kong, (ii) provision of medical laboratory testing services and health check services in Hong Kong, and (iii) trading of securities in Hong Kong. The manufacture and sale of consumer cosmetics and health supplement wine, and trading of dental materials and equipment in the PRC were regarded as discontinued operation.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2015



## 8. Segment Information – Continued

Segment information in respect of business segments is presented as below:

### Segment turnover and results

For the year ended 31 December 2015

|   | Manufacture<br>and sale<br>of health<br>related and<br>pharmaceutical<br>products<br>HK\$'000 | Provision of<br>medical<br>laboratory<br>testing<br>services<br>and health<br>check services<br>HK\$'000 | Trading of<br>financial<br>assets at<br>FVTPL<br>HK\$'000 | Others<br>HK\$'000 | Continuing<br>operations<br>HK\$'000 | Discontinued<br>operation<br>HK\$'000 | Total<br>HK\$'000 |
|---|---|--|---|--------------------|--------------------------------------|---------------------------------------|-------------------|
| Gross proceeds –<br>Segment turnover (Note) | 26,718  | 7,384  | 81,566  | 25                 | 115,693                              | 85,259                                | 200,952           |
| Segment results                             | (5,907)   | (1,604)  | (11,555)  | (1,278)            | (20,344)                             | (6,023)                               | (26,367)          |
| Other income and gains                      |   |  |   |                    | 654                                  | 713                                   | 1,367             |
| Finance costs                               |   |  |   |                    | (402)                                | (2,716)                               | (3,118)           |
| Loss on disposal of assets held<br>for sale |   |  |   |                    | (986)                                | –                                     | (986)             |
| Share of profits of associates              |   |  |   |                    | 1,055                                | –                                     | 1,055             |
| Share of loss of a joint venture            |   |  |   |                    | (8,445)                              | –                                     | (8,445)           |
| Impairment loss recognised on<br>goodwill   |   |  |   |                    | (1,000)                              | –                                     | (1,000)           |
| Unallocated corporate expenses              |   |  |   |                    | (30,572)                             | (69)                                  | (30,641)          |
| Loss before tax                             |   |  |   |                    | (60,040)                             | (8,095)                               | (68,135)          |
| Income tax credit/(expenses)                |   |  |   |                    | 389                                  | (14)                                  | 375               |
| Loss for the year                           |   |  |   |                    | (59,651)                             | (8,109)                               | (67,760)          |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2015



## 8. Segment Information – Continued

### Segment turnover and results – Continued

For the year ended 31 December 2014

|   | Manufacture<br>and sale<br>of health<br>related and<br>pharmaceutical<br>products<br>HK\$'000<br>(Restated) | Provision of<br>medical<br>laboratory<br>testing<br>services<br>and health<br>check services<br>HK\$'000<br>(Restated) | Trading of<br>financial<br>assets at<br>FVTPL<br>HK\$'000<br>(Restated) | Others<br>HK\$'000<br>(Restated) | Continuing<br>operations<br>HK\$'000<br>(Restated) | Discontinued<br>operation<br>HK\$'000<br>(Restated) | Total<br>HK\$'000<br>(Restated) |
|---|---|--|---|----------------------------------|--|---|---------------------------------|
| Gross proceeds –<br>Segment turnover (Note)                       | 70,110  | –  | 73,206  | –                                | 143,316  | 70,275  | 213,591                         |
| Segment results   | 8,008   | –  | (39,483)  | –                                | (31,475)   | (6,060)   | (37,535)                        |
| Other income and gains  |   |  |   |                                  | 889  | 1,057   | 1,946                           |
| Finance costs   |   |  |   |                                  | (1,575)  | (2,858)   | (4,433)                         |
| Loss on deemed disposal of<br>partial interest in a joint venture |   |  |   |                                  | (5,892)  | –   | (5,892)                         |
| Share of profit of a joint venture                                |   |  |   |                                  | 83   | –   | 83                              |
| Impairment loss recognised on<br>goodwill                         |   |  |   |                                  | (8,240)  | –   | (8,240)                         |
| Impairment loss recognised on<br>intangible assets                |   |  |   |                                  | (421)  | –   | (421)                           |
| Unallocated corporate expenses                                    |   |  |   |                                  | (27,767)   | (74)  | (27,841)                        |
| Loss before tax   |   |  |   |                                  | (74,398)   | (7,935)   | (82,333)                        |
| Income tax expenses   |   |  |   |                                  | (473)  | (140)   | (613)                           |
| Loss for the year   |   |  |   |                                  | (74,871)   | (8,075)   | (82,946)                        |

Note:

Reconciliation of total segment turnover to the Group's turnover from continuing operations:

|   | 2015<br>HK\$'000 | 2014<br>HK\$'000<br>(Restated) |
|---|------------------|--------------------------------|
| Gross proceeds                                  | 115,693          | 143,316                        |
| Less: Gross proceeds from trading of securities | (81,566)         | (73,206)                       |
| Turnover  | 34,127           | 70,110                         |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2015



## 8. Segment Information – Continued

### Segment assets and liabilities

As at 31 December 2015

|   | Manufacture<br>and sale<br>of health<br>related and<br>pharmaceutical<br>products<br>HK\$'000 | Provision of<br>medical<br>laboratory<br>testing services<br>and health<br>check services<br>HK\$'000 | Trading of<br>financial<br>assets at<br>FVTPL<br>HK\$'000 | Others<br>HK\$'000 | Total<br>HK\$'000 |
|---|---|---|---|--------------------|-------------------|
| Assets  |   |   |   |                    |                   |
| Segment assets  | 55,840  | 103,376   | 96,260  | 15,804             | 271,280           |
| Assets classified as held for sale                                |   |   |   |                    | 116,407           |
| Unallocated corporate assets                                      |   |   |   |                    | 90,331            |
| Total assets  |   |   |   |                    | 478,018           |
| Liabilities   |   |   |   |                    |                   |
| Segment liabilities   | 7,032   | 9,436   | 2,805   | 124                | 19,397            |
| Liabilities associated with assets<br>classified as held for sale |   |   |   |                    | 98,535            |
| Unallocated corporate liabilities                                 |   |   |   |                    | 17,348            |
| Total liabilities   |   |   |   |                    | 135,280           |

As at 31 December 2014

|   | Manufacture<br>and sale<br>of health<br>related and<br>pharmaceutical<br>products<br>HK\$'000<br>(Restated) | Provision of<br>medical<br>laboratory<br>testing services<br>and health<br>check services<br>HK\$'000<br>(Restated) | Trading of<br>financial<br>assets at<br>FVTPL<br>HK\$'000<br>(Restated) | Others<br>HK\$'000<br>(Restated) | Total<br>HK\$'000<br>(Restated) |
|---|---|---|---|----------------------------------|---------------------------------|
| Assets  |   |   |   |                                  |                                 |
| Segment assets  | 66,764  | –   | 30,197  | 20,894                           | 117,855                         |
| Assets classified as held for sale                                |   |   |   |                                  | 42,644                          |
| Assets relating to discontinued<br>operation                      |   |   |   |                                  | 109,893                         |
| Unallocated corporate assets                                      |   |   |   |                                  | 56,624                          |
| Total assets  |   |   |   |                                  | 327,016                         |
| Liabilities   |   |   |   |                                  |                                 |
| Segment liabilities   | 6,394   | –   | 2,929   | 111                              | 9,434                           |
| Liabilities associated with assets<br>classified as held for sale |   |   |   |                                  | 20,067                          |
| Liabilities relating to discontinued<br>operation                 |   |   |   |                                  | 96,595                          |
| Unallocated corporate liabilities                                 |   |   |   |                                  | 3,007                           |
| Total liabilities   |   |   |   |                                  | 129,103                         |



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2015



## 8. Segment Information – Continued

### Other segment information

For the year ended 31 December 2015

|  | Manufacture<br>and sale<br>of health<br>related and<br>pharmaceutical<br>products<br>HK\$'000 | Provision of<br>medical<br>laboratory<br>testing<br>services<br>and health<br>check services<br>HK\$'000 | Trading of<br>financial<br>assets at<br>FVTPL<br>HK\$'000 | Others<br>HK\$'000 | Continuing<br>operations<br>HK\$'000 | Discontinued<br>operation<br>HK\$'000 | Total<br>HK\$'000 |
|--|---|--|---|--------------------|--------------------------------------|---------------------------------------|-------------------|
| Capital expenditures                                     | 1,735   | 7,473  | –   | 59                 | 9,267                                | 573                                   | 9,840             |
| Amortisation of prepaid lease<br>payments                | 250   | –  | –   | –                  | 250                                  | 113                                   | 363               |
| Amortisation of intangible assets                        | –   | 51   | –   | –                  | 51                                   | –                                     | 51                |
| Depreciation of property, plant<br>and equipment         | 2,492   | 568  | –   | 953                | 4,013                                | 1,350                                 | 5,363             |
| Net loss on disposal of property,<br>plant and equipment | –   | 3  | –   | –                  | 3                                    | 47                                    | 50                |
| Fixed assets written off                                 | 7,358   | –  | –   | 145                | 7,503                                | –                                     | 7,503             |
| Share of profits of associates                           | –   | –  | –   | (1,055)            | (1,055)                              | –                                     | (1,055)           |
| Share of loss of a joint venture                         | –   | –  | –   | 8,445              | 8,445                                | –                                     | 8,445             |
| Write-down of inventories                                | 290   | –  | –   | –                  | 290                                  | –                                     | 290               |
| Impairment loss recognised on<br>trade receivables       | 224   | –  | –   | –                  | 224                                  | –                                     | 224               |

For the year ended 31 December 2014

|  | Manufacture<br>and sale<br>of health<br>related and<br>pharmaceutical<br>products<br>HK\$'000<br>(Restated) | Provision of<br>medical<br>laboratory<br>testing<br>services<br>and health<br>check services<br>HK\$'000<br>(Restated) | Trading of<br>financial<br>assets at<br>FVTPL<br>HK\$'000<br>(Restated) | Others<br>HK\$'000<br>(Restated) | Continuing<br>operations<br>HK\$'000<br>(Restated) | Discontinued<br>operation<br>HK\$'000<br>(Restated) | Total<br>HK\$'000<br>(Restated) |
|--|---|--|---|----------------------------------|--|---|---------------------------------|
| Capital expenditures                             | 562   | –  | –   | 1,522                            | 2,084  | 679   | 2,763                           |
| Amortisation of prepaid lease<br>payments        | 21  | –  | –   | –                                | 21   | 115   | 136                             |
| Depreciation of property, plant<br>and equipment | 379   | –  | –   | 571                              | 950  | 1,471   | 2,421                           |
| Fixed assets written off                         | 820   | –  | –   | –                                | 820  | –   | 820                             |
| Share profit of a joint venture                  | –   | –  | –   | (83)                             | (83)   | –   | (83)                            |
| Write-down of inventories                        | 928   | –  | –   | –                                | 928  | –   | 928                             |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2015



## 8. Segment Information – Continued

### Geographical information

The Group operates in two principal geographical areas, being the PRC and Hong Kong. The segment of trading of financial assets at FVTPL is being carried out in Hong Kong.

The Group's turnover from external customers is set out below by the geographical location of the customers:

#### (a) Turnover from external customers

|                               | 2015<br>HK\$'000 | 2014<br>HK\$'000<br>(Restated) |
|-------------------------------|------------------|--------------------------------|
| <b>Continuing operations</b>  |                  |                                |
| The PRC                       | 22,510           | 60,921                         |
| Hong Kong                     | 11,617           | 9,189                          |
|                               | <b>34,127</b>    | <b>70,110</b>                  |
| <b>Discontinued operation</b> |                  |                                |
| The PRC                       | 85,259           | 70,275                         |

#### (b) Specified non-current assets

|                     | 2015<br>HK\$'000 | 2014<br>HK\$'000 |
|---------------------|------------------|------------------|
| The PRC (Note i)    | 51,750           | 78,294           |
| Hong Kong (Note ii) | 88,174           | 20,016           |
|                     | <b>139,924</b>   | <b>98,310</b>    |

Notes:

- (i) Non-current assets of approximately HK\$19,236,000 relate to discontinued operation as at 31 December 2014.
- (ii) Available-for-sale financial assets of HK\$3,600,000 is not included in specified non-current assets as at 31 December 2015.

### Information about major customers

There was no customer with turnover which accounted for more than 10% of the total turnover (including discontinued operation) for the years ended 31 December 2015 and 2014.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2015



## 9. Turnover

The principal activities of the Group are (i) the manufacture, research and development, sale and distribution of consumer cosmetics, health related and pharmaceutical products, health supplement wine, dental materials, equipment in the PRC and Hong Kong, (ii) provision of medical laboratory testing services and health check services in Hong Kong and (iii) trading of securities in Hong Kong.

Gross proceeds represents the amounts received and receivable from sales of goods and provision of medical laboratory services and health check services less sales tax and discounts, if any, and sale proceeds arising from financial assets at FVTPL during the year ended 31 December 2015.

|  | 2015<br>HK\$'000 | 2014<br>HK\$'000<br>(Restated) |
|--|------------------|--------------------------------|
| <b>Continuing operations</b>   |                  |                                |
| Manufacture and sale of health related and pharmaceutical products             | 26,718           | 70,110                         |
| Provision of medical laboratory testing services and health check services     | 7,384            | —                              |
| Money lending business   | 25               | —                              |
|  | <b>34,127</b>    | 70,110                         |
| Gross proceeds from trading of securities ( <i>Note</i> )                      | 81,566           | 73,206                         |
| Gross proceeds   | <b>115,693</b>   | 143,316                        |
| <b>Discontinued operation</b>  |                  |                                |
| Manufacture and sale of consumer cosmetics                                     | 71,834           | 53,689                         |
| Manufacture and sale of health related and pharmaceutical products             | 12,800           | 14,164                         |
| Manufacture and sale of health supplement wine, dental materials and equipment | 625              | 2,422                          |
|  | <b>85,259</b>    | 70,275                         |

*Note:* The gross proceeds from trading of securities were recorded in 'other income and gains/(losses)' after setting off the relevant cost.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2015



## 10. Other Income and Gains/(Losses)

|   | 2015<br>HK\$'000 | 2014<br>HK\$'000<br>(Restated) |
|---|------------------|--------------------------------|
| <b>Continuing operations</b>                          |                  |                                |
| Net loss on financial assets at FVTPL                 | (9,094)          | (36,916)                       |
| Interest income                                       | 265              | 172                            |
| Rental income   | –                | 180                            |
| Sundry income   | 292              | 504                            |
| Dividend income                                       | 97               | 33                             |
| Net loss on disposal of property, plant and equipment | (3)              | –                              |
| Fixed assets written off                              | (7,503)          | (820)                          |
|   | <b>(15,946)</b>  | <b>(36,847)</b>                |
| <b>Discontinued operation</b>                         |                  |                                |
| Interest income                                       | 60               | 36                             |
| Sundry income   | 653              | 1,021                          |
| Net loss on disposal of property, plant and equipment | (47)             | –                              |
|   | <b>666</b>       | <b>1,057</b>                   |

Net loss on financial assets at FVTPL consists of net unrealised gain on fair value changes of approximately HK\$10,748,000 (2014: net unrealised loss on fair value changes of approximately HK\$2,921,000) and net realised loss of approximately HK\$19,842,000 (2014: HK\$33,995,000) for the year ended 31 December 2015.

