CHINA BIOTECH SERVICES HOLDINGS LIMITED
中國生物科技服務控股有限公司

(formerly known as Rui Kang Pharmaceutical Group Investments Limited)
(Incorporated in the Cayman Islands and continued in Bermuda with limited liability)
Stock Code: 8037

ANNUAL REPORT **2017**

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CORPORATE INFORMATION

EXECUTIVE DIRECTORS

Mr. Liu Xiaolin *(Chairman)*
(appointed as Executive Director on 7 August 2017 and appointed as Chairman on 28 August 2017)
Mr. Leung Pak Hou Anson
Mr. Wang Zheng *(appointed on 7 August 2017)*
Mr. Chan Ka Chung *(resigned on 28 August 2017)*
Ms. Chen Miaoping *(resigned on 30 April 2017)*
Mr. Cheung Wai Kwan *(resigned on 28 August 2017)*

NON-EXECUTIVE DIRECTORS

Mr. Huang Song *(appointed on 15 September 2017)*
Mr. Gao Yongping *(appointed on 18 April 2017 and resigned on 9 October 2017)*

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Yan Guoxiang *(appointed on 7 August 2017)*
Mr. Leung Ka Fai *(resigned on 5 December 2017)*
Mr. Ho Fung Shan Bob
Mr. Yuen Chun Fai *(resigned on 28 August 2017)*
Mr. Qian Hongji *(appointed on 2 March 2018)*

AUDIT COMMITTEE

Mr. Yang Guoxiang *(Chairman)*
(appointed on 28 August 2017)
Mr. Leung Ka Fai *(resigned on 5 December 2017)*
Mr. Ho Fung Shan Bob
Mr. Yuen Chun Fai *(resigned on 28 August 2017)*
Mr. Qian Hongji *(appointed on 2 March 2018)*

NOMINATION COMMITTEE

Mr. Liu Xiaolin *(Chairman)*
(appointed on 28 August 2017)
Mr. Yan Guoxiang *(appointed on 28 August 2017)*
Mr. Ho Fung Shan Bob
Mr. Chan Ka Chung *(resigned on 28 August 2017)*
Mr. Leung Ka Fai *(resigned on 28 August 2017)*
Mr. Yuen Chun Fai *(resigned on 28 August 2017)*

REMUNERATION COMMITTEE

Mr. Yan Guoxiang *(Chairman)*
(appointed on 28 August 2017)
Mr. Liu Xiaolin *(appointed on 28 August 2017)*
Mr. Ho Fung Shan Bob
Mr. Chan Ka Chung *(resigned on 28 August 2017)*
Mr. Leung Pak Hou Anson
(resigned on 28 August 2017)
Mr. Leung Ka Fai *(resigned on 28 August 2017)*
Mr. Yuen Chun Fai *(resigned on 28 August 2017)*

COMPLIANCE OFFICER

Mr. Leung Pak Hou Anson

COMPANY SECRETARY

Mr. Fung Wing Sang, HKICPA *(resigned on 9 October 2017)*
Ms. Wong Miu Shun, HKICPA *(appointed on 9 October 2017)*

AUTHORISED REPRESENTATIVES

Mr. Liu Xiaolin *(appointed on 28 August 2017)*
Mr. Wang Zheng *(appointed on 28 August 2017)*
Mr. Leung Pak Hou Anson *(resigned on 28 August 2017)*
Mr. Fung Wing Sang *(resigned on 28 August 2017)*

AUDITOR

RSM Hong Kong
Certified Public Accountant
29th Floor, Lee Garden Two
28 Yun Ping Road
Causeway Bay
Hong Kong

REGISTERED OFFICE

Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

CORPORATE INFORMATION

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Suites 1904-05A, 19/F, Sino Plaza
255-257 Gloucester Road
Causeway Bay
Hong Kong[1]

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Union Registrars Limited
Suites 3301-04, 33/F.
Two Chinachem Exchange Square
338 King's Road
North Point
Hong Kong

PRINCIPAL BANKERS

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
Wing Lung Bank Limited

COMPANY WEBSITE

www.cbshhk.com[2]

STOCK CODE

8037

Notes:

1. With effect from 2 March 2018, the head office and principal place of business in Hong Kong of the Company was changed from 26/F., Times Tower, 391-407 Jaffe Road, Wan Chai, Hong Kong to Suites 1904-05A, 19/F, Sino Plaza, 255-257 Gloucester Road, Causeway Bay, Hong Kong.

2. With effect from 29 November 2017, the website of the Company was changed from "www.ruikang.com.hk" to "www.chinabiotech.com.hk". With effect from 2 March 2018, the website of the Company was changed from "www.chinabiotech.com.hk" to "www.cbshhk.com".

CHAIRMAN'S STATEMENT

Dear Shareholders,

On behalf of China Biotech Services Holdings Limited (the "**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 2017 ("**2017 Year**") to the shareholders of the Company.

During 2017 Year, Genius Lead Limited ("**Genius Lead**") has acquired 51.5% of the issued shares of the Company from China Wah Yan Healthcare Limited ("**Wah Yan Healthcare**"). Upon completion of the disposal of 51.5% issued capital of the Company on 31 July 2017, Wah Yan Healthcare ceased to have any interest in the Company and Genius Lead and parties acting in concert with it became interested in a total of 499,843,891 shares of the Company, representing approximately 63.40% of the then entire issued share capital of the Company. As such, pursuant to Rule 26.1 of the Hong Kong Code on Takeovers and Mergers ("**Takeovers Code**"), Genius Lead, as offeror, was required to make, and had made an unconditional mandatory cash offer for all the issued shares of the Company other than those already owned or agreed to be acquired by Genius Lead and parties acting in concert with it (the "**Mandatory General Cash Offer**").

Details of the Mandatory General Cash Offer are disclosed in the composite document in respect of the Mandatory General Cash Offer dated 7 August 2017 jointly published by Genius Lead and the Company, and the joint announcement of Genius Lead and the Company dated 28 August 2017 in relation to, among other things, the close of the Mandatory General Cash Offer, the results of the Mandatory General Cash Offer and the public float. The minimum public float of the Company was restored on 16 October 2017 by way of placing.

On 12 October 2017, I entered into two placing agreements (the "**Placing Agreements**"), pursuant to which I agreed to sell 40,000,000 and 28,000,000 shares of the Company (the "**Placing Shares**") to Mr. Chen Huiyong (the "**Placing A**") and Ms. Wing Man Yi (the "**Placing B**") respectively at a price of HK$0.70 per Placing Share (the "**2017 Placing**"). On the same date, I entered into the top-up subscription agreement with the Company (the "**Top-up Subscription Agreement**"). Pursuant to the Top-up Subscription Agreement, the Company conditionally agreed to allot and issue, and I conditionally agreed to subscribe for 68,000,000 shares of the Company (the "**Top-up Subscription Shares**") (equivalent to the number of Placing Shares sold by me under the Placing Agreements) at a price of HK$0.70 per Top-up Subscription Share (the "**Top-up Subscription**"). The completion of the Placing B, the Placing A and the Top-up Subscription took place on 13 October 2017, 16 October 2017 and 24 October 2017 respectively.

The change of the name of the Company from "Rui Kang Pharmaceutical Group Investments Limited" to "China Biotech Services Holdings Limited" and the Chinese name of the Company from "銳康藥業集團投資有限公司" to "中國生物科技服務控股有限公司" (which was registered as the secondary name of the Company in Bermuda) became effective pursuant to the passing of a special resolution at the special general meeting of the Company held on 8 October 2017, and the issue of the Certificate of Incorporation on Change of Name and the Certificate of Secondary Name by the Registrar of Companies in Bermuda on 23 October 2017.

CHAIRMAN'S STATEMENT

During 2017 Year, the business of the Group has encountered challenges including (i) the increase in raw material and other direct costs in health related and pharmaceutical products industry in the People's Republic of China (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; and (iii) the fierce competition in the healthcare related products industry and medical laboratory testing services and health check services in Hong Kong with ongoing discounts and promotion programmes, directly affecting the profitability of the Group. The Group will continue to explore, research and develop more sophisticated and effective health related and pharmaceutical products and professional medical laboratory testing services and health check services to achieve stable growth and enhance the performance of the Group's core business.

Parallel to its focus on the provision of medical laboratory testing services and health check services in Hong Kong and the manufacture and sale of health related and pharmaceutical products in the PRC and Hong Kong, the Group will continue to look for potential merger and acquisition opportunities for further development of its existing business and take active role in exploring cooperation opportunities with other parties.

On 22 December 2017, the Group has entered into a strategic cooperation agreement with 深圳太科健康科技有限公司 (in English, for identification purpose only, Shen Zhen Tarkon Health Co., Ltd.) to work towards such goals as the successful technology transfer of health technologies, clinical trial cooperation, and marketing.

On 5 January 2018, China Biology Services Group Limited, a company incorporated in Hong Kong with limited liability and an indirect wholly-owned subsidiary of the Company, entered into a non-legally binding memorandum of understanding with 安徽未名生物醫藥有限公司 (in English, for identification purpose only, Sinobioway Biomedical Co., Ltd.) (which is an independent third party) in relation to the possible acquisition of 34.33% equity interest in 安徽未名細胞治療有限公司 (in English, for identification purpose only, Sinobioway Cell Therapy Co., Ltd), a company incorporated in the PRC with limited liability and principally engaged in the research and development of chimeric antigen-receptor T ("**CAR-T**") cell technology in immunotherapy for cancer cure. The possible acquisition will boost the Company's plan to capture the growth opportunities in CAR-T cell therapy.

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 of Directors for their dedicated efforts and contributions to the Group over the past year.

Liu Xiaolin
Chairman

Hong Kong, 19 March 2018

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

During the year ended 31 December 2017 ("**2017 Year**"), the principal activities of the Group are (i) manufacture, research and development, sale and distribution of health related and pharmaceutical products in the PRC and Hong Kong, (ii) provision of medical laboratory testing services and health check services in Hong Kong, and (iii) trading of securities in Hong Kong.