## 11. Finance Costs

|                               | 2015<br>HK\$'000 | 2014<br>HK\$'000<br>(Restated) |
|-------------------------------|------------------|--------------------------------|
| <b>Continuing operations</b>  |                  |                                |
| Interest expenses:            |                  |                                |
| – Other borrowings            | 402              | 1,575                          |
| <b>Discontinued operation</b> |                  |                                |
| Interest expenses:            |                  |                                |
| – Bank borrowings             | 1,414            | 1,466                          |
| – Other borrowings            | 1,302            | 1,392                          |
|                               | <b>2,716</b>     | <b>2,858</b>                   |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2015



## 12. Loss Before Tax

Loss before tax has been arrived at after charging:

|  | 2015<br>HK\$'000 | 2014<br>HK\$'000<br>(Restated) |
|--|------------------|--------------------------------|
| <b>Continuing operations</b>   |                  |                                |
| Staff costs (including Directors' emoluments as set out in note 16): |                  |                                |
| – Salaries, bonuses and other benefits                               | 17,062           | 14,136                         |
| – Share-based payment expenses                                       | –                | 3,385                          |
| – Retirement benefits scheme contributions                           | 996              | 642                            |
|  | <b>18,058</b>    | 18,163                         |
| Amortisation of prepaid lease payments                               | 250              | 21                             |
| Amortisation of intangible assets                                    | 51               | –                              |
| Auditor's remuneration   | 1,250            | 695                            |
| Cost of inventories sold   | 20,243           | 43,137                         |
| Depreciation of property, plant and equipment                        | 4,013            | 950                            |
| Impairment loss recognised on trade receivables                      | 224              | –                              |
| Write-down of inventories  | 290              | 928                            |
| Minimum lease payments under operating leases:                       |                  |                                |
| – Office premises, warehouses and staff quarters                     | 2,651            | 2,303                          |
| <b>Discontinued operation</b>  |                  |                                |
| Staff costs  |                  |                                |
| – Salaries, bonuses and other benefits                               | 6,419            | 5,880                          |
| – Retirement benefits scheme contributions                           | 1,767            | 1,578                          |
|  | <b>8,186</b>     | 7,458                          |
| Amortisation of prepaid lease payments                               | 113              | 115                            |
| Auditor's remuneration   | 12               | 10                             |
| Cost of inventories sold   | 62,575           | 43,229                         |
| Depreciation of property, plant and equipment                        | 1,350            | 1,471                          |
| Minimum lease payments under operating leases:                       |                  |                                |
| – Office premises, warehouses and staff quarters                     | 359              | 349                            |



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2015



## 13. Income Tax (Credit)/Expenses

|                                 | 2015<br>HK\$'000 | 2014<br>HK\$'000<br>(Restated) |
|---------------------------------|------------------|--------------------------------|
| <b>Continuing operations</b>    |                  |                                |
| The amount comprises:           |                  |                                |
| Current tax                     |                  |                                |
| – The PRC Enterprise Income Tax | –                | 590                            |
| – Hong Kong Profits Tax         | (381)            | –                              |
|                                 | (381)            | 590                            |
| Deferred tax:                   |                  |                                |
| – Current year (Note 36)        | (8)              | (117)                          |
|                                 | (389)            | 473                            |
| <b>Discontinued operation</b>   |                  |                                |
| The amount comprises:           |                  |                                |
| Current tax                     |                  |                                |
| – The PRC Enterprise Income Tax | 14               | 140                            |

Hong Kong Profits Tax is calculated at the tax rate of 16.5% (2014: 16.5%) of the estimated assessable profits arising in Hong Kong during the year ended 31 December 2015.

The subsidiaries in the PRC are subject to the PRC Enterprise Income Tax at the tax rate of 25% (2014: 25%), except for a subsidiary, Shu Mei Da, which is accredited with high and new technology enterprise status and thus enjoys a preferential tax rate of 15% (2014: 15%).

Pursuant to the rules and regulations of Bermuda, the Cayman Islands and the British Virgin Islands ("BVI"), the Group is not subject to any income tax expenses in the respective tax jurisdictions.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2015



## 13. Income Tax (Credit)/Expenses – Continued

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

|   | 2015<br>HK\$'000 | 2014<br>HK\$'000<br>(Restated) |
|---|------------------|--------------------------------|
| <b>Continuing operations</b>                                    |                  |                                |
| Loss before tax   | 60,040           | 74,398                         |
| Tax at respective applicable tax rates                          | (8,202)          | (8,968)                        |
| Tax effect of share of profits of associates                    | (264)            | –                              |
| Tax effect of share of loss/(profit) of a joint venture         | 2,111            | (21)                           |
| Tax effect of expenses not deductible for tax purposes          | 4,001            | 3,174                          |
| Tax effect of income not taxable for tax purpose                | (2,508)          | (27)                           |
| Tax effect of origination and reversal of temporary differences | (665)            | (77)                           |
| Tax effect of tax losses not recognised                         | 5,433            | 6,392                          |
| Others  | (295)            | –                              |
| Income tax (credit)/expenses for the year                       | (389)            | 473                            |
| <b>Discontinued operation</b>                                   |                  |                                |
| Loss before tax   | 8,095            | 7,935                          |
| Tax at respective applicable tax rates                          | (2,018)          | (1,965)                        |
| Tax effect of expenses not deductible for tax purposes          | 2,167            | 2,518                          |
| Tax effect of income not taxable for tax purpose                | (135)            | (413)                          |
| Income tax expenses for the year                                | 14               | 140                            |

## 14. Dividends

No dividend was paid or proposed during the year ended 31 December 2015, nor has any dividend been proposed since the end of the reporting period (2014: HK\$Nil).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2015



## 15. Loss Per Share

Basic loss per share is calculated by dividing the loss for the year attributable to owners of the Company by the weighted average number of ordinary shares in issue during the years ended 31 December 2015 and 2014.

### Continuing and discontinued operations

|  | 2015            | 2014<br>(Restated) |
|--|-----------------|--------------------|
| Loss for the year attributable to owners of the Company (HK\$'000) | <b>(62,269)</b> | (82,929)           |
| Weighted average number of ordinary shares in issue ('000)         | <b>294,070</b>  | 85,471             |
| Basic loss per share (HK\$)  | <b>(0.212)</b>  | (0.970)            |

### Continuing operations

|  | 2015            | 2014<br>(Restated) |
|--|-----------------|--------------------|
| Loss for the year attributable to owners of the Company (HK\$'000)                                   | <b>(62,269)</b> | (82,929)           |
| Less: Loss for the year attributable to owners of the Company from discontinued operation (HK\$'000) | <b>(8,109)</b>  | (8,075)            |
| Loss for the year attributable to owners of the Company from continuing operations (HK\$'000)        | <b>(54,160)</b> | (74,854)           |
| Weighted average number of ordinary shares in issue ('000)   | <b>294,070</b>  | 85,471             |
| Basic loss per share (HK\$)  | <b>(0.184)</b>  | (0.876)            |

### Discontinued operation

|  | 2015           | 2014<br>(Restated) |
|--|----------------|--------------------|
| Loss for the year attributable to owners of the Company from discontinued operation (HK\$'000) | <b>(8,109)</b> | (8,075)            |
| Weighted average number of ordinary shares in issue ('000)                                     | <b>294,070</b> | 85,471             |
| Basic loss per share (HK\$)  | <b>(0.028)</b> | (0.094)            |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2015



## 15. Loss Per Share – Continued

### Weighted average number of ordinary shares ('000)

|   | 2015    | 2014<br>(Restated) |
|---|---------|--------------------|
| Issued ordinary shares at 1 January   | 100,562 | 31,442             |
| Effect of shares issued under placing on 25 February 2014<br>(Note 37(b))     | –       | 20,808             |
| Effect of shares issued under placing on 11 July 2014 (Note 37(b))            | –       | 5,291              |
| Effect of rights issue on 20 October 2014 (Note 37(c))                        | –       | 9,789              |
| Effect of shares issued under subscription on 23 January 2015<br>(Note 37(d)) | 24,227  | –                  |
| Effect of rights issue on 18 September 2015 (Note 37(e))                      | 169,212 | 18,141             |
| Effect of shares issued under placing on 31 December 2015<br>(Note 37(b))     | 69      | –                  |
| Weighted average number of ordinary shares at 31 December                     | 294,070 | 85,471             |

The weighted average number of shares for the purpose of calculating the basic loss per share has been retrospectively adjusted for the years ended 31 December 2015 and 2014 to reflect the impact of the 2015 Share Consolidation (as defined in note 37(a)), the 2015 Rights Issue (as defined in note 37(e)) and the 2016 Share Consolidation (as defined in note 49(b)), which became effective on 1 April 2015, 18 September 2015 and 23 February 2016, respectively.

The weighted average number of shares for the purpose of calculating the basic loss per share for the year ended 31 December 2014 has also been restated on a retrospective basis for the 2014 Rights Issue (as defined in note 37(c)), the completion of which took place on 20 October 2014.

No diluted loss per share has been presented for the years ended 31 December 2015 and 2014 as there was no dilutive potential ordinary share outstanding during the years.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2015



## 16. Directors' and Employees' Emoluments

### (a) Directors' emoluments

Details of emoluments paid by the Group to the Directors during the years ended 31 December 2015 and 2014 are as follows:

#### For the year ended 31 December 2015

|  | Directors' fees<br>HK\$'000 | Salaries and other benefits<br>HK\$'000 | Performance-related bonuses<br>HK\$'000 | Share-based payment expenses<br>HK\$'000 | Retirement benefits scheme contributions<br>HK\$'000 | Total<br>HK\$'000 |
|--|-----------------------------|---|---|--|--|-------------------|
| <b>Executive Directors</b>                 |                             |   |   |  |  |                   |
| Mr. Cheung Hung                            | 600                         | -                                       | -                                       | -  | -  | 600               |
| Mr. Leung Pak Hou Anson                    | -                           | 1,053                                   | -                                       | -  | 18   | 1,071             |
| Ms. Chen Miaoping                          | 360                         | 25                                      | -                                       | -  | 3  | 388               |
|  | 960                         | 1,078                                   | -                                       | -  | 21   | 2,059             |
| <b>Independent non-executive Directors</b> |                             |   |   |  |  |                   |
| Mr. Leung Ka Fai                           | 120                         | -                                       | -                                       | -  | -  | 120               |
| Mr. Yuen Chun Fai                          | 120                         | -                                       | -                                       | -  | -  | 120               |
| Mr. Ho Fung Shan Bob                       | 120                         | -                                       | -                                       | -  | -  | 120               |
|  | 360                         | -                                       | -                                       | -  | -  | 360               |
| <b>Total</b>                               | <b>1,320</b>                | <b>1,078</b>                            | <b>-</b>                                | <b>-</b>                                 | <b>21</b>  | <b>2,419</b>      |



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2015



## 16. Directors' and Employees' Emoluments – Continued

### (a) Directors' emoluments – Continued

For the year ended 31 December 2014

|  | Directors' fees<br>HK\$'000 | Salaries and other benefits<br>HK\$'000 | Performance-related bonuses<br>HK\$'000 | Share-based payment expenses<br>HK\$'000 | Retirement benefits scheme contributions<br>HK\$'000 | Total<br>HK\$'000 |
|--|-----------------------------|---|---|--|--|-------------------|
| <b>Executive Directors</b>                             |                             |   |   |  |  |                   |
| Mr. Cheung Hung  | 1,700                       | –                                       | –                                       | 183                                      | –  | 1,883             |
| Mr. Leung Pak Hou Anson                                | –                           | 1,006                                   | –                                       | 183                                      | 17   | 1,206             |
| Ms. Chen Miaoping                                      | 360                         | 126                                     | –                                       | 183                                      | 37   | 706               |
|  | 2,060                       | 1,132                                   | –                                       | 549                                      | 54   | 3,795             |
| <b>Independent non-executive Directors</b>             |                             |   |   |  |  |                   |
| Mr. Yeung Chi Tit<br>(resigned on 4 September 2014)    | 81                          | –                                       | –                                       | –  | –  | 81                |
| Mr. Kwok Shun Tim<br>(resigned on 30 June 2014)        | 60                          | –                                       | –                                       | –  | –  | 60                |
| Mr. Leung Ka Fai                                       | 120                         | –                                       | –                                       | –  | –  | 120               |
| Mr. Yuen Chun Fai<br>(appointed on 30 June 2014)       | 60                          | –                                       | –                                       | –  | –  | 60                |
| Mr. Ho Fung Shan Bob<br>(appointed on 14 October 2014) | 26                          | –                                       | –                                       | –  | –  | 26                |
|  | 347                         | –                                       | –                                       | –  | –  | 347               |
| <b>Total</b>   | 2,407                       | 1,132                                   | –                                       | 549                                      | 54   | 4,142             |

None of the Directors waived or agreed to waive any emoluments paid by the Group and no incentive payment for joining the Group or compensation for loss of office was paid or payable to any Director of the Company during the years ended 31 December 2015 and 2014.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2015



## 16. Directors' and Employees' Emoluments – Continued

### (b) Employees' emoluments

Out of the five individuals with the highest emoluments in the Group, two (2014: three) were Directors whose emoluments, details are set out in note (a) above. The emoluments of the remaining three (2014: two) individuals for the year ended 31 December 2015 were as follows:

|  | 2015<br>HK\$'000 | 2014<br>HK\$'000 |
|--|------------------|------------------|
| Salaries, bonuses and other benefits     | 2,198            | 1,026            |
| Share-based payment expenses             | –                | 585              |
| Retirement benefits scheme contributions | 42               | 34               |
|  | <b>2,240</b>     | <b>1,645</b>     |

The emoluments of each of the above remaining highest paid individuals were within the following bands:

|                          | Number of individuals |      |
|--------------------------|-----------------------|------|
|                          | 2015                  | 2014 |
| <b>Emoluments band</b>   |                       |      |
| HK\$Nil to HK\$1,000,000 | 3                     | 2    |

No emoluments were paid by the Group to the five individuals with highest emoluments as an inducement to join or upon joining the Group or as compensation for loss of office during the years ended 31 December 2015 and 2014.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2015



## 17. Property, Plant and Equipment

|  | Land and<br>buildings<br>HK\$'000 | Furniture,<br>fixtures and<br>office<br>equipment<br>HK\$'000 | Motor<br>vehicles<br>HK\$'000 | Plant and<br>machinery<br>HK\$'000 | Leasehold<br>improvements<br>HK\$'000 | Construction<br>in progress<br>HK\$'000 | Total<br>HK\$'000 |
|--|-----------------------------------|---|-------------------------------|------------------------------------|---------------------------------------|---|-------------------|
| <b>Cost</b>  |                                   |   |                               |                                    |                                       |   |                   |
| At 1 January 2014  | 18,714                            | 4,018   | 2,360                         | 7,459                              | 1,796                                 | –                                       | 34,347            |
| Additions  | –                                 | 357   | 155                           | 1,684                              | 159                                   | 408                                     | 2,763             |
| Acquisition of a subsidiary                                  | 5,029                             | 1,594   | 655                           | 22,111                             | –                                     | –                                       | 29,389            |
| Acquisition of assets through<br>acquisition of a subsidiary | 3,655                             | –   | 1,439                         | –                                  | –                                     | –                                       | 5,094             |
| Classified as assets held for sale                           | –                                 | (344)   | (109)                         | –                                  | –                                     | –                                       | (453)             |
| Written off  | –                                 | (753)   | (165)                         | (630)                              | (457)                                 | –                                       | (2,005)           |
| Exchange alignment   | (114)                             | (25)  | (16)                          | (48)                               | (11)                                  | 2                                       | (212)             |
| At 31 December 2014 and<br>1 January 2015                    | 27,284                            | 4,847   | 4,319                         | 30,576                             | 1,487                                 | 410                                     | 68,923            |
| Additions  | –                                 | 1,391   | 264                           | 5,995                              | 2,178                                 | 12                                      | 9,840             |
| Acquisition of subsidiaries                                  | –                                 | 2,936   | 135                           | 8,317                              | 4,913                                 | –                                       | 16,301            |
| Disposals  | –                                 | (180)   | (270)                         | (37)                               | –                                     | –                                       | (487)             |
| Classified as assets held for sale                           | (17,703)                          | (2,102)   | (543)                         | (7,237)                            | (1,251)                               | –                                       | (28,836)          |
| Written off  | –                                 | (314)   | (10)                          | (8,221)                            | –                                     | –                                       | (8,545)           |
| Exchange alignment   | (1,175)                           | (244)   | (169)                         | (1,576)                            | (76)                                  | (24)                                    | (3,264)           |
| <b>At 31 December 2015</b>                                   | <b>8,406</b>                      | <b>6,334</b>  | <b>3,726</b>                  | <b>27,817</b>                      | <b>7,251</b>                          | <b>398</b>                              | <b>53,932</b>     |
| <b>Accumulated depreciation<br/>and impairment loss</b>      |                                   |   |                               |                                    |                                       |   |                   |
| At 1 January 2014  | 8,106                             | 3,041   | 1,067                         | 4,068                              | 191                                   | –                                       | 16,473            |
| Acquisition of a subsidiary                                  | 735                               | 356   | 260                           | 2,437                              | –                                     | –                                       | 3,788             |
| Acquisition of assets through<br>acquisition of a subsidiary | –                                 | –   | 1,151                         | –                                  | –                                     | –                                       | 1,151             |
| Charge for the year  | 742                               | 236   | 492                           | 665                                | 286                                   | –                                       | 2,421             |
| Eliminated on classified as<br>assets held for sale          | –                                 | (234)   | (29)                          | –                                  | –                                     | –                                       | (263)             |
| Eliminated on written off                                    | –                                 | (618)   | (115)                         | (200)                              | (252)                                 | –                                       | (1,185)           |
| Exchange alignment   | (139)                             | (50)  | (17)                          | (69)                               | (3)                                   | –                                       | (278)             |
| At 31 December 2014 and<br>1 January 2015                    | 9,444                             | 2,731   | 2,809                         | 6,901                              | 222                                   | –                                       | 22,107            |
| Acquisition of subsidiaries                                  | –                                 | 2,382   | 51                            | 6,620                              | 4,769                                 | –                                       | 13,822            |
| Charge for the year  | 1,174                             | 477   | 689                           | 2,723                              | 300                                   | –                                       | 5,363             |
| Eliminated on disposals                                      | –                                 | (162)   | (174)                         | (1)                                | –                                     | –                                       | (337)             |
| Eliminated on classified as<br>assets held for sale          | (8,939)                           | (1,693)   | (192)                         | (4,562)                            | (208)                                 | –                                       | (15,594)          |
| Eliminated on written off                                    | –                                 | (170)   | (8)                           | (864)                              | –                                     | –                                       | (1,042)           |
| Exchange alignment   | (641)                             | (157)   | (110)                         | (484)                              | –                                     | –                                       | (1,392)           |
| <b>At 31 December 2015</b>                                   | <b>1,038</b>                      | <b>3,408</b>  | <b>3,065</b>                  | <b>10,333</b>                      | <b>5,083</b>                          | <b>–</b>                                | <b>22,927</b>     |
| <b>Carrying amounts</b>                                      |                                   |   |                               |                                    |                                       |   |                   |
| <b>At 31 December 2015</b>                                   | <b>7,368</b>                      | <b>2,926</b>  | <b>661</b>                    | <b>17,484</b>                      | <b>2,168</b>                          | <b>398</b>                              | <b>31,005</b>     |
| At 31 December 2014  | 17,840                            | 2,116   | 1,510                         | 23,675                             | 1,265                                 | 410                                     | 46,816            |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2015



## 17. Property, Plant and Equipment – Continued

|  | 2015<br>HK\$'000 | 2014<br>HK\$'000 |
|--|------------------|------------------|
| Carrying amounts of the Group's land and buildings comprise:                         |                  |                  |
| – Leasehold land and buildings in Hong Kong under medium-term leases ( <i>Note</i> ) | 3,525            | 3,636            |
| – Buildings in the PRC under medium-term leases                                      | 3,843            | 14,204           |
|  | <b>7,368</b>     | <b>17,840</b>    |

*Note:* Owner-occupied leasehold land in Hong Kong is included in property, plant and equipment as the allocations between the land and buildings elements cannot be measured reliably.

As at 31 December 2015, certain buildings of the Group in the PRC with aggregate carrying amounts of approximately HK\$4,401,000 (2014: HK\$5,408,000) have been pledged to secure bank borrowings granted to the Group (*Note* 35). The relevant assets were classified as held for sale during the year ended 31 December 2015.

The Directors considered that no impairment loss should be recognised in the consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2015 (2014: HK\$Nil).

## 18. Prepaid Lease Payments

The Group's prepaid lease payments represented leasehold land located in the PRC held under medium-term leases.

|   | 2015<br>HK\$'000 | 2014<br>HK\$'000 |
|---|------------------|------------------|
| Carrying amounts at beginning of the year | 14,254           | 4,722            |
| Acquisition of subsidiaries               | –                | 9,655            |
| Amortisation                              | (363)            | (136)            |
| Exchange alignment                        | (818)            | 13               |
| Reclassified to assets held for sale      | (4,214)          | –                |
| Carrying amounts at end of the year       | <b>8,859</b>     | <b>14,254</b>    |
| Analysed for reporting purpose as:        |                  |                  |
| Current assets                            | 240              | 370              |
| Non-current assets                        | 8,619            | 13,884           |
|   | <b>8,859</b>     | <b>14,254</b>    |

The prepaid lease payments are amortised over the period of the rights of 38 to 45 years.

At 31 December 2015, the Group's prepaid lease payments amounting to approximately HK\$4,214,000 (2014: HK\$4,590,000) were pledged to secure bank borrowings granted to the Group (*Note* 35). The relevant assets were classified as assets held for sale during the year ended 31 December 2015.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2015



## 19. Goodwill

|   | HK\$'000      |
|---|---------------|
| <b>Cost</b>   |               |
| At 1 January 2014   | 45,384        |
| Acquisition of a subsidiary (Note 30)                         | 2,478         |
| Classified as assets held for sale (Note 32(c))               | (42,351)      |
| At 31 December 2014 and 1 January 2015                        | 5,511         |
| Acquisition of subsidiaries (Note 30)                         | 27,933        |
| <b>At 31 December 2015</b>                                    | <b>33,444</b> |
| <b>Accumulated impairment</b>                                 |               |
| At 1 January 2014   | 20,945        |
| Impairment recognised for the year                            | 8,240         |
| Eliminated on classified as assets held for sale (Note 32(c)) | (26,152)      |
| At 31 December 2014 and 1 January 2015                        | 3,033         |
| Impairment recognised for the year                            | 1,000         |
| <b>At 31 December 2015</b>                                    | <b>4,033</b>  |
| <b>Carrying amounts</b>                                       |               |
| <b>At 31 December 2015</b>                                    | <b>29,411</b> |
| At 31 December 2014   | 2,478         |

All goodwill arose as a result of acquisition of businesses.

### Impairment tests for cash-generating units containing goodwill

For the purposes of impairment testing, goodwill has been allocated to the following cash-generating units. The carrying amounts of goodwill as at the end of the reporting period are allocated as follows:

|   | 2015<br>HK\$'000 | 2014<br>HK\$'000 |
|---|------------------|------------------|
| Manufacture and sale of Chinese medicine products business (Note a)                 | 1,478            | 2,478            |
| Provision of medical laboratory testing services and health check services (Note b) | 27,933           | –                |
|   | <b>29,411</b>    | 2,478            |

The recoverable amounts of the cash-generating units are determined based on the value in use calculations. These calculations use cash flow projections based on financial budgets approved by the management of the Company covering a five-year period. Cash flows beyond the five-year period are assumed to remain constant.

The estimate growth rates used are comparable to the growth rate for the industry. The basis of the recoverable amounts of the above cash-generating units and their major underlying assumptions are summarised below:



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2015



## 19. Goodwill – Continued

### (a) Manufacture and sale of Chinese medicine products business – Acquisition of Shu Mei Da

Key assumptions used in the calculation of value in use were discount rate, growth rate and budgeted cash flow forecast. Cash flow forecast is based on profit forecast covering a period of five years. The discount rate applied to the cash flow forecast is 15% (2014: 14%) and cash flows beyond the five-year period are extrapolated using a steady growth rate of 3% (2014: 3%). During the year ended 31 December 2015, impairment loss on goodwill of Shu Mei Da of HK\$1,000,000 (2014: HK\$Nil) was recognised.

### (b) Provision of medical laboratory testing services and health check services – Acquisition of DVF and its subsidiaries, DVF Holdco Limited, PHC Medical Diagnostic Centre Limited (“PHC”), Premier MediCare Services Limited, Victory Medical Laboratory Limited, PHC Veterinary Laboratory Development Limited (subsequently renamed as Asia Molecular Pathology Laboratory Development Limited on 5 January 2016) (collectively, the “DVF Group”)

Key assumptions used in the calculation of value in use were discount rate, growth rate and budgeted cash flow forecast. Cash flow forecast is based on profit forecast covering a period of five years. The discount rate applied to the cash flow forecast is 16.87% and cash flows beyond the five-year period are extrapolated using a steady growth rate of 3%. During the year ended 31 December 2015, no impairment loss on goodwill of the DVF Group was recognised.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2015



## 20. Intangible Assets

|   | Customer<br>relationship<br>HK\$'000 | Brand<br>name<br>HK\$'000 | Pharmaceutical<br>licences<br>HK\$'000 | Research and<br>development<br>costs<br>HK\$'000 | Total<br>HK\$'000 |
|---|--------------------------------------|---------------------------|--|--|-------------------|
| <b>Cost</b>   |                                      |                           |  |  |                   |
| At 1 January 2014                                       | –                                    | –                         | –                                      | 447  | 447               |
| Acquisition of a subsidiary                             | –                                    | –                         | 12,132                                 | –  | 12,132            |
| Exchange alignment                                      | –                                    | –                         | 37                                     | (26)   | 11                |
| At 31 December 2014 and<br>1 January 2015               | –                                    | –                         | 12,169                                 | 421  | 12,590            |
| Acquisitions of subsidiaries                            | 12,247                               | 34,915                    | –                                      | –  | 47,162            |
| Exchange alignment                                      | –                                    | –                         | (710)                                  | –  | (710)             |
| <b>At 31 December 2015</b>                              | <b>12,247</b>                        | <b>34,915</b>             | <b>11,459</b>                          | <b>421</b>                                       | <b>59,042</b>     |
| <b>Accumulated amortisation and<br/>impairment loss</b> |                                      |                           |  |  |                   |
| At 1 January 2014                                       | –                                    | –                         | –                                      | –  | –                 |
| Impairment  | –                                    | –                         | –                                      | 421  | 421               |
| At 31 December 2014 and<br>1 January 2015               | –                                    | –                         | –                                      | 421  | 421               |
| Charge for the year                                     | 51                                   | –                         | –                                      | –  | 51                |
| <b>At 31 December 2015</b>                              | <b>51</b>                            | <b>–</b>                  | <b>–</b>                               | <b>421</b>                                       | <b>472</b>        |
| <b>Carrying amounts</b>                                 |                                      |                           |  |  |                   |
| <b>At 31 December 2015</b>                              | <b>12,196</b>                        | <b>34,915</b>             | <b>11,459</b>                          | <b>–</b>   | <b>58,570</b>     |
| At 31 December 2014                                     | –                                    | –                         | 12,169                                 | –  | 12,169            |

The brand name has no legal life. The Directors of the Company are of the opinion that the Group has the ability to use the brand name continuously and the brand name has no foreseeable limit to the period over which the services provided are expected to generate net cash flows for the Group. As a result, the brand name is considered by the management of the Group as having an indefinite useful life because it is expected to contribute to net cash inflows indefinitely. The brand name will not be amortised until its useful life is determined to be finite. Instead it will be tested for impairment annually and whenever there is an indication that it may be impaired.

The recoverable amounts of customer relationship and brand name are determined based on value in use calculation of the DVF Group as discussed above and no impairment loss was recognised during the year ended 31 December 2015.

The recoverable amounts of pharmaceutical licences are determined based on value in use calculation of Shu Mei Da as discussed above and no impairment loss was recognised during the years ended 31 December 2015 and 2014.

The recoverable amounts of research and development costs are determined based on value in use calculation and an impairment loss of HK\$421,000 was recognised during the year ended 31 December 2014.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2015



## 21. Investment in a Joint Venture

|                                | 2015<br>HK\$'000 | 2014<br>HK\$'000 |
|--------------------------------|------------------|------------------|
| Share of net assets – unlisted | –                | 22,963           |

Details of the Group's investment in Trillion Epoch Limited ("**Trillion Epoch**"), which is accounted for using the equity method in the consolidated financial statements, are as follows:

| Name                   | Place of incorporation/<br>establishment/operation | Particulars of issued<br>and paid up capital | Proportion of ownership interests/<br>voting rights/profit sharing |                  | Principal activities  |
|------------------------|--|--|--|------------------|---|
|                        |  |  | 2015<br>Indirect   | 2014<br>Indirect |   |
| Trillion Epoch Limited | BVI  | Ordinary shares<br>US\$25,000                | 6.136%   | 6.136%           | Investment holding of subsidiaries which carry on money lending business in the PRC |

On 28 January 2016, Dynasty Well Limited ("**Dynasty**"), a direct wholly-owned subsidiary of the Company, entered into a sale and purchase agreement with an independent third party, Mr. Jiang Lin ("**Mr. Jiang**"), to dispose of the entire issued share capital in Allied View International Limited ("**Allied View**") and the entire sum owing by Allied View to the Company ("**Sale Loan**") at a cash consideration of HK\$13,600,000. Allied View held 6.136% of the issued share capital of Trillion Epoch, which, in turn, held the entire issued share capital of Bravo Star Holdings Limited ("**Bravo Star**"). 重慶市北部新區利亨小額貸款有限公司 (in English, for identification purpose only, Chongqing City North New District Li Hang Microfinance Co., Ltd.) ("**Chongqing Microfinance**"), a direct wholly-owned subsidiary of Bravo Star and is principally engaged in the money lending business in the PRC. The investment in a joint venture with net carrying amounts of approximately HK\$13,508,000 as of 31 December 2015 was reclassified to assets held for sale.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2015



## 21. Investment in a Joint Venture – Continued

Summarised financial information of Trillion Epoch, adjusted for any differences in accounting policies, and reconciled to the carrying amounts in the consolidated financial statements, are disclosed below:

### Summarised statement of financial position

|   | 2015<br>HK\$'000 | 2014<br>HK\$'000 |
|---|------------------|------------------|
| Non-current assets                            | 29,414           | 31,570           |
| Current assets                                | 190,832          | 345,185          |
| Current liabilities                           | (98)             | (2,529)          |
| Net assets                                    | 220,148          | 374,226          |
| Included in the above assets and liabilities: |                  |                  |
| Cash and cash equivalents                     | 87               | 4,308            |

### Summarised statement of profit or loss and other comprehensive income

|  | 2015<br>HK\$'000 | 2014<br>HK\$'000 |
|--|------------------|------------------|
| Turnover                                 | 46,437           | 73,054           |
| Loss for the year                        | (137,623)        | (1,001)          |
| Other comprehensive loss for the year    | (16,455)         | (120)            |
| Total comprehensive loss for the year    | (154,078)        | (1,121)          |
| Dividend received during the year        | –                | –                |
| Included in the above loss for the year: |                  |                  |
| Depreciation                             | (1,677)          | (136)            |
| Interest income                          | –                | 47               |
| Income tax expenses                      | (3,027)          | (13,633)         |

### Reconciled to the Group's interest in Trillion Epoch

|  | 2015<br>HK\$'000 | 2014<br>HK\$'000 |
|--|------------------|------------------|
| Gross amounts of Trillion Epoch's net assets     | 220,148          | 374,226          |
| The Group's effective interest                   | 6.136%           | 6.136%           |
| The Group's share of Trillion Epoch's net assets | 13,508           | 22,963           |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2015