Manufacture and sale of health related and pharmaceutical products

Manufacture and sale of health related and pharmaceutical products segment recorded a significant increase in turnover during the 2017 Year. The significant increase in turnover of this segment from approximately HK$26,846,000 for the year ended 31 December 2016 ("**2016 Year**") to approximately HK$43,720,000 for the 2017 Year is mainly due to the contribution of the new business, i.e. trading of pharmaceutical intermediates since the fourth quarter of 2016, of approximately HK$33,708,000 during the 2017 Year (2016 Year: HK$10,115,000). The Group has also upgraded and redesigned the websites of the operating subsidiaries in Hong Kong, http://www.thslife.com.hk and http://www.healthyintl.com, since the fourth quarter of 2016 in order to enhance the online sales of healthcare and skincare related products in 2017. Starting from 2017, the Group has also expanded the e-commerce business through online sales platforms.

Provision of medical laboratory testing services and health check services

The Group had offered a wide spectrum of quality health check diagnostic services in Hong Kong through three health check centers, one medical testing central laboratory and one molecular laboratory. During the 2017 Year, a service contract with a major customer was renewed for a further period of 3 years and the price list for exclusive laboratory services was adjusted with some increments for the unit prices of certain laboratory tests, as well as more diversified laboratory tests are carried out to different customers. As such, the turnover of this segment increased slightly from approximately HK$57,048,000 for the 2016 Year to approximately HK$61,379,000 for the 2017 Year. However, such business segment of the Group remains challenging due to the keen competition in the medical laboratory testing services and health check services industry in Hong Kong and the saturated market with constant increase in number of new entrants in the industry.

Starting from 2017, the Group has provided regular complimentary seminars to the public including local specialist doctors about the molecular laboratory testing services provided by the Group in order to expand the customer base, enhance its competitiveness in the market and profitability.

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

This business segment recorded a net loss on financial assets at FVTPL of approximately HK$32,671,000 during the 2017 Year (2016 Year: HK$25,679,000) comprising (i) the net unrealised loss on fair value changes of approximately HK$10,486,000 (2016 Year: HK$19,798,000); and (ii) the net realised loss of approximately HK$22,185,000 (2016 Year: HK$5,881,000). The Group's investment portfolio comprises investments in listed securities in Hong Kong during the 2017 Year. The performance of equity investments is subject to certain degree of volatility in the Hong Kong stock market and is susceptible to other external factors. It has been the policy of the Company to closely monitor the performance of its securities investment and to diversify the investment portfolio with a view to mitigating possible financial risks related to the equity investments.

Disposal of subsidiaries

(a) Jet Rich Group

Having taken into consideration that the performance of Jet Rich Investment Limited and its subsidiary (collectively, the "**Jet Rich Group**") for the past financial years was not satisfactory, the Directors considered that the disposal of the Jet Rich Group would enable the Company to free up the resources devoted to this business and redirect the resources to the Group's other existing business which might have higher growth potential to maximise the benefit of the shareholders of the Company. The completion of the disposal of the Jet Rich Group took place on 30 March 2017. For details, please refer to the disclosure made in note 41a to the audited consolidated financial statement.

(b) V-Express

Having taken into consideration that V-Express Pharmaceutical Limited ("**V-Express**") had been inactive in recent years, the Directors considered that the disposal of V-Express would enable the Company to save administrative costs. The completion of the disposal of V-Express took place on 1 June 2017. For details, please refer to the disclosure made in note 41b to the audited consolidated financial statement.

Disposal of associates

(a) Magical Bloom Group

Having taken into account the keen competition of the medicine and medical appliances wholesale industry in the PRC in recent years and that the Company does not have majority voting right over the board of Magical Bloom Limited ("**Magical Bloom**") and its subsidiaries (collectively, the "**Magical Bloom Group**"), the Group is unable to dictate the development of the Magical Bloom Group, the Directors are of the view that the disposal of Magical Bloom represents an opportunity for the Group to realise its investment in the Magical Bloom Group (through Magical Bloom) with a reasonable return and that the Group can allocate more resources to its other business. The completion of the disposal of the interest in Magical Bloom Group took place on 22 June 2017. For details, please refer to the disclosure made in note 25 to the audited consolidated financial statement.

(b) New Health

On 12 May 2017, Silver Wisdom Development Limited, an indirect wholly-owned subsidiary of the Company, as vendor, entered into a sale and purchase agreement with an independent purchaser, to dispose of the Group's entire interest in a company engaged in health management business ("**New Health**") for a cash consideration of HK$4,830,000. However, the said disposal was terminated (as detailed in the announcement of the Company dated 24 July 2017).

(c) Ultimate Synergy Group

Having considered that (i) the Company had no intention to participate in the proposed rights issue exercise of Ultimate Synergy Limited and its subsidiaries (collectively, the "**Ultimate Synergy Group**"); (ii) the Ultimate Synergy Group's timetable for listing is subject to high level of uncertainties; and (iii) the interest in Ultimate Synergy Group representing a minority interest, is of limited marketability; the Directors are of the view that the disposal of interest in the Ultimate Synergy Group represents an opportunity for the Group to realise its investment in the Ultimate Synergy Group and that the Group can reallocate more resource for existing business of the Group and future investment opportunities. The completion of the disposal of interest in the Ultimate Synergy Group took place on 29 December 2017. For details, please refer to the disclosure made in note 25 to the audited consolidated financial statement.

Unconditional mandatory general cash offer and sufficiency of public float

On 15 June 2017, China Wah Yan Healthcare Limited ("**Wah Yan Healthcare**"), as vendor, Genius Lead Limited ("**Genius Lead**"), as purchaser, entered into a sale and purchase agreement whereby Wah Yan Healthcare conditionally agreed to sell and Genius Lead conditionally agreed to acquire the 406,023,891 shares of the Company (the "**Sale Shares**") at an aggregate cash consideration of HK$207,072,184.41, equivalent to HK$0.51 per Sale Share ("**Rui Kang Disposal**"). As at 15 June 2017, Mr. Liu Xiaolin ("**Mr. Liu**"), being the ultimate beneficial owner of Genius Lead and therefore an associate of and a party acting in concert (within the meaning of the Code of Takeovers and Mergers of Hong Kong (the "**Takeovers Code**")) with Genius Lead, was interested in 93,820,000 shares of the Company, representing approximately 11.90% of the entire issued share capital of the Company. Details of the Rui Kang Disposal are disclosed in the announcement dated 15 June 2017 jointly published by Genius Lead, Wah Yan Healthcare and the Company and the joint announcement of Genius Lead and the Company dated 31 July 2017.

Upon completion of the Rui Kang Disposal on 31 July 2017, Wah Yan Healthcare ceased to have any interest in the Company and Genius Lead and parties acting in concert with it became interested in a total of 499,843,891 shares of the Company, representing approximately 63.40% of the then entire issued share capital of the Company. As such, pursuant to Rule 26.1 of the Takeovers Code, Genius Lead, as offeror, was required to make, and had made an unconditional mandatory cash offer for all the issued shares of the Company other than those already owned or agreed to be acquired by Genius Lead and parties acting in concert with it (the "**Mandatory General Cash Offer**").

Details of the Mandatory General Cash Offer are disclosed in the composite document in respect of the Mandatory General Cash Offer dated 7 August 2017 jointly published by Genius Lead and the Company, and the joint announcement of Genius Lead and the Company dated 28 August 2017 in relation to, among other things, the close of the Mandatory General Cash Offer, the results of the Mandatory General Cash Offer and the public float. The minimum public float of the Company was restored on 16 October 2017 by way of the 2017 Placing, details of which were disclosed in the announcements of the Company dated 12 October 2017, 13 October 2017 and 16 October 2017.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

Turnover

During the 2017 Year, the Group recorded a turnover of approximately HK$105,135,000 from continuing operations, representing a significant increase of approximately 21.45% as compared with that of approximately HK$86,565,000 for the 2016 Year. The overall increase in the turnover was mainly due to the contribution of the new business, i.e. trading of pharmaceutical intermediates since the fourth quarter of 2016, of approximately HK$33,708,000 during the 2017 Year (2016 Year: HK$10,115,000).

Gross profit and gross profit margin

The Group recorded a gross profit from continuing operations in the 2017 Year of approximately HK$30,202,000, representing a slight increase when compared with that of approximately HK$30,043,000 in the 2016 Year. However, the gross profit margin for the 2017 Year was approximately 28.73%, representing a decrease by approximately 5.98 percentage point when compared with the gross profit margin of approximately 34.71% for the 2016 Year. The decrease in gross profit margin was attributable to the increase in trading of pharmaceutical intermediates business which has a thinner gross profit margin.

Selling and distribution expenses

Selling and distribution expenses for the 2017 Year for continuing operations were approximately HK$16,807,000 (2016 Year: HK$19,996,000), representing a decrease of approximately HK$3,189,000 or 15.95% as compared with such expenses for the 2016 Year. Such decrease was mainly attributable to (i) the absence of rental expenses for the marketing center of 貴州雙升製藥有限公司(in English, for identification purpose only, Guizhou Shuang Sheng Pharmaceutical Co., Ltd.) ("**Shuang Sheng**") in Beijing during the 2017 Year as the tenancy agreement was terminated in the second quarter of the year 2016; (ii) less advertising and promotion expenses were incurred for healthcare and skincare product market in Hong Kong as the use of traditional advertising through printed magazines for the 2016 Year were replaced by the use of online advertising through digital media, which were less expensive; and (iii) less staff costs were incurred for healthcare and skincare product market in Hong Kong due to the decrease in number of promoters as result of termination of co-operation with one retail store in Hong Kong in mid of 2017.

Administrative expenses

The administrative expenses for the 2017 Year for continuing operations were approximately HK$54,676,000, representing an increase of approximately 4.08%, as compared with that of approximately HK$52,533,000 for the 2016 Year. The increase was mainly due to a slight increase in staff cost during the 2017 Year.

Finance costs

During the 2017 Year, the Group's interest expenses (including capitalised interest) amounted to approximately HK$2,743,000 (2016 Year: HK$2,482,000). The increase in finance costs (including capitalised interest) was attributable to the short term other borrowings as the working capital to finance the construction costs of the expansion of the manufacturing plant held by Shuang Sheng during the 2017 Year, which resulted in a higher average borrowing level.

Impairment loss on goodwill and intangible assets

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 Shuang Sheng at a cash consideration of RMB25,500,000 (equivalent to approximately HK$31,875,000). The completion of the acquisition of Shuang Sheng took place on 20 November 2014. Details of the acquisition of Shuang Sheng were disclosed in the announcement of the Company dated 18 August 2014. Goodwill of approximately RMB1,967,000 (equivalent to approximately HK$2,478,000) and intangible assets (included pharmaceutical licences) of approximately RMB9,600,000 (equivalent to approximately HK$11,510,000) were recognised at the date of completion.