## 22. Investments in Associates

|   | 2015<br>HK\$'000 | 2014<br>HK\$'000 |
|---|------------------|------------------|
| At beginning of the year                                    | —                | —                |
| Reclassified from assets held for sale ( <i>Note a</i> )    | 5,817            | —                |
| Acquisition of interests in associates ( <i>Note b</i> )    | 4,830            | —                |
| Share of post-acquisition profits, net of dividend received | 1,055            | —                |
| Share of exchange differences                               | 617              | —                |
| At end of the year  | 12,319           | —                |

### Notes:

- (a) On 31 December 2014, Icy Snow Limited, a direct wholly-owned subsidiary of the Company, entered into a sale and purchase agreement with four independent third parties to dispose of 70% of the equity interests in Magical Bloom Limited ("**Magical Bloom**"), together with its subsidiaries, Longlife Group Holdings Limited and 廣州獅馬龍藥業有限公司 (in English, for identification purpose only, Guangzhou Shimalong Pharmaceutical Co., Ltd.) (formerly known as 廣州瑩潤藥業有限公司 (in English, for identification purpose only, Guangzhou Yingrun Pharmaceutical Co., Ltd.) ("**Shimalong**") (collectively, the "**Magical Bloom Group**") at an aggregate cash consideration of HK\$12,600,000. The completion of the disposal took place on 30 January 2015 and each member of the Magical Bloom Group ceased to be a subsidiary of the Company and became associates of the Company since then. Included in the cost of investments in Magical Bloom was goodwill of approximately HK\$4,860,000.
- (b) On 26 February 2015, Silver Wisdom Development Limited ("**Silver Wisdom**"), an indirect wholly-owned subsidiary of the Company, entered into a subscription agreement with New Health Elite International Limited ("**New Health**"), a direct wholly-owned subsidiary of China Wah Yan Healthcare Limited (formerly known as China Renji Medical Group Limited) ("**Wah Yan Health**"), the shares of which are listed on the Main Board of the Stock Exchange (Stock code: 648), and pursuant to which, Silver Wisdom has conditionally agreed to subscribe for, and New Health has conditionally agreed to allot and issue 23 subscription shares of New Health (representing 23% of its issued share capital as enlarged by the allotment and issue of such subscription shares) at a cash consideration of HK\$4,830,000 ("**NH Subscription**"). Following the completion of the NH Subscription which took place on 22 April 2015, New Health became an associate of the Company.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2015



## 22. Investments in Associates – Continued

Details of the Group's investments in associates, which are unlisted corporate entities whose quoted market price is not available, are accounted for using the equity method in the consolidated financial statements, are as follows:

| Name                                   | Place of incorporation/<br>establishment/operation | Particulars of issued<br>and paid up capital | Proportion of ownership interests/<br>voting rights/profit sharing |                  | Principal activities   |
|--|--|--|--|------------------|--|
|  |  |  | 2015<br>Indirect   | 2014<br>Indirect |  |
| Magical Bloom Limited                  | BVI  | Ordinary shares<br>US\$100                   | 30%  | –                | Investment holding of subsidiaries which are principally engaged in sale of medicated oil products                         |
| New Health Elite International Limited | BVI  | Ordinary shares<br>US\$100                   | 23%  | –                | Investment holding of subsidiaries which are principally engaged in provision of health management and well-being services |

In the opinion of the Directors, the above associates did not have a material effect on the results or assets of the Group.

## 23. Available-for-Sale Financial Assets

|                                     | 2015<br>HK\$'000 | 2014<br>HK\$'000 |
|-------------------------------------|------------------|------------------|
| Unlisted equity securities, at cost | 3,600            | –                |

All the available-for-sale financial assets are denominated in Hong Kong dollars.

## 24. Inventories

|                  | 2015<br>HK\$'000 | 2014<br>HK\$'000 |
|------------------|------------------|------------------|
| Raw materials    | 1,770            | 9,362            |
| Work in progress | 1,510            | 4,182            |
| Finished goods   | 6,425            | 50,336           |
|                  | 9,705            | 63,880           |

## 25. Trade and Bills Receivables

|  | 2015<br>HK\$'000 | 2014<br>HK\$'000 |
|--|------------------|------------------|
| Trade and bills receivables                | 22,645           | 28,475           |
| Less: Allowance for bad and doubtful debts | (116)            | (407)            |
|  | 22,529           | 28,068           |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2015



## 25. Trade and Bills Receivables – Continued

The Group has a policy of allowing an average credit period of 90 days to its trade customers. The following is an aged analysis of trade and bills receivables net of allowance at the end of the reporting period:

|                 | 2015<br>HK\$'000 | 2014<br>HK\$'000 |
|-----------------|------------------|------------------|
| 0 to 90 days    | 14,368           | 17,599           |
| 91 to 180 days  | 1,691            | 3,815            |
| 181 to 365 days | 2,526            | 4,588            |
| Over 365 days   | 3,944            | 2,066            |
|                 | <b>22,529</b>    | <b>28,068</b>    |

Trade and bills receivables that were neither past due nor impaired related to a wide range of customers for whom there was no recent history of default.

Ageing analysis of trade and bills receivables past due but not impaired:

|                            | 2015<br>HK\$'000 | 2014<br>HK\$'000 |
|----------------------------|------------------|------------------|
| Less than 90 days past due | 1,691            | 3,815            |
| 91 to 275 days past due    | 2,526            | 4,588            |
| Over 275 days past due     | 3,944            | 2,066            |
|                            | <b>8,161</b>     | <b>10,469</b>    |

Trade and bills receivables that were past due but not impaired related to customers that had a good repayment record with the Group. Based on past experience, the Directors believe that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral over these balances.

Impairment losses in respect of trade and bills receivables are recorded using an allowance accounts unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade and bills receivables directly. The movement in the allowance for bad and doubtful debts is as follows:

|                                      | 2015<br>HK\$'000 | 2014<br>HK\$'000 |
|--------------------------------------|------------------|------------------|
| At beginning of the year             | 407              | 14,432           |
| Acquisition of subsidiaries          | 116              | –                |
| Uncollectible amounts written off    | –                | (13,914)         |
| Reclassified to assets held for sale | (407)            | –                |
| Exchange alignment                   | –                | (111)            |
| At end of the year                   | <b>116</b>       | <b>407</b>       |

The individually impaired receivables are recognised based on the credit history of its customers, such as financial difficulties or default in payments, and current market conditions. At the end of the reporting period, included in the allowance for doubtful debts were individually impaired trade and bills receivables with an aggregate balance of approximately HK\$116,000 (2014: HK\$407,000).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2015



## 26. Loan Receivable

|                            | 2015<br>HK\$'000 | 2014<br>HK\$'000 |
|----------------------------|------------------|------------------|
| Fixed rate loan receivable | 6,025            | —                |

The loan receivable is neither past due nor impaired at the end of the reporting period. As at 31 December 2015, loan receivable is unsecured, interest-bearing at 10% per annum and repayable on 16 December 2016.

## 27. Deposits, Prepayments and Other Receivables

|   | 2015<br>HK\$'000 | 2014<br>HK\$'000 |
|---|------------------|------------------|
| Rental deposits                                 | 2,344            | 644              |
| Prepayments                                     | 3,016            | 4,113            |
| Other receivables                               | 5,868            | 16,642           |
| Cash held in margin accounts with stock brokers | 37,867           | 11,497           |
|   | 49,095           | 32,896           |

At the end of each of the reporting period, included in the allowance for doubtful debts were individually impaired other receivables with an aggregate balance of approximately HK\$Nil (2014: HK\$800,000). The individually impaired receivables are recognised based on the ageing analysis and current business relationship. The movement in the allowance for bad and doubtful debts is as follows:

|                                      | 2015<br>HK\$'000 | 2014<br>HK\$'000 |
|--------------------------------------|------------------|------------------|
| At beginning of the year             | 800              | 800              |
| Reclassified to assets held for sale | (800)            | —                |
| At end of the year                   | —                | 800              |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2015



## 28. Held for Trading Securities

|  | 2015<br>HK\$'000 | 2014<br>HK\$'000 |
|--|------------------|------------------|
| Securities listed in Hong Kong, at fair value      | 33,428           | 18,697           |
| Securities listed outside Hong Kong, at fair value | 21,365           | –                |
|  | <b>54,793</b>    | 18,697           |

All securities listed in Hong Kong are denominated in Hong Kong dollars and all securities listed outside Hong Kong are denominated in Australian dollars.

The fair value measurements are categorised as follows:

|                            | Level 1<br>HK\$'000 | Level 2<br>HK\$'000 | Level 3<br>HK\$'000 | Total<br>HK\$'000 |
|----------------------------|---------------------|---------------------|---------------------|-------------------|
| <b>At 31 December 2015</b> | <b>54,793</b>       | –                   | –                   | <b>54,793</b>     |
| At 31 December 2014        | 18,697              | –                   | –                   | 18,697            |

During the years ended 31 December 2015 and 2014, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3. The Group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

## 29. Cash and Bank Balances

Cash and bank balances comprise short-term bank deposits carry interest at prevailing deposit rates.

|                            | 2015<br>HK\$'000 | 2014<br>HK\$'000 |
|----------------------------|------------------|------------------|
| Cash and bank balances     | 75,234           | 41,698           |
| Less: Pledged cash deposit | –                | (2,535)          |
| Cash and cash equivalents  | <b>75,234</b>    | 39,163           |

Pledged cash deposit amounting to RMB2,000,000 (equivalent to HK\$2,535,000) was pledged to a bank for the issuance of bills payable as at 31 December 2014 and has been released upon the termination of bills payable during the year ended 31 December 2015.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2015



## 30. Acquisition of Subsidiaries

### For the year ended 31 December 2015

- (a) On 28 May 2015, the Company entered into a memorandum of understanding with Deep Value Financing Fund ("**Deep Value**") in relation to the proposed acquisition from Deep Value of a group of companies which are principally engaged in the provision of medical laboratory testing services and health check services in Hong Kong. Subsequently, on 18 September 2015, Fair Brilliant Group Limited ("**Fair Brilliant**"), an indirect wholly-owned subsidiary of the Company, entered into a sale and purchase agreement with Deep Value, pursuant to which Fair Brilliant has conditionally agreed to purchase, and Deep Value has conditionally agreed to sell (i) 100% of the issued share capital of the DVF Group and (ii) the loan then owing by a subsidiary of DVF to Deep Value, at a cash consideration of HK\$103,000,000 ("**DVF Acquisition**"). The completion of the DVF Acquisition took place on 16 December 2015. Details of the DVF Acquisition are disclosed in the announcements of the Company dated 28 May 2015, 18 September 2015 and 16 December 2015, and the circular of the Company dated 25 November 2015.

Acquisition-related costs amounting to approximately HK\$1,315,000 was excluded from the cost of acquisition and recognised as an expense within the administrative expenses in the consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2015.

- (b) On 18 September 2015, Fair Brilliant entered into a sale and purchase agreement with Mr. Ng Kam Cheung Stephen and Ms. Foo Wye Chan Marie as the vendors, pursuant to which Fair Brilliant has conditionally agreed to purchase, and the vendors have conditionally agreed to sell (i) the entire issued share capital of a diagnostic testing services laboratory ("**AMD L**") and (ii) the aggregate loans then owing by AMD L to the vendors, at a cash consideration of approximately HK\$1,874,000 ("**AMD L Acquisition**"). AMD L is principally engaged in the provision of medical diagnostic services in Hong Kong. The completion of AMD L Acquisition took place on 2 October 2015. Details of the AMD L Acquisition are disclosed in the announcement of the Company dated 18 September 2015.

Acquisition-related costs amounting to approximately HK\$255,000 was excluded from the cost of acquisition and recognised as an expense within the administrative expenses in the consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2015.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2015



## 30. Acquisition of Subsidiaries – Continued

For the year ended 31 December 2015 – Continued

|  | The DVF Group<br>HK\$'000 | AMD<br>HK\$'000 | Total<br>HK\$'000 |
|--|---------------------------|-----------------|-------------------|
| <b>Assets acquired and liabilities recognised at the date of acquisition are as follows:</b> |                           |                 |                   |
| Property, plant and equipment  | 2,456                     | 23              | 2,479             |
| Intangible assets  | 47,162                    | –               | 47,162            |
| Inventories  | 1,690                     | 164             | 1,854             |
| Trade receivables  | 13,725                    | 917             | 14,642            |
| Deposits, prepayments and other receivables  | 1,807                     | 219             | 2,026             |
| Cash and cash equivalents  | 17,226                    | 430             | 17,656            |
| Trade payables   | (1,306)                   | (386)           | (1,692)           |
| Other payables and accruals  | (92,631)                  | (1,039)         | (93,670)          |
| Tax payable  | (970)                     | (31)            | (1,001)           |
| Deferred tax liabilities   | (2,020)                   | –               | (2,020)           |
| Net (liabilities)/assets   | (12,861)                  | 297             | (12,564)          |
| <b>Goodwill arising on acquisition:</b>  |                           |                 |                   |
| Consideration  | 103,000                   | 1,874           | 104,874           |
| Less: Assignment of debts  | (88,622)                  | (883)           | (89,505)          |
| Net liabilities/(assets) acquired  | 12,861                    | (297)           | 12,564            |
| Goodwill arising on acquisition  | 27,239                    | 694             | 27,933            |
| <b>Net cash outflow arising on acquisition:</b>  |                           |                 |                   |
| Consideration paid in cash   | (103,000)                 | (1,874)         | (104,874)         |
| Cash and cash equivalents acquired   | 17,226                    | 430             | 17,656            |
|  | (85,774)                  | (1,444)         | (87,218)          |

### Impact of acquisitions on the results of the Group

The DVF Group and AMD contributed turnover of approximately HK\$5,646,000 and HK\$1,728,000 respectively, and net profit of approximately HK\$876,000 and HK\$180,000 respectively to the Group for the period from the relevant acquisition dates to 31 December 2015.

If the acquisitions of the DVF Group and AMD had been completed on 1 January 2015, the DVF Group and AMD would have contributed turnover of approximately HK\$60,490,000 and HK\$6,645,000 respectively, and net profit of approximately of HK\$10,881,000 and HK\$434,000 respectively to the Group for the year ended 31 December 2015.

The unaudited pro-forma financial information set out above is for illustrative purpose only on the effect of the acquisitions of the DVF Group and AMD having been completed at the beginning of the year ended 31 December 2015. The unaudited pro-forma financial information set out above is not necessarily an indication of turnover and results of the continuing operations of the Group nor is it intended to be a projection of future results.

The fair value of trade receivables acquired from the DVF Group and AMD amounted to approximately HK\$13,725,000 and approximately HK\$917,000 at the respective acquisition dates respectively, of which all is the best estimate of the contractual cash flows expected to be collected.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2015



## 30. Acquisition of Subsidiaries – Continued

### Impact of acquisitions on the results of the Group – Continued

Goodwill arose in the acquisitions of the DVF Group and AMDL because the cost of the combination included a control premium. In addition, the consideration paid for the combination effectively included amounts in relation to the benefit of expected synergies, revenue growth, future market development and the assembled workforce of the DVF Group and AMDL. These benefits are not recognised separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets.

None of the goodwill arising on these acquisitions is expected to be deductible for tax purposes.

For the year ended 31 December 2014

- (a) On 18 August 2014, Goldcore Holdings Limited, an indirect wholly-owned subsidiary of the Company, entered into an equity transfer agreement with two independent third parties to acquire 51% of the equity interests of Shu Mei Da at a cash consideration of RMB25,500,000 (equivalent to approximately HK\$32,217,000). The completion of the acquisition of Shu Mei Da took place on 20 November 2014. Details of the acquisition of Shu Mei Da are set out in the announcement of the Company dated 18 August 2014.

Acquisition-related costs amounting to approximately HK\$280,000 was excluded from the cost of acquisition and recognised as an expense within the administrative expenses in the consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2014.

|  | <b>Shu Mei Da</b><br><b>HK\$'000</b> |
|--|--------------------------------------|
| <b>Assets acquired and liabilities recognised at the date of acquisition are as follows:</b> |                                      |
| Property, plant and equipment  | 25,601                               |
| Prepaid lease payments   | 9,655                                |
| Intangible assets  | 12,132                               |
| Inventories  | 4,411                                |
| Trade receivables  | 6,660                                |
| Deposits, prepayments and other receivables  | 489                                  |
| Cash and cash equivalents  | 5,481                                |
| Trade payables   | (959)                                |
| Other payables and accruals  | (5,158)                              |
| Net assets   | 58,312                               |
| <b>Goodwill arising on acquisition:</b>  |                                      |
| Consideration  | 32,217                               |
| Add: Non-controlling interests   | 28,573                               |
| Less: Net assets acquired  | (58,312)                             |
| Goodwill arising on acquisition  | 2,478                                |
| <b>Net cash outflow arising on acquisition:</b>  |                                      |
| Consideration paid in cash   | (32,217)                             |
| Cash and cash equivalents acquired   | 5,481                                |
|  | (26,736)                             |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2015



## 30. Acquisition of Subsidiaries – Continued

For the year ended 31 December 2014 – *Continued*

*Impact of acquisition on the results of the Group*

Shu Mei Da contributed turnover of approximately HK\$3,674,000 and net loss of approximately of HK\$34,000 respectively to the Group for the period from the acquisition date to 31 December 2014.

If the acquisition of Shu Mei Da had been completed on 1 January 2014, Shu Mei Da would have contributed turnover of approximately HK\$23,739,000 and net loss of approximately HK\$13,499,000 respectively to the Group for the year ended 31 December 2014.

The unaudited pro-forma financial information set out above is for illustrative purpose only on the effect of the acquisition of Shu Mei Da having been completed at the beginning of the year ended 31 December 2014. The unaudited pro-forma financial information set out above is not necessarily an indication of turnover and results of the continuing operations of the Group nor is it intended to be a projection of future results.

The fair value of trade receivables acquired from Shu Mei Da amounted to approximately HK\$6,660,000 at the acquisition date, of which all is the best estimate of the contractual cash flows expected to be collected.

Goodwill arose in the acquisition of Shu Mei Da because the cost of the combination included a control premium. In addition, the consideration paid for the combination effectively included amounts in relation to the benefit of expected synergies, revenue growth, future market development and the assembled workforce of Shu Mei Da. These benefits are not recognised separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets.

None of the goodwill arising on these acquisitions is expected to be deductible for tax purposes.

The non-controlling interest (49%) in Shu Mei Da at the acquisition date was measured by proportion of the net assets of Shu Mei Da and amounted approximately HK\$28,573,000.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2015



## 31. Acquisition of Assets through Acquisition of A Subsidiary

For the year ended 31 December 2014

On 4 November 2014, Luxury Sun Holdings Limited, an indirect wholly-owned subsidiary of the Company, entered into a sale and purchase agreement with an independent third party to acquire the entire issued share capital of Pherson Limited at a cash consideration of HK\$3,980,000 and the acquisition-related direct costs was approximately HK\$32,000. The completion of the acquisition of Pherson Limited took place on the same date.

Pherson Limited is engaged in property holding and its principal asset is a residential unit in a building constructed on a leasehold land in Hong Kong. The consideration was determined based on the fair value of such residential unit as of 4 November 2014. The acquisition was treated as an acquisition of assets as the transaction involved the acquisition of a residential unit in a building constructed on a leasehold land in Hong Kong only.

|  | <b>Pherson Limited</b><br><b>HK\$'000</b> |
|--|---|
| <b>Assets acquired and liabilities recognised at the date of acquisition are as follows:</b> |   |
| Property, plant and equipment  | 3,943                                     |
| Other receivables  | 14  |
| Cash and cash equivalents  | 4   |
| Tax recoverable  | 168                                       |
| Deferred tax liabilities   | (117)                                     |
| Net assets   | 4,012                                     |
| <b>Consideration satisfied by:</b>   |   |
| Cash paid (including acquisition-related direct costs)                                       | 4,012                                     |
| <b>Net cash outflow arising on acquisition:</b>  |   |
| Consideration paid in cash   | (4,012)                                   |
| Cash and cash equivalents acquired   | 4   |
|  | (4,008)                                   |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2015



## 32. Discontinued Operation/Assets Held for Sale

|   | 2015<br>HK\$'000 | 2014<br>HK\$'000 |
|---|------------------|------------------|
| <b>Assets classified as held for sale</b>                             |                  |                  |
| The Wallfaith Group (Note a)  | 102,899          | —                |
| Allied View (Note b)  | 13,508           | —                |
| The Magical Bloom Group (Note c)                                      | —                | 42,644           |
|   | <b>116,407</b>   | <b>42,644</b>    |
|   |                  |                  |
|   | 2015<br>HK\$'000 | 2014<br>HK\$'000 |
| <b>Liabilities associated with assets classified as held for sale</b> |                  |                  |
| The Wallfaith Group (Note a)  | 98,535           | —                |
| Allied View (Note b)  | —                | —                |
| The Magical Bloom Group (Note c)                                      | —                | 20,067           |
|   | <b>98,535</b>    | <b>20,067</b>    |

Notes:

### (a) The Wallfaith Group

On 17 December 2015, the Company entered into a sale and purchase agreement with Mr. Yang Shunfeng, a director of certain subsidiaries of Wallfaith Company Limited ("Wallfaith"), to dispose of 100% of the equity interests in Wallfaith and its subsidiaries, Smiston Technology Limited, Suzhou Longlifu Health Food Co., Ltd., 蘇州朗力福商貿有限公司 (in English, for identification purpose only, Suzhou Longlifu Trading Co., Ltd.), Suzhou Beautiful Biochemistry Co., Ltd., 蘇州朗力福醫療器械有限公司 (in English, for identification purpose only, Suzhou Longlife Medical Devices Co., Ltd.) and 蘇州安德森醫療器械有限公司 (in English, for identification purpose only, Suzhou Anderson Medical Devices Co., Ltd.) (collectively, the "Wallfaith Group"). The total cash consideration for the sale of the entire issued share capital of the Wallfaith Group amounted to HK\$15,000,000. Completion of the disposal of the Wallfaith Group took place on 16 March 2016. Details of the disposal of the Wallfaith Group are disclosed in the announcement of the Company dated 17 December 2015 and the circular of the Company dated 15 January 2016. The manufacture and sale of consumer cosmetics and health supplement wine, and trading of dental materials and equipment in the PRC were regarded as discontinued operation of the Group.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2015



## 32. Discontinued Operation/Assets Held for Sale – Continued

### (a) The Wallfaith Group – Continued

The loss for the year from discontinued operation relating to the Wallfaith Group is analysed as follows:

|                                   | 2015<br>HK\$'000 | 2014<br>HK\$'000 |
|-----------------------------------|------------------|------------------|
| Turnover                          | 85,259           | 70,275           |
| Cost of sales                     | (62,575)         | (43,229)         |
| Gross profit                      | 22,684           | 27,046           |
| Other income and gains            | 666              | 1,057            |
| Selling and distribution expenses | (21,342)         | (24,065)         |
| Administrative expenses           | (7,387)          | (9,115)          |
| Loss from operation               | (5,379)          | (5,077)          |
| Finance costs                     | (2,716)          | (2,858)          |
| Loss before tax                   | (8,095)          | (7,935)          |
| Income tax expenses               | (14)             | (140)            |
| Loss for the year                 | (8,109)          | (8,075)          |

Cash flows for the year from the Wallfaith Group were as follows:

|   | 2015<br>HK\$'000 | 2014<br>HK\$'000 |
|---|------------------|------------------|
| Net cash (outflow)/inflow from operating activities | (3,354)          | 5,244            |
| Net cash outflow from investing activities          | (413)            | (438)            |
| Net cash outflow from financing activities          | (181)            | (5,659)          |
| Net cash outflow                                    | (3,948)          | (853)            |



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2015



## 32. Discontinued Operation/Assets Held for Sale – Continued

### (a) The Wallfaith Group – Continued

The major classes of assets and liabilities classified as held for sale of the Wallfaith Group as at 31 December 2015 which have been presented separately in the consolidated statement of financial position, are as follows:

|   | <b>The Wallfaith Group<br/>HK\$'000</b> |
|---|---|
| Property, plant and equipment   | 13,242                                  |
| Prepaid lease payments  | 4,214                                   |
| Inventories   | 59,886                                  |
| Trade and bills receivables   | 16,105                                  |
| Deposits, prepayments and other receivables                           | 6,411                                   |
| Tax recoverable   | 38                                      |
| Cash and cash equivalents   | 3,003                                   |
| <b>Assets classified as held for sale</b>                             | <b>102,899</b>                          |
| Trade payables  | 22,314                                  |
| Other payables and accruals ( <i>Note</i> )                           | 58,317                                  |
| Bank borrowings   | 17,904                                  |
| <b>Liabilities associated with assets classified as held for sale</b> | <b>98,535</b>                           |
| <b>Net assets classified as held for sale</b>                         | <b>4,364</b>                            |

*Note:* Excluded in other payables and accruals is the balance owed by the Wallfaith Group to the Company of approximately HK\$41,767,000 as at 31 December 2015, which the Company has undertaken to Mr. Yang Shunfeng to effect the completion of the capitalisation of such sum for the allotment and issue, credited as fully paid, of one share of Wallfaith by Wallfaith to the Company before completion which took place on 16 March 2016.

### (b) Allied View

On 28 January 2016, Dynasty entered into a sale and purchase agreement with an independent third party, Mr. Jiang, to dispose of the entire issued share capital in Allied View and the Sale Loan at a cash consideration of HK\$13,600,000. The completion of the disposal took place on the same day, and Allied View ceased to be a wholly-owned subsidiary of the Company since then and the Group has ceased to hold any equity interest in each of Allied View, Trillion Epoch, Bravo Star and Chongqing Microfinance. Details of the disposal of Allied View are disclosed in the announcements of the Company dated 28 January 2016 and 26 February 2016.

The major classes of assets and liabilities classified as held for sale of Allied View as at 31 December 2015 which have been presented separately in the consolidated statement of financial position, are as follows:

|   | <b>Allied View<br/>HK\$'000</b> |
|---|---------------------------------|
| Investment in a joint venture   | 13,508                          |
| <b>Assets classified as held for sale</b>                             | <b>13,508</b>                   |
| Other payable ( <i>Note</i> )   | –                               |
| <b>Liabilities associated with assets classified as held for sale</b> | <b>–</b>                        |
| <b>Net assets classified as held for sale</b>                         | <b>13,508</b>                   |

*Note:* Excluded in other payables and accruals is the balance owed by Allied View to the Company of approximately HK\$29,027,000 as at 31 December 2015, which Dynasty had assigned to Mr. Jiang as part of the Sale Loan. As at the date of completion on 28 January 2016, the Sale Loan amounted to HK\$29,030,520.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2015



## 32. Discontinued Operation/Assets Held for Sale – Continued

### (c) The Magical Bloom Group

On 31 December 2014, Icy Snow Limited, a direct wholly-owned subsidiary of the Company, entered into a sale and purchase agreement with four independent third parties to dispose of 70% of the equity interests in the Magical Bloom Group at an aggregate cash consideration of HK\$12,600,000. The completion of the disposal took place on 30 January 2015 and each member of the Magical Bloom Group ceased to be a subsidiary of the Company and became associates of the Company since then.

The revenue generated by the Magical Bloom Group was mainly derived from the sale of medicated oil products which were launched in the mid of 2014. Taking into account the keen competition in the sales of medicated oil products in the PRC and the Group's intention to allocate more resources to the manufacturing of the pharmaceutical products in the PRC and other investments when opportunities arise, the Group disposed of 70% of the equity interests in the Magical Bloom Group. Details of the disposal of the Magical Bloom Group are disclosed in the announcement of the Company dated 31 December 2014.

The major classes of assets and liabilities classified as held for sale of the Magical Bloom Group as at 31 December 2014 which have been presented separately in the consolidated statement of financial position, are as follows:

|   | <b>The Magical Bloom<br/>Group<br/>HK\$'000</b> |
|---|---|
| Property, plant and equipment   | 190   |
| Goodwill  | 16,199  |
| Inventories   | 11,517  |
| Trade and bills receivables   | 7,721   |
| Deposits, prepayments and other receivables                           | 3,404   |
| Cash and cash equivalents   | 3,613   |
| <b>Assets classified as held for sale</b>                             | <b>42,644</b>                                   |
| Trade payables  | 13,557  |
| Other payables and accruals   | 5,918   |
| Tax payable   | 592   |
| <b>Liabilities associated with assets classified as held for sale</b> | <b>20,067</b>                                   |
| <b>Net assets classified as held for sale</b>                         | <b>22,577</b>                                   |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2015



## 32. Discontinued Operation/Assets Held for Sale – Continued

### (c) The Magical Bloom Group – Continued

The analysis of the net assets classified as held for sale of the Magical Bloom Group at the date when the Group ceased to have control (i.e. 30 January 2015, being the completion date of the disposal of the Magical Bloom Group) were as follows:

|   | <b>The Magical Bloom<br/>Group<br/>HK\$'000</b> |
|---|---|
| Property, plant and equipment   | 183   |
| Goodwill  | 16,199  |
| Inventories   | 12,487  |
| Trade and bills receivables   | 5,383   |
| Deposits, prepayments and other receivables                           | 3,147   |
| Cash and cash equivalents   | 3,645   |
| <b>Assets classified as held for sale</b>                             | <b>41,044</b>                                   |
| Trade payables  | 13,045  |
| Other payables and accruals   | 8,610   |
| <b>Liabilities associated with assets classified as held for sale</b> | <b>21,655</b>                                   |
| <b>Net assets classified as held for sale</b>                         | <b>19,389</b>                                   |
| <b>Loss on disposal of assets held for sale:</b>                      |   |
| Cash consideration received   | 12,600  |
| Fair value of 30% equity interests retained                           | 5,817   |
| Release of exchange difference upon disposal                          | (14)  |
| Less: Net assets disposed of  | (19,389)  |
|   | (986)   |
| <b>Net cash inflow arising on disposal:</b>                           |   |
| Consideration received in cash  | 12,600  |
| Cash and cash equivalents disposed                                    | (3,645)   |
|   | 8,955   |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2015



## 33. Trade and Bills Payables

|                | 2015<br>HK\$'000 | 2014<br>HK\$'000 |
|----------------|------------------|------------------|
| Trade payables | 4,270            | 18,513           |
| Bills payables | –                | 2,535            |
|                | <b>4,270</b>     | <b>21,048</b>    |

The following is an aged analysis of trade and bills payables at the end of the reporting period:

|                 | 2015<br>HK\$'000 | 2014<br>HK\$'000 |
|-----------------|------------------|------------------|
| 0 to 90 days    | 2,591            | 10,320           |
| 91 to 180 days  | 1,224            | 4,271            |
| 181 to 365 days | 443              | 2,802            |
| Over 365 days   | 12               | 3,655            |
|                 | <b>4,270</b>     | <b>21,048</b>    |

## 34. Other Payables and Accruals

|   | Notes | 2015<br>HK\$'000 | 2014<br>HK\$'000 |
|---|-------|------------------|------------------|
| Accrued salaries                                |       | 2,284            | 2,095            |
| Receipt in advance                              |       | 153              | 4,976            |
| Accruals and others                             | (a)   | 26,038           | 44,276           |
| Amount due to an ex-director – Mr. Yang Honggen | (b)   | –                | 17,598           |
|   |       | <b>28,475</b>    | <b>68,945</b>    |

### Notes:

- (a) Accruals and others include the margin payable of approximately HK\$2,485,000 (2014: HK\$2,529,000) from the securities margin trading account with interest rate of 8.25% per annum (2014: 8.25% per annum).
- (b) Included in the amount due to an ex-director is the balance of approximately RMB11,803,000 (equivalent to approximately HK\$14,088,000) (2014: RMB8,444,000 (equivalent to approximately HK\$10,704,000)), which is unsecured, bearing interest based on the rate quoted by the People's Bank of China, and repayable on demand. The amount due to an ex-director was reclassified as held for sale during the year ended 31 December 2015. Except for the balance mentioned, the remaining amount of approximately RMB4,340,000 (equivalent to approximately HK\$5,180,000) (2014: RMB5,439,000 (equivalent to approximately HK\$6,894,000)) is unsecured, interest-free and repayable on demand.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2015



## 35. Bank and Other Borrowings

|                            | Notes | 2015<br>HK\$'000 | 2014<br>HK\$'000 |
|----------------------------|-------|------------------|------------------|
| Secured bank borrowings    | (a)   | –                | 19,014           |
| Unsecured other borrowings | (b)   | 1,917            | –                |
|                            |       | <b>1,917</b>     | <b>19,014</b>    |

All of the Group's secured bank and other borrowings are denominated in RMB.