The Directors assessed the recoverable amount arising from Shuang Sheng with reference to the valuations performed by an independent qualified professional valuer on goodwill, intangible assets and property, plant and equipment.

During 2017 Year, the Chinese medicine product of the Group did not enter into list of medical insurance after rebranded in the PRC as planned and patients cannot claim their cost from the medical insurance if they bought Chinese medicine product of the Group from both pharmacy and hospital. Further, the competition of traditional Chinese medicine pharmaceutical market in the PRC has increased dramatically, especially the new development in the field of biology medicine has eroded the market share of both Chinese medicine and chemical medicine. Also, the result of the tenders of new rebranded product in the PRC is unsatisfied. As a result, the revenue of the Chinese medicine product has experienced less sales than expectation of the Group. The performance of Shuang Sheng does not meet the expectation set in the business plan and a net loss was recorded, which the business was considered an indication of impairment of the non-current assets, including goodwill, intangible assets and property, plant and equipment, attributable to the acquisition of Shuang Sheng.

In 2017 Year, the Group recorded an impairment loss on goodwill and intangible assets (included pharmaceutical licences) arising from acquisition of Shuang Sheng of approximately HK$1,478,000 (2016 Year: HK$Nil) and HK$11,085,000 (2016 Year: HK$Nil) respectively and were fully impaired. No impairment loss was recognised for property, plant and equipment. As the Directors, with reference to valuations performed by an independent qualified professional valuer, have determined that its fair value less cost of disposal is higher than its carrying amount.

Loss for the year from continuing operations

The Group continued to record a significant net loss from continuing operations of approximately HK$76,530,000 for the 2017 Year (2016 Year: HK$95,618,000) mainly attributable to (i) a significant net loss of approximately HK$32,671,000 on financial assets at FVTPL (2016 Year: HK$25,679,000); (ii) the recognition of an impairment loss on trade receivables of approximately HK$2,732,000 (2016 Year: HK$5,075,000); (iii) the impairment of available-for-sale financial assets of approximately HK$4,049,000 (2016 Year: HK$3,195,000); (iv) the write-off of certain property, plant and equipment of approximately HK$Nil (2016 Year: HK$6,134,000); (v) the impairment loss on goodwill in respect of its certain subsidiaries of approximately HK$1,478,000 (2016 Year: HK$27,669,000); and (vi) the increase of impairment loss on intangible assets of approximately HK$11,085,000 (2016 Year: HK$Nil).

OUTLOOK

With the rising personal income levels, accelerating consumption structure upgrades, higher expectations on living quality and increasing demand for healthcare services due to aging population in the PRC, the big health industry will see a promising future. According to a Statistical Bulletin of the PRC National Health and Family Planning Development (中國衛生和計劃生育事業發展統計公報), the PRC's total health expenditure in 2017 was RMB3,166.15 billion, which accounted for 5.57% of its gross domestic product (GDP). Moreover, the State Council of the PRC, in September 2013, issued the Several Opinions of the State Council on Promoting the Development of Health Service Industry (國務院關於促進健康服務業發展的若干意見), stating that a full life-cycle healthcare services system shall be fundamentally established by 2020 and the total size of the industry is expected to exceed RMB8 trillion.

The PRC's big health industry will be developed under a favourable policy environment. As the PRC attaches great importance to people-oriented concept, the PRC government has proposed practical healthcare development strategies for the new medical reform plan and "Healthy China 2020". It is clearly stated in the strategies that, by 2020, the PRC's key health indicators shall essentially meet the level of middle developing countries, as well as the total health expenditure as a percentage of GDP shall increase 2 percentage points to 6.5-7%.

In October 2016, the "Healthy China 2030 Plan" was published, outlining that in 2050, the 100th anniversary of founding of the New China, the Healthy China 2030 will be an important strategic support. People's health is put to the top strategic priority among a series of major initiatives of the Communist Party of the PRC and the State Council of the PRC, which would bring tremendous opportunities for economic development.

Such policy takes "healthy strong country" as a basic state policy and lifts it to a national strategic level. Going forward, the PRC government will further increase its investment in medical health. The critical window period when two major policies at a crossroad creates unprecedented and historic chances and rooms for the Group to achieve leapfrog growth. The Group will expedite mergers and acquisitions and business consolidation to further strengthen its emerging medical technology for medical industry.

The market size of health check industry in the PRC amounted to RMB94.0 billion in 2015 and is projected to reach RMB 174.9 billion in 2018. For the next five years (2018-2022), the compound annual growth rate (CAGR) is expected to be approximately 20.60%, with the market size in 2022 amounting to RMB370.0 billion.

The PRC's pharmaceutical manufacturing industry generated a sales revenue of RMB2,806.29 billion in 2016 and RMB1,944.87 billion from January to August in 2017. As projected, the PRC's pharmaceutical manufacturing industry will generate a sales revenue of RMB3,212.6 billion and RMB4,403.0 billion in 2018 and 2022, respectively, representing a CAGR of approximately 8.20% for the next five years (2018-2022).

The PRC's pharmaceutical manufacturing industry registered a total profit of RMB300.29 billion in 2016 and RMB212.76 billion from January to August in 2017. As projected, the PRC's pharmaceutical manufacturing industry will register a profit of RMB358.4 billion and RMB536.7 billion in 2018 and 2022, respectively, representing a CAGR of approximately 10.62% for the next five years (2018-2022). (The above data is sourced from CIC Industry Research Centre (中投顧問產業研究中心)).

The efforts made on finishing human genome, targeted therapy, big data, molecular pathology and a lot are all aimed for a more accurate and precise medicine as well as driving the development of precision medicine. Precision medicine is a personalised disease precaution and treatment option by applying modern genetic technology and biotechnology and taking into account the living environment and lifestyle of patient that achieve precise categorisation and diagnosis of diseases and greater understanding about the disease.

In light of the development of the health industry, social capital will be provided with numerous opportunities for investing in, among others, the development and research of pharmaceutical products, development of equipment and precision medical services, precision examination and testing as well as treatment system. The Group will also increase its investment focus on such projects as Car-T, protein molecular diagnosis, third-party examination laboratories, precision medical equipment, genetic tests, cell processing centres, biotechnology and artificial intelligence (AI). Both the development momentum of and the policy steer on the medical services industry in the PRC would create a favourable development environment for the Group in establishing future biotechnology platforms.

The Company will plan to pursue two directions, namely "precision diagnosis: precision big health checkups system" and "precision treatment: Car-T integrated industry chain" by grasping the historic opportunity for the development of global precision medical care, in an effort to become a future biotechnology platform.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

The Group has financed its operations and capital expenditures requirements through (i) internal generated resources, (ii) net proceeds from the placing of new shares under general mandate and (iii) bank and other borrowings.

Liquidity and Financial Resources

As at 31 December 2017, the Group held cash and bank balances of approximately HK$73,181,000 (2016: HK$34,695,000), all were principally denominated in Renminbi and Hong Kong dollars. The increase in cash and bank balances of approximately HK$38,486,000 is mainly due to (i) the net proceeds from the Top-up Subscription of new shares under general mandate of approximately HK$47,500,000 which was completed on 24 October 2017; and (ii) the sales proceeds of HK$41,000,000 from disposal of interest in the Magical Bloom Group which was completed on 22 June 2017.

As at 31 December 2017, the Group had secured bank borrowing of approximately HK$4,005,000 (2016: HK$5,065,000), which carried a floating interest rate (i.e. HK$ best lending rate offered by the bank minus 2.7%) and is not repayable within one year from the end of the reporting period but contains a repayment on demand clause.

As at 31 December 2017, the Group had unsecured other borrowings of (i) approximately RMB17,900,000 (equivalent to approximately HK$21,460,000) (2016: RMB12,344,000 (equivalent to approximately HK$13,789,000)), which carried a fixed interest rate of 1% per month (2016: 1% per month) and is repayable within one year; and (ii) approximately RMB1,100,000 (equivalent to approximately HK$1,319,000 (2016: HK$Nil), which carried a fixed interest rate of 12% per annum and is repayable within one year.

The increase in the bank and other borrowings were mainly due to additional other borrowings during the 2017 Year.

As at 31 December 2017, the total assets of the Group (including assets classified as held for sale) were approximately HK$303,400,000 (2016: HK$322,956,000), whereas total liabilities (including liabilities associated with assets classified as held for sale) were approximately HK$52,092,000 (2016: HK$47,739,000). The gearing ratio of the Group, calculated as total liabilities over total assets, was approximately 17.17% (2016: 14.78%). 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 3.98 times (2016: 3.41 times).

Capital Structure

As at 31 December 2017, the total issued share capital of the Company was HK$85,636,675 (2016: HK$78,836,675) divided into 856,366,750 (2016: 788,366,750) ordinary shares of HK$0.10 each.

Placing of existing shares and top-up subscription of new shares under general mandate

On 12 October 2017, Mr. Liu entered into two placing agreements (the "**Placing Agreements**"), pursuant to which Mr. Liu agreed to sell 40,000,000 and 28,000,000 shares of the Company (the "**Placing Shares**") to Mr. Chen Huiyong (the "**Placing A**") and Ms. Wing Man Yi (the "**Placing B**") respectively at a price of HK$0.70 per Placing Share (the "**2017 Placing**"). On the same date, Mr. Liu entered into the top-up subscription agreement with the Company (the "**Top-up Subscription Agreement**"). Pursuant to the Top-up Subscription Agreement, the Company conditionally agreed to allot and issue, and Mr. Liu conditionally agreed to subscribe for 68,000,000 ordinary shares of the Company of HK$0.10 each in the share capital of the Company, of aggregate nominal value of HK$6,800,000) (the "**Top-up Subscription Shares**") (equivalent to the number of Placing Shares sold by Mr. Liu under the Placing Agreements) at a price of HK$0.70 per Top-up Subscription Share, representing a discount of 5.41% to the closing price of HK$0.74 per share of the Company as quoted on the Stock Exchange on 12 October 2017 (the "**Top-up Subscription**"). The completion of the Placing B, the Placing A and the Top-up Subscription took place on 13 October 2017, 16 October 2017 and 24 October 2017 respectively. Details of the 2017 Placing and Top-up Subscription were disclosed in the announcements of the Company dated 12 October 2017, 13 October 2017, 16 October 2017 and 24 October 2017.