### Notes:

- (a) At 31 December 2015, secured bank borrowings of approximately HK\$17,904,000 (2014: HK\$19,014,000) were secured by certain property, plant and equipment and prepaid lease payments of the Group with aggregate carrying amounts of approximately HK\$8,615,000 (2014: HK\$9,998,000) and guaranteed by the legal representative of a subsidiary in the PRC, which was an ex-director of the Company. The bank borrowings carried interest rate floating at 135% of the prime rate offered by the People's Bank of China per annum and repayable in 2017 with a repayment on demand clause. The bank borrowings were reclassified as held for sale during the year ended 31 December 2015.
- (b) The unsecured other borrowings included (i) RMB700,000 (equivalent to approximately HK\$836,000) carried interest at 12% per annum and are repayable on 23 August 2016; and (ii) RMB906,000 (equivalent to approximately HK\$1,081,000) carried interest at 8% per annum and 26 November 2016, respectively.

## 36. Deferred Tax Liabilities

|   | Accelerated<br>tax<br>depreciation<br>HK\$'000 | Others<br>HK\$'000 | Total<br>HK\$'000 |
|---|--|--------------------|-------------------|
| <b>At 1 January 2014</b>  | –  | –                  | –                 |
| Acquisition of assets (Note 31)   | –  | 117                | 117               |
| Credited to consolidated statement of profit or loss and other comprehensive income | –  | (117)              | (117)             |
| <b>At 31 December 2014 and 1 January 2015</b>                                       | –  | –                  | –                 |
| Acquisition of subsidiaries (Note 30)   | 2,020  | –                  | 2,020             |
| Credited to consolidated statement of profit or loss and other comprehensive Income | (8)  | –                  | (8)               |
| <b>At 31 December 2015</b>  | <b>2,012</b>                                   | <b>–</b>           | <b>2,012</b>      |

At the end of the reporting period, the Group had unused tax losses arising in the PRC and Hong Kong of approximately HK\$76,771,000 (2014: HK\$140,580,000) and approximately HK\$157,222,000 (2014: HK\$123,360,000) respectively available for offset against future profits. No deferred tax asset has been recognised in respect of the unused tax losses due to the unpredictability of future profits stream. Under current tax regulation, tax losses arising in the PRC can be carried forward for five years from the year in which the respective loss arose while the tax losses arising in Hong Kong can be carried forward indefinitely.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2015



## 37. Share Capital

|   | Notes | Number of<br>ordinary shares<br>'000 | Par value<br>HK\$ | Share capital<br>HK\$'000 |
|---|-------|--------------------------------------|-------------------|---------------------------|
| <b>Authorised:</b>  |       |                                      |                   |                           |
| At 1 January 2014, 31 December 2014<br>and 1 January 2015 |       | 20,000,000                           | 0.01              | 200,000                   |
| Share consolidation                                       | (a)   | (16,000,000)                         | –                 | –                         |
| <b>At 31 December 2015</b>                                |       | <b>4,000,000</b>                     | <b>0.05</b>       | <b>200,000</b>            |
| <b>Issued and fully paid:</b>                             |       |                                      |                   |                           |
| At 1 January 2014   |       | 314,416                              | 0.01              | 3,144                     |
| Issue of ordinary shares by placing                       | (b)   | 356,000                              | 0.01              | 3,560                     |
| Issue of ordinary shares by way of<br>rights issue        | (c)   | 335,208                              | 0.01              | 3,352                     |
| At 31 December 2014 and<br>1 January 2015                 |       | 1,005,624                            | 0.01              | 10,056                    |
| Issue of ordinary shares by subscription                  | (d)   | 257,813                              | 0.01              | 2,578                     |
| Share consolidation                                       | (a)   | (1,010,749)                          | –                 | –                         |
| Issue of ordinary shares by way of<br>rights issue        | (e)   | 1,010,749                            | 0.05              | 50,538                    |
| Issue of ordinary shares by placing                       | (b)   | 50,537                               | 0.05              | 2,527                     |
| <b>At 31 December 2015</b>                                |       | <b>1,313,974</b>                     | <b>0.05</b>       | <b>65,699</b>             |

### Notes:

#### (a) 2015 Share Consolidation

On 5 March 2015, the Board proposed, subject to passing the necessary shareholders' resolution, that every 5 existing shares of HK\$0.01 each in the issued and unissued share capital of the Company would be consolidated into 1 share of HK\$0.05 in the issued and unissued share capital of the Company ("2015 Share Consolidation"). As a result of the 2015 Share consolidation, the authorised share capital of the Company became HK\$200,000,000 divided into 4,000,000,000 consolidated shares of HK\$0.05 each, of which 252,687,300 consolidated shares were in issue immediately following the 2015 Share Consolidation becoming effective.

The resolution approving the 2015 Share Consolidation was duly passed as an ordinary resolution of the Company by the shareholders of the Company at the special general meeting held on 31 March 2015. The 2015 Share Consolidation became effective on 1 April 2015. For details, please refer to the announcements of the Company dated 5 March 2015 and 31 March 2015, and the circular of the Company dated 13 March 2015.

#### (b) Placing

On 17 December 2013 and 20 June 2014, the Company and the placing agents, RHB OSK Securities Hong Kong Limited ("RHB") and Trinity Finance Investment Limited ("Trinity"), entered into the placing agreements pursuant to which RHB and Trinity had conditionally agreed to place, on a best endeavours basis, up to 245,000,000 and 111,000,000 shares, to not less than six and six placees who and whose beneficial owners are independent third parties at a price of HK\$0.204 and HK\$0.18 per placing share, respectively. The conditions precedent of the placing agreements had been fulfilled and the completion of the placing took place on 11 July 2014, and the Company allotted and issued 245,000,000 and 111,000,000 ordinary shares of HK\$0.01 each on 25 February 2014 and 11 July 2014 respectively.

On 21 December 2015, the Company and Convoy Securities Limited ("Convoy") entered into a placing agreement pursuant to which Convoy has conditionally agreed to procure, as placing agent of the Company, not less than six placees, to subscribe, failing which, Convoy itself will subscribe for 50,537,000 shares at a price of HK\$0.10 per placing share. The net proceeds after deduction of expenses from the placing were approximately HK\$4.76 million. The completion of the placing took place on 31 December 2015. Details of the placing are disclosed in the announcements of the Company dated 21 December 2015 and 31 December 2015.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2015



## 37. Share Capital – Continued

Notes: – Continued

(c) *2014 Rights Issue*

On 20 August 2014, the Company announced to raise approximately HK\$53.6 million before expenses by way of rights issue on the basis of one rights share ("**2014 Rights Share**") for every two existing shares in issue held on the record date at the subscription price of HK\$0.16 per 2014 Rights Share ("**2014 Rights Issue**"). The Company and Kingston Securities Limited ("**Kingston**") entered into an underwriting agreement on 20 August 2014, pursuant to which Kingston conditionally agreed to fully underwrite all the 2014 Rights Shares that might fail to be issued. The completion of the 2014 Rights Issue took place on 20 October 2014. 335,208,000 2014 Rights Shares were allotted and issued pursuant to the 2014 Rights Issue and the net proceeds after deduction of expenses from the 2014 Rights Issue are approximately HK\$50.9 million.

(d) *WY Subscription*

On 14 November 2014, the Company and Wah Yan Health entered into the subscription agreement pursuant to which Wah Yan Health conditionally agreed to subscribe for, and the Company conditionally agreed to allot and issue, 257,812,500 subscription shares ("**WY Subscription Shares**") at the subscription price of HK\$0.128 per WY Subscription Share ("**WY Subscription**"). The completion of the WY Subscription took place on 23 January 2015. The net issue price per WY Subscription Share was approximately HK\$0.127 and the nominal value of the WY Subscription Shares was HK\$2,578,125. Details of the WY Subscription are disclosed in the announcements of the Company dated 14 November 2014 and 23 January 2015, and the circular of the Company dated 24 December 2014.

(e) *2015 Rights Issue*

On 10 July 2015, the Company announced to raise not less than approximately HK\$181.9 million and not more than approximately HK\$189.1 million before expenses on the basis of four rights shares ("**2015 Rights Shares**") for every one existing Share in issue held on the record date at the subscription price of HK\$0.18 per 2015 Rights Share by way of rights issue of not less than 1,010,749,200 2015 Rights Shares and not more than 1,050,378,296 2015 Rights Shares ("**2015 Rights Issue**"). The completion of the 2015 Rights Issue took place on 18 September 2015. 1,010,749,200 2015 Rights Shares were allotted and issued pursuant to the 2015 Rights Issue and the net proceeds after deduction of expenses from the 2015 Rights Issue were approximately HK\$175.0 million. Details of the 2015 Rights Issue are disclosed in the announcements of the Company dated 11 June 2015, 10 July 2015, 20 July 2015 and 17 September 2015, the circular of the Company dated 27 July 2015, and the prospectus dated 26 August 2015.

## 38. Share Option Scheme

### (a) Scheme

The share option scheme adopted by the Company on 26 May 2004 ("**Expired Scheme**") was expired on 25 May 2014 and a new share option scheme ("**Existing Scheme**") was approved to be adopted by the shareholders of the Company on 29 May 2014. The Existing Scheme will remain in force for 10 years from that date, unless other terminated earlier by shareholders in a general meeting. As a result, the Company can no longer grant any further options under the Expired Scheme. The Existing Scheme adopted is for the purpose of providing incentives and rewards to eligible participants who contribute to success of the Group's operations with the same terms as the Expired Scheme as detailed below.

Eligible participants of the Existing Scheme include the Directors, including Independent non-executive Directors, other employees of the Group, suppliers of goods or services to the Group, customers of the Group, persons or entity provides research, development or other technological support to the Group, any non-controlling shareholder in the Company's subsidiaries, and adviser to business development of the Group.

The maximum number of unexercised share options currently permitted to be granted under the Existing Scheme is an amount equivalent, upon their exercise, to 10% of the shares of the Company in issue as at the date of approval of the Existing Scheme. The maximum number of shares issuable under share options to each eligible participant in the Existing Scheme within any 12-month period, is limited to 1% of the shares of the Company in issue at any time. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2015



## 38. Share Option Scheme – Continued

### (a) Scheme – Continued

Share options granted to a Director, chief executive or substantial shareholder of the Company, or to any of their associates, are subject to approval in advance by the independent non-executive Directors. In addition, any share options granted to a substantial shareholder or an independent non-executive Director of the Company, or to any of their associates, in excess of 0.1% of the shares of the Company in issue at any time or with an aggregate value (based on the price of the Company's shares at the date of the grant) in excess of HK\$5 million, within any 12-month period, are subject to shareholders' approval in advance in a general meeting.

The offer of a grant of share options may be accepted in writing within 21 days from the date of the offer, upon payment of a nominal consideration of HK\$1 in total by the grantee. The exercise period of the share options granted shall be determined by the Directors at their absolute discretion, but in any event shall not be more than 10 years from the date of the offer of the share options.

The exercise price of the share options is determinable by the Directors, but may not be less than the highest of (i) the closing price of the Company's shares as stated in the Stock Exchange's daily quotation sheet on the date of the offer of grant; (ii) the average closing price of the Company's shares as stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the date of the offer of grant; and (iii) the nominal value of the Company's shares.

### (b) Options granted

#### Movement in number of share options

|  | 2015   |   | 2014   |   |
|--|--|---|--|---|
|  | Weighted<br>average<br>exercise<br>price HK\$<br>per share | Number of<br>outstanding<br>share options | Weighted<br>average<br>exercise<br>price HK\$<br>per share<br>(Restated) | Number of<br>outstanding<br>share options<br>(Restated) |
| At beginning of the year                               | 0.6337   | 12,576,591                                | 0.7827   | 47,000,000  |
| Granted during the year                                | –  | –   | 0.1722   | 46,300,000  |
| Adjustment due to 2014<br>Rights Issue (Note a)        | –  | –   | –  | 4,676,310   |
| Adjustment due to 2015<br>Rights Issue (Note a)        | –  | –   | –  | 2,669,317   |
| Lapsed during the year                                 | –  | –   | 0.7134   | (46,339,940)  |
| Cancelled during the year                              | –  | –   | 1.7750   | (2,100,000)   |
| Adjustment due to 2015<br>Share Consolidation (Note b) | –  | –   | –  | (39,629,096)  |
| At end of the year                                     | 0.6337   | 12,576,591                                | 0.6337   | 12,576,591  |

Notes:

- (a) The number of outstanding share options and exercise price per share have been retrospectively adjusted for the 2014 Rights Issue and the 2015 Rights Issue.
- (b) Upon the completion of the 2015 Share Consolidation on 1 April 2015, the number of outstanding share options and the exercise price per share have been restated on a retrospective basis.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2015



## 38. Share Option Scheme – Continued

### (b) Options granted – Continued

#### Details of share options granted

|  | Date of grant  | Exercisable period                 | Exercise price per share as at 31 December 2015 HK\$ | Number of outstanding share options as at 31 December 2014 and 2015 |
|--|----------------|------------------------------------|--|---|
| Directors                              | 28 August 2014 | 1 January 2015 to 31 December 2016 | 0.6337   | 2,037,243   |
| Employees and service providers        | 28 August 2014 | 1 January 2015 to 31 December 2016 | 0.6337   | 10,539,348  |
| Exercisable options                    |                |                                    |  | 12,576,591  |
| Weighted average exercise price (HK\$) |                |                                    |  | 0.6337  |

#### Notes:

- The number of outstanding share options and exercise price per share have been retrospectively adjusted from 49,536,370 to 9,907,274 and from HK\$0.1609 to HK\$0.8045 for the 2015 Share Consolidation respectively with effect from 1 April 2015.
- Upon the completion of the 2015 Rights Issue, the number of outstanding share options and the exercise price per share was also adjusted from 9,907,274 to 12,576,591 and from HK\$0.8045 to HK\$0.6337 respectively with effect from 18 September 2015.
- As at 31 December 2015, the number of shares in respect of which options under the Existing Scheme limit granted and remained outstanding was 12,576,591, representing approximately 0.957% of the total issued share capital of the Company (i.e. 1,313,973,500 Shares).
- During the year ended 31 December 2015, no share option was granted, exercised, lapsed and cancelled.
- As at the date of this report, options carrying the right to subscribe for 6,288,295 shares of the Company (representing approximately 0.957% of the total issued share capital of the Company as at the date of this report) have been granted under the Existing Scheme limit and remained outstanding, and options carrying the right to subscribe for 12,634,365 shares of the Company (representing approximately 1.923% of the total issued share capital of the Company as at the date of this report) may be granted under the Existing Scheme limit.

The average fair value of the share options granted at date of grant is HK\$0.0731 each. Options were priced using the Black-Scholes Option Pricing Model. As it requires the input of highly subjective assumptions, including the volatility of share prices, changes in subjective input assumptions can materially affect the fair value estimate.

The expected volatility is based on the historical volatility of the share prices of the Company over a period that is equal to the expected life before the grant date.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2015



## 38. Share Option Scheme – Continued

### (b) Options granted – Continued

#### **Details of the share options granted – Continued**

The vesting period of the share options is from the date of grant until the commencement of the exercise period. The share options would be fully exercisable from the commencement of the exercise period.

The fair value of the shares options granted in the year as determined by using the Black-Scholes Option Pricing Model was approximately HK\$3,385,000 was recognised in profit or loss during the year ended 31 December 2014.

The significant inputs into the model are as follows:

|                                |                     |
|--------------------------------|---------------------|
| Date of grant                  | 28 August 2014      |
| Fair value at measurement date | HK\$0.0731          |
| Share price                    | HK\$0.1722          |
| Exercise price per share       | HK\$0.1722          |
| Expected volatility            | 100.936%            |
| Option life                    | 1 year and 4 months |
| Expected dividend yield        | 0%                  |
| Risk-free rate                 | 0.19%               |

## 39. Changes in Ownership Interests in Subsidiaries without Loss of Control

On 18 September 2015, Fair Brilliant entered into a subscription deed with an independent third party, pursuant to which Fair Brilliant has conditionally agreed to issue and allot, and the independent third party has conditionally agreed to purchase, three new shares of Fair Brilliant, representing 3% equity interests in Fair Brilliant, at a total subscription price of HK\$3,138,000 ("**FB Subscription**"). The completion of FB Subscription took place on 16 December 2015, and the Group's equity interests in Fair Brilliant are diluted from 100% to 97%. An amount of approximately HK\$16,000 (being the proportionate share of the then carrying amount of the net assets of Fair Brilliant) has been transferred and debited to non-controlling interests. The difference of approximately HK\$3,154,000 between the increase in the non-controlling interests and the consideration received has been credited to other reserve.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2015



## 40. Profit Guarantee Relating to the Icy Snow Group

On 10 May 2013, the Company completed the acquisition of (i) the 100% equity interests in Icy Snow Limited and its subsidiaries, V-Express Pharmaceutical Limited and Shim along (collectively, the **"Icy Snow Group"**) and (ii) all the shareholder's loans owing by such companies to the vendor at an aggregate consideration of HK\$45,600,000.

Pursuant to the sale and purchase agreement dated 7 March 2013 entered into between the vendor and the Company (**"Icy Snow SPA"**), the vendor has irrevocably and unconditionally guaranteed to the Company that the unaudited consolidated net profit after taxation of the Icy Snow Group for the year ended 31 December 2013, 31 December 2014 and 31 December 2015 shall in aggregate be not less than HK\$12,000,000 (**"Guaranteed Accumulated Profits"**). If the Guaranteed Accumulated Profits are not met, the vendor shall pay to the Company a shortfall compensation which shall be equal to 11 times of the difference between the Guaranteed Accumulated Profits and the actual aggregate audited consolidated net profit of Icy Snow Limited after taxation for the three years ended 31 December 2015 (**"Accumulated Actual Net Profits"**). In the event that the unaudited consolidated net profit after taxation of the Icy Snow Group for the three years ended 31 December 2015 are equal to or more than HK\$24,000,000, the Company shall pay to the vendor a sum of HK\$3,000,000 in cash as bonus payment. Details of the acquisition of the Icy Snow Group are set out in the announcements of the Company dated 7 March 2013, 10 May 2013 and 17 June 2013.

The unaudited consolidated net profit after taxation of the Icy Snow Group for the three years ended 31 December 2015 was approximately HK\$16,423,000. As the Guaranteed Accumulated Profits were met, no compensation was required to be paid by the vendor to the Company and vice versa. and as the Accumulated Actual Net Profits were not equal to or more than HK\$24,000,000, no bonus payment was required to be made to the vendor by the Company.

## 41. Operating Lease Commitments

### Operating lease commitments – the Group as the lessee

At the end of the reporting period, the Group had commitments for future minimum lease payables under non-cancellable operating leases which fall due as follows:

|                                       | 2015<br>HK\$'000 | 2014<br>HK\$'000 |
|---------------------------------------|------------------|------------------|
| Within one year                       | 5,990            | 1,221            |
| In the second to fifth year inclusive | 3,044            | 15               |
|                                       | <b>9,034</b>     | <b>1,236</b>     |

Operating lease payments represent rentals payable by the Group for certain of its office premises, warehouses and staff quarters. Leases are negotiated and rentals are fixed for a term ranging from one to three years (2014: one to three years).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2015



## 41. Operating Lease Commitments – Continued

### Operating lease commitments – the Group as a lessor

At the end of the reporting period, the Group had commitments for future minimum lease receivables under non-cancellable operating leases which would fall due as follows:

#### Land and buildings

|                                       | 2015<br>HK\$'000 | 2014<br>HK\$'000 |
|---------------------------------------|------------------|------------------|
| Within one year                       | 87               | 114              |
| In the second to fifth year inclusive | –                | 31               |
|                                       | <b>87</b>        | <b>145</b>       |

#### Plant and machinery

|                                       | 2015<br>HK\$'000 | 2014<br>HK\$'000 |
|---------------------------------------|------------------|------------------|
| Within one year                       | –                | 12               |
| In the second to fifth year inclusive | –                | 19               |
|                                       | <b>–</b>         | <b>31</b>        |

All of the properties held have committed tenants for the coming one to three years (2014: one to three years).

## 42. Capital Commitment

|                                   | 2015<br>HK\$'000 | 2014<br>HK\$'000 |
|-----------------------------------|------------------|------------------|
| Authorised but not contracted for | <b>25,438</b>    | 25,438           |

On 29 September 2013, the Group has established an indirect wholly-owned wholly foreign-owned enterprise (“WFOE”) in Guizhou Province, the PRC, pursuant to the cooperation agreement dated 28 June 2013 entered into with 貴州紅花崗區經濟開發區委員會 (in English, for identification purpose only, Guizhou Hong Hua Gang District Economic Development District Management Committee) in relation to the cooperation for the investment and construction of a pharmaceutical factory in Hong Hua Gang Economic Development District, Guizhou Province, the PRC. The registered capital of the WFOE is RMB30,000,000 and the Group has paid the registered capital of RMB10,000,000. The remaining capital commitment was RMB20,000,000 (equivalent to approximately HK\$25,438,000).



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2015



## 43. Pledge of Assets

At the end of the reporting period, the following assets were pledged by the Group to secure financing facilities of the Group:

|  | 2015<br>HK\$'000 | 2014<br>HK\$'000 |
|--|------------------|------------------|
| Property, plant and equipment  | 4,401            | 5,408            |
| Prepaid lease payments   | 4,214            | 4,590            |
| Held for trading securities  | 54,793           | 18,697           |
| Pledged cash deposit   | —                | 2,535            |
| Cash held in margin accounts with stock brokers included in<br>"Deposits, prepayments and other receivables" | 29,456           | 11,497           |
|  | <b>92,864</b>    | <b>42,727</b>    |

## 44. Retirement Benefits Scheme

The Group operates a Mandatory Provident Fund Scheme for all qualifying employees in Hong Kong. The assets of the scheme are held separately from those of the Group, in funds under the control of trustees. The Group contributes 5% of relevant payroll costs to the scheme subject to a maximum of HK\$1,500 per month with effect from 1 June 2014 and HK\$1,250 per month prior to 1 June 2014, which contribution is matched by employees.

The employees in the PRC are members of respective state-managed defined contribution retirement benefits schemes operated by the local government. The employer and the employees are obliged to make contributions at a certain percentage of the basic payroll under rules of the schemes. The only obligation of the Group with respect to the retirement benefits scheme is to make the specified contributions.

The total contributions payable to the above schemes by the Group and charged to the consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2015 were approximately HK\$2,763,000 (2014: HK\$2,220,000). The total contributions payable for continuing operations shared approximately HK\$996,000 (2014: HK\$642,000) for the year ended 31 December 2015.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2015



## 45. Statement of Financial Position of the Company

|  | 2015<br>HK\$'000 | 2014<br>HK\$'000 |
|--|------------------|------------------|
| <b>NON-CURRENT ASSETS</b>              |                  |                  |
| Investments in subsidiaries            | 24,444           | 24,439           |
| Property, plant and equipment          | 129              | 411              |
|  | <b>24,573</b>    | 24,850           |
| <b>CURRENT ASSETS</b>                  |                  |                  |
| Prepayments and other receivables      | 820              | 3,028            |
| Amounts due from subsidiaries (Note a) | 292,442          | 306,052          |
| Cash and cash equivalents              | 27,268           | 10,352           |
|  | <b>320,530</b>   | 319,432          |
| <b>CURRENT LIABILITIES</b>             |                  |                  |
| Other payables and accruals            | 2,107            | 1,082            |
| Amounts due to subsidiaries (Note a)   | 12,504           | 10,233           |
|  | <b>14,611</b>    | 11,315           |
| <b>NET CURRENT ASSETS</b>              | <b>305,919</b>   | 308,117          |
| <b>NET ASSETS</b>                      | <b>330,492</b>   | 332,967          |
| <b>CAPITAL AND RESERVES</b>            |                  |                  |
| Share capital                          | 65,699           | 10,056           |
| Reserves (Note b)                      | 264,793          | 322,911          |
| <b>TOTAL EQUITY</b>                    | <b>330,492</b>   | 332,967          |

Notes:

(a) The amounts due from/(to) subsidiaries are unsecured, interest-free and repayable on demand.

(b) Reserves

|   | Share<br>premium<br>HK\$'000 | Share<br>option<br>reserve<br>HK\$'000 | Special<br>reserve<br>HK\$'000 | Accumulated<br>losses<br>HK\$'000 | Total<br>HK\$'000 |
|---|------------------------------|--|--------------------------------|-----------------------------------|-------------------|
| <b>At 1 January 2014</b>                          | –                            | 13,374                                 | 212,948                        | (6,042)                           | 220,280           |
| Loss and total comprehensive<br>loss for the year | –                            | –                                      | –                              | (14,482)                          | (14,482)          |
| Cancellation of share options                     | –                            | (1,801)                                | –                              | 1,801                             | –                 |
| Lapse of share options                            | –                            | (11,573)                               | –                              | 11,573                            | –                 |
| Recognition of share-based<br>payments expenses   | –                            | 3,385                                  | –                              | –                                 | 3,385             |
| Issue of ordinary shares                          | 120,033                      | –                                      | –                              | –                                 | 120,033           |
| Less: Share issue expenses                        | (6,305)                      | –                                      | –                              | –                                 | (6,305)           |
| <b>At 31 December 2014<br/>and 1 January 2015</b> | <b>113,728</b>               | <b>3,385</b>                           | <b>212,948</b>                 | <b>(7,150)</b>                    | <b>322,911</b>    |
| Loss and total comprehensive<br>loss for the year | –                            | –                                      | –                              | (215,362)                         | (215,362)         |
| Issue of ordinary shares                          | 164,346                      | –                                      | –                              | –                                 | 164,346           |
| Less: Share issue expenses                        | (7,102)                      | –                                      | –                              | –                                 | (7,102)           |
| <b>At 31 December 2015</b>                        | <b>270,972</b>               | <b>3,385</b>                           | <b>212,948</b>                 | <b>(222,512)</b>                  | <b>264,793</b>    |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2015



## 45. Statement of Financial Position of the Company – Continued

As at 31 December 2015, the aggregate amount of reserves of the Company available for distribution to owners of the Company was approximately HK\$261,408,000 (2014: HK\$319,526,000). The distributable reserves which include the Company's share premium, special reserve and accumulated losses, under the Companies Act 1981 of Bermuda, are distributable to owners of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company is still able to pay its liabilities as they become due or the realisable value of its assets would thereby become less than its liabilities.

## 46. Particulars of Subsidiaries

Particulars of the Company's principal subsidiaries are as follows:

| Name  | Place of incorporation/<br>establishment/<br>operation | Particulars<br>of issued and<br>paid up capital/<br>registered capital | Percentage of<br>ownership interests/<br>voting rights/profit sharing<br>held by the Company |          |        |          | Principal activity  |
|---|--|--|--|----------|--------|----------|---|
|   |  |  | 2015   |          | 2014   |          |   |
|   |  |  | Direct   | Indirect | Direct | Indirect |   |
| Dynasty Well Limited                              | BVI  | Ordinary share<br>US\$1  | 100%   | –        | 100%   | –        | Investment holding  |
| Icy Snow Limited                                  | BVI  | Ordinary share<br>US\$1  | 100%   | –        | 100%   | –        | Investment holding  |
| Splendid Rich Holdings Limited                    | BVI  | Ordinary shares<br>US\$100   | 100%   | –        | 100%   | –        | Trading of securities   |
| Wallfaith Company Limited                         | BVI  | Ordinary shares<br>US\$100   | 100%   | –        | 100%   | –        | Investment holding  |
| Keyun Limited                                     | BVI  | Ordinary share<br>US\$1  | –  | 100%     | –      | 100%     | Investment holding  |
| Ferran Finance Limited                            | Hong Kong  | Ordinary share<br>HK\$1  | –  | 100%     | –      | 100%     | Provision of money lending<br>business in Hong Kong   |
| Healthy International Limited                     | Hong Kong  | Ordinary shares<br>HK\$10,000  | –  | 100%     | –      | 100%     | Marketing and sale of<br>health supplements,<br>slimming pills and<br>beauty products                     |
| PHC Medical Diagnostic Centre Limited<br>(Note e) | Hong Kong  | Ordinary shares<br>HK\$198,000   | –  | 97%      | –      | –        | Provision of medical<br>laboratory testing<br>services and health<br>check services                       |
| Pherson Limited                                   | Hong Kong  | Ordinary shares<br>HK\$500,000   | –  | 100%     | –      | 100%     | Property holding  |
| Premier MediCare Services Limited<br>(Note e)     | Hong Kong  | Ordinary shares<br>HK\$500,002   | –  | 97%      | –      | –        | Provision of health<br>check services   |
| Town Health Choice Limited                        | Hong Kong  | Ordinary share<br>HK\$1  | –  | 100%     | –      | 100%     | Sale of health<br>supplements, traditional<br>Chinese medicines,<br>slimming pills and<br>beauty products |
| Ultra Leap Holdings Limited                       | Hong Kong  | Ordinary share<br>HK\$1  | –  | 100%     | –      | 100%     | Trading of securities   |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2015



## 46. Particulars of Subsidiaries – Continued

| Name  | Place of incorporation/<br>establishment/<br>operation | Particulars<br>of issued and<br>paid up capital/<br>registered capital | Percentage of<br>ownership interests/<br>voting rights/profit sharing<br>held by the Company |          |        |          | Principal activity  |
|---|--|--|--|----------|--------|----------|---|
|   |  |  | 2015   |          | 2014   |          |   |
|   |  |  | Direct   | Indirect | Direct | Indirect |   |
| V-Express Pharmaceutical Limited  | Hong Kong  | Ordinary share<br>HK\$1  | –  | 100%     | –      | 100%     | Trading of pharmaceutical<br>and healthcare products  |
| Victory Medical Laboratory Limited<br>(Notes e)   | Hong Kong  | Ordinary shares<br>HK\$1,000   | –  | 97%      | –      | –        | Provision of medical<br>laboratory testing<br>services and health<br>check services   |
| Beijing Chuangxin Meikai Technology<br>Development Co., Ltd.<br>(北京創新美凱科技開發有限公司)<br>(Notes a & d) | The PRC  | Registered capital<br>RMB30,000,000                                    | –  | 100%     | –      | 100%     | Research and<br>development of<br>medicine centre   |
| Guangzhou Shimalong<br>Pharmaceutical Co., Ltd.<br>(廣州獅馬龍藥業有限公司)<br>(Notes a, d & f)              | The PRC  | Registered capital<br>RMB1,800,000                                     | –  | 30%      | –      | 100%     | Sale of medicated oil<br>products   |
| Guiyang Shu Mei Da<br>Pharmaceutical Co. Ltd.<br>(貴陽舒美達製藥廠有限公司)<br>(Notes c & d)                  | The PRC  | Registered capital<br>RMB50,000,000                                    | –  | 51%      | –      | 51%      | Manufacture and sale of<br>proprietary Chinese<br>medicine products and<br>research and<br>development of<br>proprietary Chinese<br>medicine products |
| Guizhou Yi Kang Dai<br>Pharmaceutical Co., Limited<br>(貴州益康達藥業有限公司)<br>(Notes a & d)              | The PRC  | Registered capital<br>RMB30,000,000                                    | –  | 100%     | –      | 100%     | Manufacture and sale of<br>Chinese medicine   |
| Suzhou Beautiful Biochemistry Co., Ltd.<br>(Note a)   | The PRC  | Registered capital<br>US\$3,800,000                                    | –  | 100%     | –      | 100%     | Manufacturing and sale of<br>cosmetics and body<br>products   |
| Suzhou Longlifu Health Food Co., Ltd.<br>(Note a)   | The PRC  | Registered capital<br>RMB70,000,000                                    | –  | 100%     | –      | 100%     | Manufacture and sale of<br>dietary products,<br>cosmetics, body<br>products and health<br>supplement wine   |
| Suzhou Longlife Medical Devices Co., Ltd.<br>(蘇州朗力福醫療器械有限公司)<br>(Notes b & d)                     | The PRC  | Registered capital<br>RMB5,000,000                                     | –  | 100%     | –      | 100%     | Trading of dental materials<br>and equipment,<br>cosmetics and body<br>products   |
| Suzhou Longlifu Trading Co., Ltd.<br>(蘇州朗力福商貿有限公司)<br>(Notes b & d)                               | The PRC  | Registered capital<br>RMB5,000,000                                     | –  | 100%     | –      | 100%     | Trading of dietaryproducts,<br>cosmetics and body<br>products   |

The above table lists the subsidiaries of the Group which, in the opinion of the Directors, principally affected the results or asset of the Group. To give details of other subsidiaries would, in the opinion of the Directors, result in particulars of excessive length.