Reasons for the placing of existing shares and Top-up Subscription of the new shares under general mandate

Following the close of the Mandatory General Cash Offer, the minimum public float requirement of 25.0% under Rule 11.23(7) of the GEM Listing Rules was not satisfied as 165,046,204 shares of the Company, representing 20.94% of the then issued share capital of the Company, were held in the hands of the public and the Stock Exchange granted to the Company a waiver from strict compliance with Rule 11.23(7) of the GEM Listing Rules for the period from 28 August 2017 up to and including 13 October 2017 (the "**Waiver**"). The Directors have considered various ways to restore the public float of the Company and are of the view that the arrangement of placing and top-up subscription is the appropriate method to restore the public float of the Company as the time and costs involved in the 2017 Placing and the Top-up Subscription are relatively less. Details of the aforementioned public float insufficiency and the Wavier are disclosed in the announcements of the Company dated 28 August 2017 and 1 September 2017 respectively.

Use of net proceeds from Top-up Subscription of new shares under general mandate

Net proceeds from the top-up subscription of new share under general mandate which completed on 24 October 2017 was approximately HK$47,500,000. As at 31 December 2017, the Company has utilised approximately HK$12,000,000 for general working capital of the Group. The Company intends to apply the remaining balance of HK$35,500,000 for potential investments and general working capital of the Group.

SIGNIFICANT INVESTMENT HELD AND PERFORMANCE

The details of the investments in associates and available-for-sale financial assets have been disclosed in notes 25 and 26 of the audited consolidated financial statements respectively. During the 2017 Year, proceeds of HK$41,000,000 were received from the disposal of associates (i.e. the Magical Bloom Group) and further investment of HK$5,040,000 was made for available-for-sale financial assets through subscription of new shares in a company licensed to carry on the provision of securities dealing and advisory services.

The Group did not hold any other significant investments with a market value that account for more than 5% of the Group's audited net assets as at 31 December 2017.

MATERIAL ACQUISITION AND DISPOSAL OF SUBSIDIARIES AND AFFILIATED COMPANIES

Except for the disposal of subsidiaries and associates 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 2017 Year.

OPERATING LEASE COMMITMENTS

Details of operating lease commitments are stated in note 44 to the consolidated financial statements.

CAPITAL COMMITMENTS

Details of capital commitments are stated in note 43 to the consolidated financial statements.

CHARGES ON THE GROUP'S ASSETS

As at 31 December 2017, the Group had a secured bank borrowing of approximately HK$4,005,000 (2016: HK$5,065,000), which was secured by a legal charge on leasehold land and buildings in Hong Kong with the carrying amounts of approximately HK$14,423,000 (2016: HK$14,914,000) and a corporate guarantee executed by a subsidiary in favour of the bank for the banking facilities of HK$5,500,000. The banking facilities are subject to the fulfilment of restrictive covenants including certain financial ratios of a subsidiary as a guarantor. As at 31 December 2017, none of the restrictive covenants relating to drawn down facilities had been breached (2016: none).

CONTINGENT LIABILITIES

As at 31 December 2017 and 2016, the Group has no contingent liabilities.

FOREIGN EXCHANGE AND INTEREST RATE EXPOSURE

During the 2017 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.

EMPLOYEES AND REMUNERATION POLICY

As at 31 December 2017, the Group had a total of 170 (2016: 194) full time employees which were located in the PRC and Hong Kong from continuing operations. Total staff costs for the 2017 Year was approximately HK$38,318,000 (2016 Year: HK$40,430,000) of which total staff costs from continuing operations recorded approximately HK$38,318,000 for the 2017 Year (2016 Year: HK$37,353,000).

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.

Provident fund benefits are offered to certain full-time employees through a registered scheme under the Occupational Retirement Schemes Ordinance ("**ORSO**") with the Mandatory Provident Fund exemption. The ORSO scheme is administered by trustees, which are independent, with assets held separately from those of the Group. Under the ORSO scheme, the Group contributes 5% of monthly salaries of employees.

The Group operates a Mandatory Provident Fund Scheme for all qualifying employees in Hong Kong (other than those who are covered under ORSO scheme). 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. 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 2017 Year were approximately HK$1,723,000 (2016 Year: HK$2,232,000) of which total contributions payable from continuing operations amounted to approximately HK$1,723,000 for the 2017 Year (2016 Year: HK$1,911,000).

EVENTS AFTER THE REPORTING PERIOD

Details of the significant events after the reporting period are set out in note 46 to the consolidated financial statements.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS

Executive Directors

Mr. Liu Xiaolin ("Mr. Liu"), aged 47, has been appointed as a chairman and executive director since 28 August 2017 and 7 August 2017 respectively. Mr. Liu is currently the partner of an investment company, which is mainly engaged in investments in the PRC and Hong Kong. He possesses over 14 years of experience in investment, equity fund management, and mergers and acquisitions. From February 2008 to October 2014, Mr. Liu was a partner and chief mainland China representative in an international private equity fund. Mr. Liu graduated from The Macau University of Science and Technology in 2005 with a Master degree of Business Administration. He is also a director of a number of subsidiaries of the Company.

Mr. Leung Pak Hou Anson ("Mr. Leung"), aged 51, has been appointed as an executive Director since 15 May 2013. Mr. Leung has been the compliance officer of the Company since 30 May 2013. Mr. 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 from September 2000 to June 2002. Mr. Leung has about 14 years of experience in investment, management and operation of manufacture and sale of medications in the pharmaceutical industry. He is also a director of a number of subsidiaries of the Company.

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

Mr. Wang Zheng ("Mr. Wang"), aged 35, has been appointed as an executive director since 7 August 2017. Mr. Wang is currently an independent financial consultant. He possesses over 10 years of experience in accounting and management. Prior to becoming an independent financial consultant, Mr. Wang was the audit manager of KPMG Singapore, the deputy general manager of China Everbright Water Limited (stock code: U9E), a company listed on Singapore Exchange Limited and also the chief financial officer of SkyNet Group Limited (stock code: 8176), a company listed on the Stock Exchange. Mr. Wang graduated from the University of London and obtained a Master degree of Science in Risk Management and Financial Engineering from the Imperial College Business School in London. He is also a member of the Institute of Singapore Chartered Accountants and a fellow member of the Association of Chartered Certified Accountants. He is also a director of a number of subsidiaries of the Company.

Non-executive Director

Mr. Huang Song ("Mr. Huang"), aged 35, has been appointed as a non-executive Director since 15 September 2017. Mr. Huang joined the National Institute of Biological Sciences in Beijing (the "**Institute**"), the PRC, in 2011 as a postdoctoral research fellow and currently serves as a deputy director for administration and a director of Synthetic Biology Center of the Institute. Mr. Huang has published several research papers in relation to endoplasmic reticulum and jointly owns a patent of potential prostate cancer treatment. Mr. Huang obtained a Bachelor's degree in Biological Science from Peking University, the PRC, in 2003 and a Doctor's degree of Philosophy in Biological Chemistry from The University of Texas Southwestern Medical Center at Dallas, United States of America, in 2010.

Independent non-executive Directors

Mr. Yan Guoxiang ("Mr. Yan"), aged 51, has been appointed as an independent non-executive Director since 7 August 2017. Mr. Yan is currently the general manager of Shenzhen Junxing Information Technology Co., Ltd. Mr. Yan possesses over 20 years of experience in accounting and management. He was a partner of Da Hua Certified Public Accountants from March 2012 to December 2014. He has also been a visiting professor of the accounting school of Jiangxi University of Finance and Economics since May 2013. Mr. Yan obtained the bachelor degree in accounting from Southwest University in 2005. He was also a qualified intermediate economist of the PRC from June 1995, a certified public valuer of the PRC from August 1997 and a certified public accountant of the PRC from April 1998. Mr. Yan was the independent non-executive director of MLS Co., Ltd (stock code: 002745) from July 2010 to September 2016 and Huasu Holdings Co., Ltd. (stock code: 000509) from March 2014 to March 2017, both of which are companies listed on the Shenzhen Stock Exchange.

Mr. Ho Fung Shan Bob ("Mr. Ho"), aged 36, was appointed as an independent non-executive Director since 14 October 2014.

From May 2006 to October 2009, Mr. Ho worked in Winterthur 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 Medical Tourism Service of Hong Kong 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.

Mr. Qian Hongji ("**Mr. Qian**"), aged 42, has been appointed as an independent non-executive Director since 2 March 2018. Mr. Qian graduated from the Peking University in 2009 with a Juris Master degree.

Mr. Qian is an experienced lawyer with extensive practice in the areas of mergers and acquisition and other corporate practice. He has served as the legal advisor of several domestic and international corporations in bankruptcy, project acquisition and other corporate regulatory matters. Mr. Qian is currently a senior partner at Dentons, a law firm in the PRC and the chairman of the board of supervisors of 北京太比雅科技股份有限公司 (in English, for identification purpose only, Beijing Tepia Technology Limited), whose equity securities are being exchanged and quoted on the National Equities Exchange and Quotations (Securities code: 838941).

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 2017 ("**2017 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 2017 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, E.1.2 and A.6.7 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 former chairman of the Company, Mr. Chan Ka Chung, who was an executive Director, 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 former chairman of the Company, Mr. Chan Ka Chung, did not attend the annual general meeting of the Company held on 26 May 2017 ("**2017 AGM**") due to other commitments during the period of his appointment. However, Mr. Leung Pak Hou Anson, the executive Director, and Mr. Fung Wing Sang, the former company secretary of the Company, attended the 2017 AGM to answer questions and communicate with the shareholders of the Company present thereat.

Non-executive Director and independent non-executive Directors should attend general meetings of the Company under Code Provision A.6.7 of the CG Code. Due to other pre-arranged business commitments which had to be attended, Mr. Leung Ka Fai (being an independent non-executive Director) and Mr. Ho Fung Shan Bob (being an independent non-executive Director) were unable to attend 2017 AGM.

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 regarding securities transactions by the Directors during the 2017 Year.

BOARD OF DIRECTORS

Composition

As at 31 December 2017, the Board comprises three executive Directors, one non-executive Director and two independent non-executive Directors as follows:

Executive Directors

Mr. Liu Xiaolin *(appointed as Executive Director on 7 August 2017 and appointed as Chairman on 28 August 2017)*
Mr. Leung Pak Hou Anson
Mr. Wang Zheng *(appointed on 7 August 2017)*
Mr. Chan Ka Chung *(resigned on 28 August 2017)*
Ms. Chen Miaoping *(resigned on 30 April 2017)*
Mr. Cheung Wai Kwan *(resigned on 28 August 2017)*

Non-executive Directors

Mr. Huang Song *(appointed on 15 September 2017)*
Mr. Gao Yongping *(appointed on 18 April 2017 and resigned on 9 October 2017)*

Independent non-executive Directors

Mr. Yan Guoxiang *(appointed on 7 August 2017)*
Mr. Leung Ka Fai *(resigned on 5 December 2017)*
Mr. Ho Fung Shan Bob
Mr. Yuen Chun Fai *(resigned on 28 August 2017)*

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.

Upon completion of Mandatory General Cash Offer, each of Mr. Chan Ka Chung, Mr. Cheung Wai Kwan and Mr. Yuen Chun Fai resigned as a Director. Each of the resigned Directors confirmed that he did not have any disagreement with the Board and there was no matter in relation to his resignation that would need to be brought to the attention of the shareholders of the Company.

The resignation of Ms. Chen Miaoping, Mr. Gao Yongping and Mr. Leung Ka Fai as an executive Director and chief executive officer, a non-executive Director and an independent non-executive Director respectively was due to her/his other personal commitments which require more of her/his dedication. Each of them confirmed that she/he did not have any disagreement with the Board and there was no matter in relation to her/his resignation that would need to be brought to the attention of the shareholders of the Company.

There is no relationship among members of the Board and the biographical details of the Directors except the Directors resigned in the 2017 Year 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 remain appropriate.

The biographical details of the Directors (except the Directors who resigned in the 2017 Year) are set out in the section above headed "Biographical Details of Directors and Senior Management" on page 16 to page 17 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.

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 2017 Year are set out below:

Name of Directors	Notes	Board Meeting	Audit Committee Meeting	Remuneration Committee Meeting	Nomination Committee Meeting	General Meeting
Executive Directors						
Mr. Liu Xiaolin	1	12/12	N/A	2/2	1/1	1/1
Mr. Leung Pak Hou Anson	2	30/30	N/A	3/3	N/A	3/3
Mr. Wang Zheng	3	12/12	N/A	N/A	N/A	1/1
Mr. Chan Ka Chung	4	20/20	N/A	3/3	2/2	0/2
Ms. Chen Miaoping	5	10/11	N/A	N/A	N/A	N/A
Mr. Cheung Wai Kwan	6	20/20	N/A	N/A	N/A	0/2
Non-executive Directors						
Mr. Huang Song	7	8/8	N/A	N/A	N/A	1/1
Mr. Gao Yongping	8	11/11	N/A	N/A	N/A	0/2
Independent Non-Executive Directors						
Mr. Yan Guoxiang	9	12/12	2/2	2/2	1/1	1/1
Mr. Leung Ka Fai	10	27/28	5/5	3/3	3/3	0/3
Mr. Ho Fung Shan Bob		30/30	6/6	5/5	3/3	2/3
Mr. Yuen Chun Fai	11	19/19	3/3	3/3	2/2	1/2

Notes:

(1) Mr. Liu Xiaolin was appointed as an executive Director with effect from 7 August 2017, and also appointed as the chairman of the Company, the chairman of the Nomination Committee and a member of the Remuneration Committee with effect from 28 August 2017.

(2) Mr. Leung Pak Hou Anson resigned as a member of Remuneration Committee with effect from 28 August 2017.

(3) Mr. Wang Zheng was appointed as an executive Director with effect from 7 August 2017.

(4) Mr. Chan Ka Chung resigned as the chairman of the Company, executive Director, the chairman of the Nomination Committee and a member of the Remuneration Committee with effect from 28 August 2017.

(5) Ms. Chen Miaoping resigned as an executive Director and chief executive officer of the Company with effect from 30 April 2017.

(6) Mr. Cheung Wai Kwan resigned an executive Director with effect from 28 August 2017.

(7) Mr. Huang Song was appointed as a non-executive Director with effect from 15 September 2017.

(8) Mr. Gao Yongping was appointed as a non-executive Director with effect from 18 April 2017 and resigned as a non-executive Director with effect from 9 October 2017.

(9) Mr. Yan Guoxiang was appointed as an independent non-executive Director with effect from 7 August 2017 and appointed as the chairman of Audit Committee, the chairman of Remuneration Committee and a member of the Nomination Committee with effect from 28 August 2017.

(10) Mr. Leung Ka Fai resigned as an independent non-executive Director and a member of Audit Committee on 5 December 2017 and ceased as a member of Remuneration Committee and a member of Nomination Committee of the Company on 28 August 2017.

(11) Mr. Yuen Chun Fai resigned as an independent non-executive Director, the chairman of Audit Committee, the chairman of Remuneration Committee and a member of Nomination Committee of the Company with effect from 28 August 2017.

The Directors have received details of agenda and minutes of committee meetings in advance 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 has 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 non-executive Director and 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.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Pursuant to Rule 5.05 of the GEM Listing Rules, the Company must have 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.

As at 31 December 2017, the number of independent non-executive Directors was less than three as required under Rule 5.05(1) of the GEM Listing Rules. The Company was also unable to fulfill the requirement of having three members on the Audit Committee under Rule 5.28 of the GEM Listing Rules. Following the appointment of Mr. Qian Hongji as an independent non-executive Director with effect from 2 March 2018, the number of independent non-executvie Directors as required under Rule 5.05(1) of the GEM Listing Rules has been fulfilled.

BOARD COMMITTEES

As part of the corporate governance practices, the Board has established the Audit Committee, the Nomination Committee and the Remuneration Committee 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 2017 were set out below:

Audit Committee

Each of Mr. Yuen Chun Fai and Mr. Leung Ka Fai has tendered his resignation as the chairman of the Audit Committee and a member of Audit Committee with effect from 28 August 2017 and 5 December 2017 respectively. Mr. Yan Guoxiang has been appointed as the chairman of the Audit Committee with effect from 28 August 2017. Mr. Qian Hongji has been appointed as a member of Audit Committee with effect from 2 March 2018.

Following the resignation of Leung Ka Fai as an independent non-executive Director on 5 December 2017, he also ceased to be a member of the Audit Committee. As such, the Company was unable to fulfill the requirement of having three members on the Audit Committee as required under Rule 5.28 of the GEM Listing Rules. Following the appointment of Mr. Qian Hongji as a member of the Audit Committee with effect from 2 March 2018, the requirement of having three members on the Audit Committee has been fulfilled.

The Audit Committee is currently composed of three independent non-executive Directors, namely, Mr. Yan Guoxiang, Mr. Ho Fung Shan Bob and Mr. Qian Hongji. The financial results for the 2017 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.

During the 2017 Year, the Audit Committee held six meetings and 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 change of external auditor.

The Audit Committee is 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.cbshhk.com) and the Stock Exchange.

Remuneration Committee

Each of Mr. Yuen Chun Fai, Mr. Chan Ka Chung, Mr. Leung Ka Fai and Mr. Leung Pak Hou Anson has tendered his resignation as the chairman of the Remuneration Committee and a member of the Remuneration Committee with effect from 28 August 2017. Mr. Liu Xiaolin was appointed as member of the Remuneration Committee with effect from 28 August 2017. Mr. Yan Guoxiang has been appointed as the chairman of the Remuneration Committee with effect from 28 August 2017.

The Remuneration Committee is currently composed of two independent non-executive Directors, namely Mr. Ho Fung Shan Bob and Mr. Yan Guoxiang and one executive Director and the chairman of the Company, Mr. Liu Xiaolin.

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 associates will participate in deciding his own remuneration pursuant to Code Provision B.1.2(h) of the CG Code.

The Remuneration Committee held five meetings during the 2017 Year to perform the above mentioned principal duties.

Details of the Directors' remuneration and five individuals with highest emoluments are set out in notes 14 and 15 to the consolidated financial statements.

The Remuneration Committee is 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.cbshhk.com) and the Stock Exchange.

Nomination Committee

Mr. Chan Ka Chung has tendered his resignation as the chairman of the Nomination Committee with effect from 28 August 2017. Each of Mr. Leung Ka Fai and Mr. Yuen Chun Fai has tendered his resignation as a member of the Nomination Committee with effect from 28 August 2017. Mr. Liu Xiaolin and Mr. Yan Guoxiang was appointed as chairman and a member of the Nomination Committee of the Board on 28 August 2017 respectively.

The Nomination Committee is currently composed of two independent non-executive Directors, namely Mr. Ho Fung Shan Bob and Mr. Yan Guoxiang and one executive Director and the chairman of the Company, Mr. Liu Xiaolin.

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 2017 Year, three meetings were 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 websites of the Company (www.cbshhk.com) 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 of the Company 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 the chairman is held by Mr. Liu Xiaolin. The responsibilities of the chairman of the Company 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.

As at 31 December 2017 and up to the date of this report, the Company has not appointed a chief executive officer and is looking for a suitable candidate to act as chief executive officer in order to comply with the CG Code. The office and duties of the chief executive officer in respect of the day-to-day management of the Group's business is handled by the executive Directors collectively.

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 Directors of the Company. 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. Fung Wing Sang has resigned as authorised representative of the Company under Rule 5.24 of the GEM Listing Rules and the Company Secretary on 28 August 2017 and 9 October 2017 respectively.

Ms. Wong Miu Shun ("**Ms. Wong**") has been appointed as the Company Secretary on 9 October 2017. The biographical details of Ms. Wong have been disclosed in the Company's announcement dated 9 October 2017. Ms. Wong has taken more than 15 hours of relevant professional training to update her skills and knowledge during the 2017 Year.

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 statues, laws, rules and regulations.

Directors' training is an ongoing process. During the 2017 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 reviewing the materials relating to the latest development of the GEM Listing Rules and other applicable regulatory requirements during the 2017 Year in order to develop and refresh their knowledge and skills. The Company updates the Directors on the latest developments 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 2017 Year, the Directors have received the following trainings at the Company's expenses:

Name of Directors	Type of trainings Seminars	Reading Materials
Executive Directors		
Mr. Liu Xiaolin	√	√
Mr. Leung Pak Hou Anson	x	√
Mr. Wang Zheng	x	√
Mr. Chan Ka Chung	x	√
Ms. Chen Miaoping	x	√
Mr. Cheung Wai Kwan	x	√
Non-executive Directors		
Mr. Huang Song	x	√
Mr. Gao Yongping	x	√
Independent non-executive Directors		
Mr. Ho Fung Shan Bob	√	√
Mr. Leung Ka Fai	√	√
Mr. Yuen Chun Fai	x	√
Mr. Yan Guoxiang	√	√

ACCOUNTABILITY AND AUDIT

Financial Reporting

The Board acknowledges its responsibility to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Group. The Board is not aware of any material uncertainties relating to events or condition that might cast significant doubt upon the Company's ability to continue in business.