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2015



## 46. Particulars of Subsidiaries – Continued

Notes:

- (a) These subsidiaries are wholly-foreign owned enterprises established in the PRC.
- (b) These subsidiaries are limited companies established in the PRC.
- (c) The subsidiary is a sino-foreign equity joint venture enterprise established in the PRC.
- (d) The English names of the PRC subsidiaries are for identification purpose only.
- (e) These subsidiaries were acquired during the year ended 31 December 2015.
- (f) The Group disposed of 70% of the indirect equity interests in Shimalong on 30 January 2015 and thus Shimalong became an associate of the Group since then.

The total non-controlling interests at the end of the reporting period are approximately HK\$21,680,000 (2014: HK\$28,643,000), which are mainly attributable to Shu Mei Da (2014: all attributable to Shu Mei Da).

### Details of non-wholly owned subsidiary that have material non-controlling interests

| Name       | Place of incorporation/<br>establishment/<br>operation | Percentage of ownership interests/<br>voting rights/profit sharing held by non-controlling interests |      | Loss for the year attributable to non-controlling interests |          | Accumulated non-controlling interests |          |
|------------|--|--|------|---|----------|---------------------------------------|----------|
|            |  | 2015   | 2014 | 2015  | 2014     | 2015                                  | 2014     |
|            |  |  |      | HK\$'000  | HK\$'000 | HK\$'000                              | HK\$'000 |
| Shu Mei Da | The PRC  | 49%  | 49%  | 5,511   | 17       | 21,676                                | 28,643   |

### Summarised financial information of Shu Mei Da with material non-controlling interests

Summarised financial information in respect of Shu Mei Da that has material non-controlling interests is set out below. The summarised financial information below represents amounts before intragroup eliminations.

### Summarised statement of financial position

|  | 2015<br>HK\$'000 | 2014<br>HK\$'000 |
|--|------------------|------------------|
| Non-current assets                           | 36,088           | 46,857           |
| Current assets                               | 16,853           | 17,650           |
| Current liabilities                          | (8,704)          | (6,052)          |
| Net assets                                   | 44,237           | 58,455           |
| Equity attributable to owners of the Company | 22,561           | 29,812           |
| Non-controlling interests                    | 21,676           | 28,643           |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2015



## 46. Particulars of Subsidiaries – Continued

### Summarised financial information of Shu Mei Da with material non-controlling interests – Continued

#### Summarised statement of profit or loss and other comprehensive income

|  | 2015<br>HK\$'000 | 2014<br>HK\$'000 |
|--|------------------|------------------|
| Turnover   | 15,897           | 3,674            |
| Other income and gains/(losses)  | (7,351)          | (499)            |
| Expenses   | (19,793)         | (3,209)          |
| Loss before tax  | (11,247)         | (34)             |
| Income tax expenses  | –                | –                |
| Loss for the year  | (11,247)         | (34)             |
| Loss for the year attributable to owners of the Company                                  | (5,736)          | (17)             |
| Loss for the year attributable to non-controlling interests                              | (5,511)          | (17)             |
| Loss for the year  | (11,247)         | (34)             |
| Other comprehensive (loss)/income for the year attributable to owners of the Company     | (1,515)          | 90               |
| Other comprehensive (loss)/income for the year attributable to non-controlling interests | (1,456)          | 87               |
| Other comprehensive (loss)/income for the year   | (2,971)          | 177              |
| Total comprehensive (loss)/income for the year attributable to owners of the Company     | (7,251)          | 73               |
| Total comprehensive (loss)/income for the year attributable to non-controlling interests | (6,967)          | 70               |
| Total comprehensive (loss)/income for the year   | (14,218)         | 143              |
| Dividends paid to non-controlling interests  | –                | –                |

#### Summarised statement of cash flows

|  | 2015<br>HK\$'000 | 2014<br>HK\$'000 |
|--|------------------|------------------|
| Net cash outflow from operating activities | (2,278)          | (1,274)          |
| Net cash outflow from investing activities | (1,728)          | (423)            |
| Net cash inflow from financing activities  | 1,875            | –                |
| Net cash outflow                           | (2,131)          | (1,697)          |

*Note:* The summarised statement of profit or loss and other comprehensive income and summarised statement of cash flows of Shu Mei Da for the year ended 31 December 2014 only include the results from the acquisition date to 31 December 2014.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2015



## 47. Related Party and Connected Transactions

### (a) Key management personnel remuneration

Remuneration for key management personnel of the Group, including amount paid to the Company's Directors and the five highest paid individuals are disclosed in notes 16(a) and 16(b).

### (b) Transaction with related parties

#### For the year ended 31 December 2015

Except as disclosed in note 32(a) relating to the disposal of 100% of the equity interests in the Wallfaith Group to Mr. Yang Shunfeng, a director of certain subsidiaries of Wallfaith, at a cash consideration of HK\$15,000,000, the Group had not entered into any other transactions with related parties during the year ended 31 December 2015.

The Directors have confirmed that the disposal of the Wallfaith Group constitutes a connected transaction of the Company under Chapter 20 of the GEM Listing Rules, and the terms of the disposal are fair and reasonable, the disposal are on normal commercial terms and in the interests of the Company and the Shareholders as a whole, by virtue of Rule 20.99 of the GEM Listing Rules, the disposal is only subject to the reporting and announcement requirements, and is exempt from the circular, independent financial advice and shareholders' approval requirements.

#### For the year ended 31 December 2014

The Group had not entered into any transactions with related parties during the year ended 31 December 2014.

## 48. Major Non-Cash Transactions

Except as disclosed in note 30, there is no additional major non-cash transactions required to be disclosed for the years ended 31 December 2015 and 2014.

## 49. Events After The Reporting Period

- (a) On 17 December 2015, the Company entered into a sale and purchase agreement with Mr. Yang Shunfeng, a director of certain subsidiaries of Wallfaith, to dispose of 100% of the equity interests in the Wallfaith Group at a cash consideration of HK\$15,000,000. The resolution approving the proposed disposal was duly passed as an ordinary resolution of the Company by the shareholders of the Company by way of poll at the special general meeting held on 3 February 2016. The completion of the disposal took place on 16 March 2016 and each member of the Wallfaith Group ceased to be a wholly-owned subsidiary of the Company since then. Details of the disposal of the Wallfaith Group are disclosed in the announcement of the Company dated 17 December 2015 and the circular of the Company dated 15 January 2016.
- (b) On 8 January 2016, the Board proposed, subject to passing the necessary shareholders' resolution, that every two issued and unissued existing shares of HK\$0.05 each in the share capital of the Company would be consolidated into one share of HK\$0.1 in the share capital of the Company ("**2016 Share Consolidation**"). As a result of the 2016 Share Consolidation, the authorised share capital of the Company became HK\$200,000,000 divided into 2,000,000,000 consolidated shares of HK\$0.1 each, of which 656,986,750 consolidated shares would in issue immediately following the 2016 Share Consolidation becoming effective. The resolution approving the 2016 Share Consolidation was duly passed as an ordinary resolution of the Company by the shareholders of the Company by way of poll at the special general meeting held on 22 February 2016. The 2016 Share Consolidation became effective on 23 February 2016. Details of the 2016 Share Consolidation are disclosed in the announcements of the Company dated 8 January 2016 and 22 February 2016, the circular of the Company dated 2 February 2016.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2015



## 49. Events After The Reporting Period – Continued

- (c) On 28 January 2016, Exquisite Beauty Holding Limited ("**Exquisite**"), an indirect wholly-owned subsidiary of the Company, entered into a sale and purchase agreement with an independent third party, Mr. Yip Hai Tak, to acquire approximately 27.80% of the issued share capital in the Ultimate Synergy Limited and its subsidiaries (collectively, the "**Ultimate Synergy Group**"), at a cash consideration of HK\$27,951,000. The completion of the acquisition took place on the same day, and each member of the Ultimate Synergy Group is owned as to approximately 27.80% by Exquisite and has become an associate of the Group since then. Details of the acquisition of the Ultimate Synergy Group are disclosed in the announcement of the Company dated 28 January 2016.
- (d) On 28 January 2016, Dynasty entered into a sale and purchase agreement with an independent third party, Mr. Jiang, to dispose of the entire issued share capital in Allied View and the Sale Loan at a cash consideration of HK\$13,600,000. The completion of the disposal took place on the same day, and Allied View ceased to be a wholly-owned subsidiary of the Company since then and the Group has ceased to hold any equity interest in each of Allied View, Trillion Epoch, Bravo Star and Chongqing Microfinance. The consideration should be settled by Mr. Jiang on or before 28 February 2016. Details of the disposal of Allied View are disclosed in the announcement of the Company dated 28 January 2016. On 26 February 2016, Mr. Jiang requested to extend the payment date of the consideration to 31 May 2016 and agreed with the Company to pay 10% of the Consideration in cash within 10 days from the date of the signing of the supplemental agreement dated 26 February 2016. Details of the supplemental agreement are disclosed in the announcement of the Company dated 26 February 2016. As at the date of these consolidated financial statements, the Group had received 10% of the consideration.
- (e) On 5 February 2016, Wah Yan Health proposed to the Board that Wah Yan Health would, subject to fulfillment of certain conditions, make voluntary conditional securities exchange offers (i) to acquire all of the issued shares of the Company (other than those already owned by Wah Yan Health and parties acting in concert with it); and (ii) to cancel all of the outstanding share options granted by the Company pursuant to the Existing Scheme, whether vested or not ("**Voluntary Exchange Offers**"). Details of the Voluntary Exchange Offers are disclosed in the announcement of the Company dated 17 February 2016. Up to the date of approving these consolidated financial statements, all the conditions of the Voluntary Exchange Offers have not been fulfilled.

## 50. Comparative Figures

Certain comparative figures have been restated to conform to the presentation of discontinued operation.

# FINANCIAL SUMMARY



## Results

|   | For the period/year                  |                                      |                                       |                                      |                                      |
|---|--------------------------------------|--------------------------------------|---------------------------------------|--------------------------------------|--------------------------------------|
|   | 1.10.2010 –<br>30.9.2011<br>HK\$'000 | 1.10.2011 –<br>30.9.2012<br>HK\$'000 | 1.10.2012 –<br>31.12.2013<br>HK\$'000 | 1.1.2014 –<br>31.12.2014<br>HK\$'000 | 1.1.2015 –<br>31.12.2015<br>HK\$'000 |
| Turnover  | 45,017                               | 110,109                              | 227,062                               | 140,385                              | <b>119,386</b>                       |
| Cost of sales   | (41,124)                             | (63,672)                             | (181,442)                             | (87,448)                             | <b>(87,072)</b>                      |
| Gross profit  | 3,893                                | 46,437                               | 45,620                                | 52,937                               | <b>32,314</b>                        |
| Other income and gains/(losses)                                   | 3,233                                | (7,646)                              | 15,082                                | (35,790)                             | <b>(15,280)</b>                      |
| Selling and distribution expenses                                 | (22,903)                             | (24,550)                             | (35,773)                              | (31,582)                             | <b>(27,608)</b>                      |
| Administrative expenses   | (26,565)                             | (33,138)                             | (38,545)                              | (48,995)                             | <b>(45,067)</b>                      |
| Loss from operation   | (42,342)                             | (18,897)                             | (13,616)                              | (63,430)                             | <b>(55,641)</b>                      |
| Finance costs   | (3,253)                              | (3,795)                              | (4,528)                               | (4,433)                              | <b>(3,118)</b>                       |
| Loss on disposal of assets held for sale                          | –                                    | –                                    | –                                     | –                                    | <b>(986)</b>                         |
| Loss on deemed disposal of partial<br>interest in a joint venture | –                                    | –                                    | –                                     | (5,892)                              | <b>–</b>                             |
| Share of profits of associates                                    | –                                    | –                                    | –                                     | –                                    | <b>1,055</b>                         |
| Share of (loss)/profit of an investment<br>in a joint venture     | –                                    | –                                    | (191)                                 | 83                                   | <b>(8,445)</b>                       |
| Impairment loss recognised on goodwill                            | –                                    | –                                    | (20,945)                              | (8,240)                              | <b>(1,000)</b>                       |
| Impairment loss recognised on<br>intangible assets                | –                                    | –                                    | (7,223)                               | (421)                                | <b>–</b>                             |
| Loss before tax   | (45,595)                             | (22,692)                             | (46,503)                              | (82,333)                             | <b>(68,135)</b>                      |
| Income tax (expenses)/credit                                      | (445)                                | (86)                                 | (778)                                 | (613)                                | <b>375</b>                           |
| Loss for the period/year  | (46,040)                             | (22,778)                             | (47,281)                              | (82,946)                             | <b>(67,760)</b>                      |
| Loss attributable to:   |                                      |                                      |                                       |                                      |                                      |
| Owners of the Company   | (43,555)                             | (20,698)                             | (47,281)                              | (82,929)                             | <b>(62,269)</b>                      |
| Non-controlling interests   | (2,485)                              | (2,080)                              | –                                     | (17)                                 | <b>(5,491)</b>                       |
| Loss for the period/year  | (46,040)                             | (22,778)                             | (47,281)                              | (82,946)                             | <b>(67,760)</b>                      |

## Assets and liabilities

|   | As at                 |                       |                        |                        |                        |
|---|-----------------------|-----------------------|------------------------|------------------------|------------------------|
|   | 30.9.2011<br>HK\$'000 | 30.9.2012<br>HK\$'000 | 31.12.2013<br>HK\$'000 | 31.12.2014<br>HK\$'000 | 31.12.2015<br>HK\$'000 |
| Total assets                                    | 195,829               | 190,925               | 274,380                | 327,016                | <b>478,018</b>         |
| Total liabilities                               | (98,100)              | (84,110)              | (146,189)              | (129,103)              | <b>(135,280)</b>       |
| Total equity                                    | 97,729                | 106,815               | 128,191                | 197,913                | <b>342,738</b>         |
| Non-controlling interests                       | (2,405)               | (318)                 | –                      | (28,643)               | <b>(21,680)</b>        |
| Equity attributable to owners<br>of the Company | 95,324                | 106,497               | 128,191                | 169,270                | <b>321,058</b>         |