Accordingly, the Board has prepared the financial statements of the Company on a going concern basis. The Board also acknowledges its responsibility to present a balanced, clear and understandable assessment in the Company's annual, interim and quarterly reports, other inside information announcements and other financial disclosures required under the GEM Listing Rules, and reports to the regulators as well as to include the information required to be disclosed pursuant to statutory requirements.

The above statements, which should be read in conjunction with the independent auditors' report set out from pages 55 to 61 of this annual report, are made with a view to distinguishing for shareholders how the responsibilities of the Directors differ from those of the auditor in relation to the financial statements.

Having made appropriate enquiries and examined major areas which could give rise to significant financial exposures, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements for the 2017 Year; the Directors considered the Group has applied appropriate accounting policies consistently, made judgments and estimates that are prudent and reasonable in accordance with applicable accounting standards.

The quarterly, interim and annual results and reports were published within the time limits as required under the GEM Listing Rules after the end of the relevant periods to provide stakeholders with transparent and timely financial information.

Risk Management and Internal Control

The management has the responsibility to maintain appropriate and effective risk management and internal control systems and the Board and the Audit Committee has responsibility to review and monitor the effectiveness of the Group's risk management and internal control system covering material controls, including financial, operational and compliance controls on an ongoing basis to ensure that the systems in place are adequate and effective and safeguard the interests of the Company's shareholders and the Group's assets. The Group adopts a risk management system which manages the risk associated with its business and operations. The system comprises the following phases:

- Identification: Identify ownership of risks, business objectives and risks that could affect the achievement of objectives.
- Evaluation: Analyse the likelihood and impact of risks and evaluate the risk portfolio accordingly.
- Management: Consider the risk responses, ensure effective communication to the Board and on-going monitor the residual risks.

The Company has in place an internal control system which is compatible with the Committee of Sponsoring Organisations of the Treadway Commission COSO 2013 framework ("**COSO**"). The COSO enables the Group to achieve objectives regarding effectiveness and efficiency of operations, reliability of financial reporting and compliance with applicable laws and regulations. The components of the COSO are shown as follows:

- Control Environment: A set of standards, processes and structures that provide the basis for carrying out internal control across the Group.
- Risk Assessment: A dynamic and iterative process for identifying and analysing risks to achieve the Group's objectives, forming a basis for determining how risks should be managed.
- Control Activities: Action established by policies and procedures to help ensure that management directives to mitigate risks to the achievement of objectives are carried out.
- Information and Communication: Internal and external communication to provide the Group with the information needed to carry out day-to-day controls.
- Monitoring: Ongoing and separate evaluations to ascertain whether each components of internal control is present and functioning.

In order to enhance the Group's system of handling inside information, and to ensure the truthfulness, accuracy, completeness and timeliness of its public disclosures, the Group also adopts and implements an inside information policy and procedures. Certain reasonable measures have been taken from time to time to ensure that proper safeguards exist to prevent a breach of a disclosure requirement in relation to the Group, which include:

- The access of information is restricted to a limited number of employees on a need-to know basis. Employees who are in possession of inside information are fully conversant with their obligations to preserve confidentiality.

- Confidentiality agreements are in place when the Group enters into significant negotiations.

- The executive Directors are designated persons who speak on behalf of the Company when communicating with external parties such as the media, analysts or investors.

The Group's risk management and internal control system are, however, designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

The Group has conducted an annual review on whether there is a need for an internal audit department. During the 2017 Year, the Company engaged an independent professional firm as internal audit function which consisted of professional staff with relevant expertise (such as Certified Public Accountants), to conduct a review of the risk management and internal control systems for its business operations and processes of the Group by conducting interviews, walkthroughs and test of operating effectiveness annually. The review was done on a systematic basis based on the risk assessments of the operations and controls, and covered (a) review of treasury cycle of major subsidiaries in Hong Kong and the PRC, inventory management cycle of the subsidiaries in Hong Kong for the 2017 Year; and (b) follow-up review of deficiencies identified in the 2016 Year, which are inventory management cycle of the subsidiaries in Guizhou and sales and receipts cycle of major subsidiaries in Hong Kong. The review plan has been approved by the Board and the Audit Committee. The Board and the Audit Committee has also reviewed the resources, staff qualifications and experience, training programs and budget of the independent professional firm and considered they are adequate and sufficient. 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 internal control review report for the 2017 Year, issued by the independent professional firm, listed out the findings of the weaknesses identified in 2017 Year in regard to the relevant cycles and procedures with recommendations proposed for the Company to further improve its internal control system. No significant deficiency was identified during the review. The result of the review has been reported to the Board and the Audit Committee and areas of improvement, if any, have been identified and appropriate measures have been put in place to manage the risks. The Board and the Audit Committee reviewed the risk management and internal control system in respect of the 2017 Year. Several areas have been considered during the reviews, which included but not limited to (i) the changes in the nature and extent of significant risks since the last annual review, and the Group's ability to respond to changes in its business and the external environment, (ii) the scope and quality of management's ongoing monitoring of risk management and internal control system. The Board and the Audit Committee considered the systems effective and adequate throughout the 2017 Year.

Auditor's remuneration

RSM Hong Kong was newly appointed as the auditor of the Group after the resignation of the previous auditor, HLB Hodgson Impey Cheng during the 2017 Year.

For the 2017 Year, the fee payable to RSM Hong Kong in respect of audit services amounted to HK$750,000 and there is no fee payable in respect of non-audit services. The fee payable to HLB Hodgson Impey Cheng Limited in respect of non-audit services, which include the preparation and issuance of indebtedness letter, amounted to approximately HK$85,000 and there is no fee payable in respect of audit services.

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 2017 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 and the Company's website at www.cbshhk.com 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 SGMs. The Company supports the CG Code principle to encourage shareholder's participation.

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 Suites 1904-05A, 19/F, Sino Plaza, 255-257 Gloucester Road, Causeway Bay, 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.

C. Procedures for Putting Forward Proposals by Shareholders at Shareholders' Meetings

Shareholders may include a resolution to be considered at a special general meeting. The requirements and procedures are set out above in the paragraph headed "Procedures for the Shareholders to Convene a Special General Meeting".

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

REPORTING SCOPE

As a company based and served in Hong Kong, China Biotech Services Holdings Limited (formerly known as Rui Kang Pharmaceutical Group Investments Limited) (thereafter "**Group**" or "**We**") is fully committed to environment protection, socially responsible and equipped with the strictest corporate governance. In pursuant to the newly released requirement of the Environmental, Social and Governance Reporting guide ("**Environmental, Social and Governance Guide**") in Appendix 20 of the Rules Governing the Listing of Securities on GEM of the Stock Exchange of Hong Kong Limited (the "**GEM Listing Rules**") from the Stock Exchange of Hong Kong Limited, we have prepared the *2017 Environmental Social and Governance Report* (thereafter "**ESG Report**"), covering business segments principally in (i) manufacture, research and development, sale and distribution of health related and pharmaceutical products in the People's Republic of China (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 scope of this report will cover the Group's initiatives on introducing the concept of ESG to our employees and clients, putting them into practices to our daily operations and disclosing results as a year-end summary over the 2017 Year. It is also the intention of our management to provide an overview of the Group's direction in managing ESG related issues, driving for ESG initiatives throughout the group, and communicating our ESG performance result with our stakeholders.

BOUNDARY AND REPORTING PERIOD

The reporting boundary shall cover our operation activities throughout the Group, including the Hong Kong head office as well as the subsidiaries in Hong Kong and Guizhou namely 貴州雙升製藥有限公司 (in English, for identification purpose only, Guizhou Shuang Sheng Pharmaceutical Co., Ltd.).

Our reporting period shall cover the date from **1 January 2017 to 31 December 2017.**

ENVIRONMENT

The Group understands the importance of environmental protection, recognise the potential impacts that may cause to the natural environment by our operation activities, and strive to minimise our impacts. While We aim to generate revenue for our shareholders, provide the best products and services to our clients, the Group had established sets of **Environmental Policy**, ensuring the compliance to all applicable laws and regulatory requirements in both the PRC and Hong Kong. Our policies also set direction, and as a guideline for our employees, on best managing our environmental impacts to the local environment according to different activities throughout our operations, and these policies are listed as the followings:

- monitoring of compliance with all applicable environmental legislation, standards and regulations;
- developing a culture of environmental protection among staff members;
- promoting public awareness of environmental sustainability issues through resources conversation in the context of operations;
- seeking continual improvement in the efficient use of energy and other natural resources; and
- employing the best practices as listed out in "**Green Measures for Offices**".

Due to the nature and the regional coverage of our business, it is important for us to identify and manage environmental impacts attributable to our operational activities to minimise these impacts if possible. Awareness programme on environmental protection is also promoted internally throughout our operation. We encourage the same to our clients and improve all together.

AIR EMISSION

The Group took the initiative to examine the issue of air emission across all of our operations, and due to our business nature, we did not involve with any combustion process, industrial, or heavy transportation activities that could lead to direct emission to the atmosphere. Thus, we posed no major impact in the air emission aspect and result indicated that no significant impact could be reported. We will continue monitoring our operation and ensuring our air emission will be maintained at this level and will disclosure further information as changes occur.

CARBON EMISSION

After a careful investigation and monitoring on air pollutant emission, the Group has concluded that no significant direct air emission can be identified. We have then extended our effort in monitoring air pollutant emission to quantifying our Greenhouse Gas (i.e. carbon) emission. With no direct combustion procedure or energy generation process involved, the Group's operations do not have direct Greenhouse gas emission and have no material impact toward the Group. The Group's carbon emission is mainly contributed by in-direct emission through energy consumption, which is counted toward the Group's overall carbon footprint. We estimated our carbon footprint as a group, based on our electricity consumption from our operation activities, and the emission factor provided by our electricity providers (data's available from the Electricity Bills and the Sustainability Report from our electricity provider). We also encourage our employees to work with external stakeholders, and to minimise overall carbon footprint through various internal measures.

As a summary, and based on our electricity consumption alone, the Carbon Footprint for our Group in this reporting year was 403.4tCO2e.

NOISE AND WATER DISCHARGE

Our manufacturing facility in Guizhou was under the regular supervision and monitoring by the Qingjing City Environmental Monitoring Centre throughout the 2017 Year.

Our water discharge and noise emission from the factory were regularly assessed to ensure our compliance with the local environmental regulations, and the Group was regularly reviewing our performance to meet or overachieve the compliance standard.

WASTE MANAGEMENT

Hazardous Waste

Our operation in Hong Kong includes a laboratory testing facility and a clinical product packaging line, where daily activities involve handling of waste in both categories. Our **Waste Management Policy** sets strict guideline imposing the most proper handling and management of our clinical waste, while ensuring our compliance with the legal requirements of *Waste Disposal Ordinance (Chapter 354 of the Laws of Hong Kong)* and *Waste Disposal (Clinical Waste) (General) Regulation*.

Part of our **Waste Management Policy, Safety Policy** was also developed in minimising our potential risk and impact toward the environment. The proper handling and the safety operation of our laboratory facility was allocated to our Safety Committee. The main responsibility of the committee is to overlook waste related issues, clinical waste management (i.e. ensuring the collection of our laboratory clinical waste was handled by a licensed clinical waste collector) and infection management. Regular meetings were set up with the laboratory management for reporting and improvement purpose, and with the goal to ensure sustainable and safe operation of our facility.

Our packaging waste of clinical product was also carefully managed. Leak-proof containers were utilised to contain laboratory waste, ensuring they were impermeable to moisture and prevented from tearing or bursting under normal handling. Containers would only be filled below the warning line indicating 70% and 80% of their maximum volume before sealing to avoid spillage. They would be stored in premises that were well-ventilated and used solely for the storage of clinical waste. In 2017 Year, our laboratories in Hong Kong emitted approximately 0.2 tonnes of wastewater and 6.1 tonnes of clinical waste respectively.

In summary, and after careful investigation, we concluded that our operation did not involve any non-compliance for handling of hazardous waste.

Non-Hazardous Waste

For non-hazardous waste, the Group kept a close working relationship with our employees to promote waste reduction. Measures such as waste recycling on paper, and the appropriate use of recycled paper was encouraged in our workplaces. In addition, we took the initiative further by driving for a paper-less working environment. Our staff were encouraged to work and communicate through emails and e-format documents instead of hard copies.

USE OF RESOURCES

As an environmental friendly company, the Group is actively persuading the culture of "**Green Office**" and the smart consumption of Natural Resources, and particularly on Energy and Paper saving.

Measures such as adopting to an **Energy Conservation and Efficiency Policy** and practices in offices and utilising green technologies, were successfully implemented throughout the year. Details can be found as below:

Energy Saving Measures

- Energy equipment with "Energy Efficient Label" is included as part of the procurement process selection criteria, and should be adopted as far as possible;
- Good working space practices, such as setting the air conditioners to 25.5°C are encouraged for a comfortable working environment; and
- Good working practices on utilising our electronic devices are adopted throughout our premises, as electronic appliances should be switched off or set into energy saving mode when idle.

Paper Saving Measures

- E-documentation platform is promoted in our offices (i.e. email) to reduce paper waste;
- Marketing materials, such as greeting cards should be sent by electronic means as much as possible; and
- Recycle use of papers, such as double-sided printing or copying are encouraged whenever it is appropriate.

As a summary, and after a careful data consolidation and analysis, our Group reported a total of 746,392kWh of electricity, 4,272MJ of natural gas and 5,648m^3 of water consumed in this reporting period. In addition, the Group generated 6,098 kg of waste and 4,515,515 kg of waste water during the same reporting period.

SOCIAL

The business of the Group spreads across several industrial sectors, involving a large number of great individuals working with us. Offering competitive compensation to our staff, while treating all of our staff equally and fairly, and complying with laws and regulations have always been one of the Group's guiding principles. The Group will monitor and improve in areas as needed, and will continue to grow sustainably and in a socially responsible manner.

EMPLOYMENT

As a socially responsible company, the Group understands the success of any company hinder largely on **People** that works with us. The Group recognises the contribution and the success that they bring, and we believe their works of excellence must be well compensated. The Group offers competitive remuneration and benefits scheme to retain and to procure best talents to match with our long-term organisational growth.

REMUNERATION COMMITTEE

The Remuneration Committee was set up to enable the Group to attract, retain, and activate talented employees that are essential to the success of the Group. 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 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

Our management regularly reviews employees' remuneration packages, implement targeted performance assessment and makes adjustment according to the prevailing market and industry trends, inflation, and the performance from both the corporate and employee performance in the previous year. Remuneration package is also related to both the position value and employee performance, assessed by targets and KPI that were assigned accordingly to their positions.

HEALTH AND SAFETY

The Group considers the safety of our employee as one of our greatest concerns. Our **Safety Manual** is carefully planned and developed to promote the awareness of operation safety, and to drive for the best practices in our premises. We strive to maintain a high occupational safety and health standard, and for providing a safe and comfortable working environment to our employees.

Our Group strictly comply with *Occupational Safety and Health Ordinance (Chapter 509 of the laws of Hong Kong)*, and we record no work-related injury lost day in this reporting period.

Hong Kong

Our **Safety Policy** has strict guideline on laboratory conduct to ensure a safe working environment. We have also developed procedure on the handling of various types of hazardous materials and categorizing into various risks groups (i.e. chemicals, regent, equipment, and (etc). Measures thus are assigned according to their risk levels, and details can be found as below:

1 Strictly compliance to *ISO 15189:2012* and the Safety Manual, which specifies the basic rules for safety practices in the laboratory.

2 Laboratory Safety Committee is established supervising the laboratory safety performance, identifying safety issues, providing relevant safety procedures and arranging trainings to employees.

3 Safety checkup carried out for laboratory units and surrounding areas once every two years.

4 Provision of suitable protective equipment to employees when handling potentially hazardous materials.

Guizhou

The Group has maintained a consistent **Safety Policy** throughout the operation. All of our newly recruited employees will be assigned to Safety Training according to their respective departments and work nature. In addition, to maintain our safety standard are updated and delivered to all of our employees, a 2-hours work related safety training are arranged on a bi-annual basis. Our employees are encouraged to actively participate in our training sessions, and to voice out for issues that are identified throughout the operation.

In consistent with our Hong Kong operation, we have a comprehensive hazardous material and goods management system in place for our employees in Guizhou. The goal is to provide a guideline safeguarding employees, and to reduce their exposed operational risks. Details and procedures are listed as the below:

1	Procurement	Procurement quotas are assigned to all units and hazardous goods are only purchased according to actual needs.
2	Examination	Upon the entering of our warehouse, custodians are required to perform examination on the name, specification and batch number for all dangerous goods. Verification are closely performed, and especially on the packaging, seals and labels. Unqualified goods will be reported, and with reason clearly stated for rejection. Copies will be kept by 3 separate units namely the warehouse, sourcing unit and quality control unit for further revision purpose.
3	Storage and Management	Our warehouse for dangerous goods is located at a safety distance to avoid for the risk of a fire break-out. Our warehouse is a well-ventilated storage place, where temperature is constantly controlled below 30 Degrees Celsius at all times.
4	Distribution	Warehouse custodians are required to verify and to check the name, specification, batch number and label of the respective hazardous goods before distribution. The transportation of hazardous goods is handled carefully by specially appointed employee under the guidance and supervision of the respective warehouse custodian.

During the reporting period, the Group had no material non-compliance breach with relevant standards, laws, rules and regulations relating to providing a safe working environment and protecting employees from occupational hazards, and no any major accident were encountered during operation.

TRAINING AND DEVELOPMENTS

The Group views employees as our greatest asset, and high-caliber talent colleagues that are professionally trained are vital to the Group's sustainable growth. As a caring company, we encourage our employees to life-long continuous learning, and the purpose is not only ensuring our employees receive the suitable training for on job requirement, but also for their personal career development and able to contribute to the sustainable development of the company.

Our management has developed specific **Training Policy** for our employees, and details are listed as the followings:

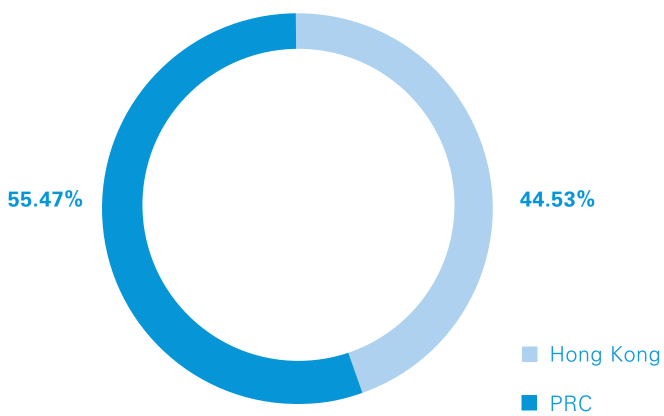
- Ensure that employees are supported and enabled to meet the changing demands of the Group and its service users so that the Group achieves its strategic objectives;

- Facilitate employee development and/or personal development through assisting them to broaden, deepen and thereby further enhance their existing skill base; and

- Provide a working environment, where continuous learning and development take place that help staff gaining on-job fulfilment, increase motivation and enhance staff retention.

Throughout the year, the Group arranged various types of training in both of our operation in Hong Kong and the PRC, and the total hours of training distribution can be found as below:

Regional Employee Training (Hours)



Hong Kong

Our new recruited employees are provided with orientation training, which covers topics such as:

- company's structure and mission;
- employee's contribution toward business success and objective; and
- company's guidelines, procedures and etc.

Staying course with the Group's direction on life-long learning, all full-time employees whom have passed the probation and disregard of their job position, are entitled for a Company's sponsorship on external training courses.

In 2017, our Hong Kong based employees had achieved a total of 122 hours of external training.

Guizhou

As the Group puts great effort into training our employees, our colleagues from Guizhou received similar training arrangement, and particularly on the manufacturing operation. New recruits would receive similar orientation training as our Hong Kong colleagues, and with more customised topics such as pharmaceutical product safety and operational safety trainings arranged. Training plans are also included as part the business plan, which requires the approval from the General Manager in Guizhou.

As a result, our Guizhou operation had a total of 152 hours of external training in 2017.

EQUAL OPPORTUNITIES, DIVERSITY AND ANTI-DISCRIMINATION

Employee Composition/Equal Opportunities

Our **Human Resource Policy and Procedures** are designed and implemented in compliance with applicable laws and requirements. Each regional or local management team maintains its HR policies, covering areas such as compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination, and other benefits and welfare.

Being an equal employment opportunity employer, the Group hires and develops people with suitable qualifications, experience, skills, potential, performance and knowledge for a job specification. We do not discriminate against person regardless of sex, marital status, family status, pregnancy, disability, age, sexual orientation, race, color, descent, ethnic, nationality and religion.

The Group stipulated the terms in the employment contract about the working hours, rest and leave entitlement.

In our business operations in Guizhou, our **Recruitment Policy** specifies that the best candidates amongst current employees are considered first for open positions rather than external candidates.

Staff should observe the requirements of Sex *Discrimination Ordinance (Cap 480 of the laws of Hong Kong), Disability Discrimination Ordinance (Cap 487 of the laws of Hong Kong), Family Status Discrimination Ordinance (Cap 527 of the laws of Hong Kong) and Race Discrimination Ordinance (Cap 602 of the laws of Hong Kong)* and their respective related **Codes of Practice.** Staff who engages any act or conduct of discrimination, vilification, or sexual harassment will be subject to disciplinary proceedings.

Employees with workplace concern or queries should be referred to the Administration and Human Resources Department, and all cases will be thoroughly investigated and treated in the strictest confidence basis.

Labour Standard

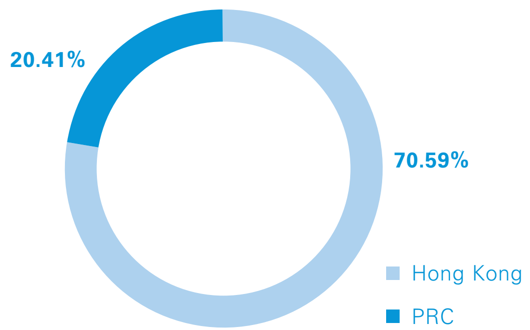
The Group does not tolerate the involvement of forced and child labour in the operation, and strictly abides with laws and regulations relating to labour employment and contracts. It clearly stipulates in the hiring process that recruits should be at least 18 years of age, and employment of child labour is prohibited. Necessary measures are taken during the hiring process, and background check will be conducted for every new employee and details will be verified concerning the identity of such candidate.

In 2017, the Company had no known material instances of non-compliance with relevant *Employment and Labour Practice Laws and Regulations* in regarding to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination, and other benefits and welfare of employment.

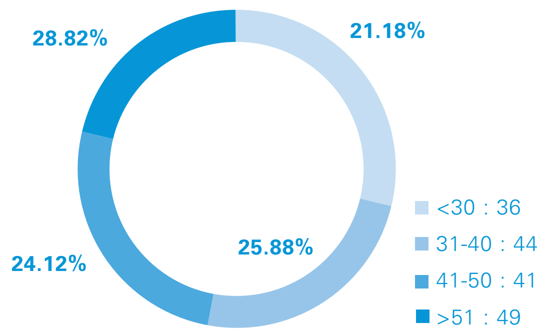
Employee and Age Distribution

In this reporting period, the total number of employees in Hong Kong and the PRC were 120 and 50 respectively, and the Employee Age Distribution is also shown as below.

Total Number of Employee (Full Time)



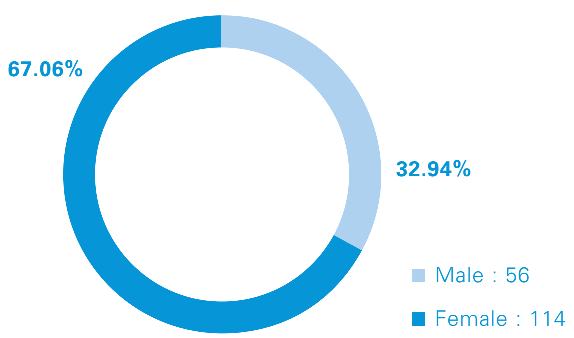
Employee Age Distribution (Full Time)



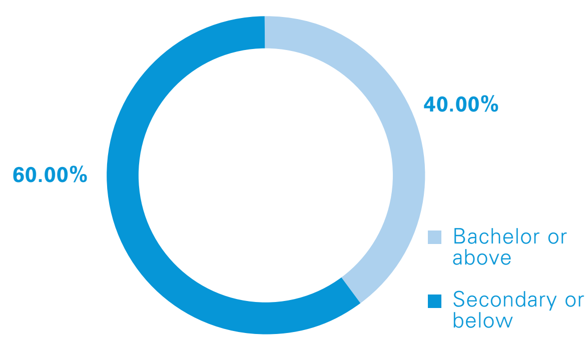
The following charts feature the profile of our employees in both Hong Kong and Guizhou.

Gender and Education Breakdown

Employee Gender Distribution (Full Time)



Employee Education Distribution (Full Time)



For 2017, the turnover rate for our operations in Hong Kong was 59.5% whilst for Guizhou it was 10%.

SUPPLIER MANAGEMENT

Hong Kong

The Group has strict policy on consumable procurement process, as quality managers are responsible for ensuring the quality of the products are up to the company's requirement. Reagents and equipment will only be purchased from reliable vendors, which are ISO accredited, reputable, reliable in provision of safety services and the costs and responses to our requests, etc. Revision and re-evaluation are conducted annually, ensuring the performance and records of our approved suppliers are up to date and maintained properly. Immediate replacement shall also be raised to our suppliers should any consumables and reagents are found to be defected or are considered substandard upon the shipment is received.

Guizhou

Our supplier selection mechanism ensures raw materials used in our products are of the highest quality, where suppliers have to meet our quality standards, such as:

- obtaining legal production licenses;
- meeting the Company's standard in maintaining the manufacturing facilities and equipment;
- maintaining a high-quality assurance on production process; and
- ensuring a high-standard on product packaging and etc.

When preliminary approval is obtained from the Quality Assurance Supervisor by the procurement department, close examination and testing are carried out by the quality control department. Further examinations will be conducted by the Production Units ensuring samples provided by the potential suppliers are up to the industrial standards.

A supplier database was established to enable an effective supplier management and monitoring process. The following Information are kept for the easy tracking purpose:

- the characteristics of the raw materials procured;
- license and quality evaluation reports are collected by the quality assurance; and
- production unit that were stored for three years after the termination of the supplier relationship.

Our Quality Assurance department performs annual evaluation on our suppliers to ensure their performance are up to standard. Case investigation will also be carried out on cases where raw materials that are substandard or with quality problems. With regards to the occurrence of constant quality issues, written feedback will be provided to relevant suppliers for improvement purpose. Furthermore, in situations deemed necessary, the quality assurance would request for capability re-evaluation to ensure the quality of our suppliers are still up to the Company's standard.

QUALITY ASSURANCE

Hong Kong

Since 2007, our medical laboratory and health check centres has obtained the *ISO 15189 qualification* and was accredited as a *HOKLAS Accredited Laboratory of Category S (Directed by Biomedical Scientist) (registration number: HOKLAS 818S)*. Further achievement has been made in 2017, and in an attempt to enhance the Group's overall quality assurance standard, our molecular laboratory was also accredited as a *HOKLAS Accredited Laboratory of Category S (Directed by Biomedical Scientist) (registration number: HOKLAS 839S)* on 10 May 2017.

The Group strives to continue the effort in assuring the quality standard of our products are at the highest, as the performance on operational items, such as Quality Management System, Organization and management are regularly checked. A comprehensive internal audit will be conducted annually for close monitoring and reporting purpose. Result shall be reviewed by the Laboratory Supervisor, and subsequently reported to the senior management regularly for possible improvement, if any.

Guizhou

Our Guizhou operation conducts regular quality assurance meeting for information share and performance revision. Relevant departments and stakeholders are required to attend such meetings, as cases of substandard materials and products, corrective actions and measures are reported for discussion purpose, and follow-up actions or recommendations will be provided for further improvement.

DATA PROTECTION

The Group have strictly complied with Personal Data (Privacy) Ordinance (Chapter 486 of the laws of Hong Kong) and all other relevant data protection principles.

At our laboratories, our **Confidentiality Policy** ensures our examinee's personal information are carefully handled and stored properly. Examinee's personal particulars are only accessible to Authorized-Employees, and it shall not be released to any third-party companies unless a consent agreement is reached or upon the request from the doctor.

Furthermore, unless an authorisation was granted by the examinee or the request of the examinee's doctor, patient's reports shall not be released to any external party, including the examinee's relatives.

ANTI-CORRUPTION

The Group is strictly complying with all law requirements and fully committed in restricting any form of illegal activities, including corruption, without exception. We requested our staff to understand, prohibit and work with us to safeguard the Group throughout their daily operation, and also prevent money laundering activities. To maintain transparency and promote integrity and accountability, we established the whistleblowing channels for reporting inappropriate conduct and other irregularities issue, which were against our relevant policies and guidelines. In order to strengthen our employee's understanding on the topic, we organised regular internal trainings, and provided real-life cases and measures to avoid non-compliance activity that may incur. We also prepared a working guideline on "Anti-Corruption Measures", and it was publicly available and fully accessible to all of our employees.

During 2017, the Group was unaware of any action that non-compliance with laws and regulations relating to corruption, bribery, extortion, fraud and money laundering.

COMMUNITY

As a socially responsible corporation, the Group understands the importance of our contribution to the local community development. One of our visions is to generate profit for our shareholders, but also care, serve and give back to our community and those that are in needs. We actively seek for opportunities to participate in local charity events and community service activities, and our initiatives can be found in the next section.

COMMUNITY INVESTMENT

The Group encourages employee's active participation in serving the local community, and we take the lead in participating and making donations to various charity organisations. In 2017, our staff participated in charity events organised by both the **Volunteer Space of Médecins Sans Frontières, The Animals of South Lantau Protection of Animals Lantau South** and **Lantau Buffalo Association.** As a result, our staff contributed 47 hours of voluntary participation time, and raised a total of approximately HK$4,000 for these organisations.

The Group also organised several seminars in relation to physical and mental health of children, NDA and enhanced liver fibrosis blood test. The Group hopes to promote the importance of health through seminars. We have provided 16 hours of seminars to the public during the reporting period.

In addition, the Group had sponsored Yan Oi Tong organised events in 2017, namely the "中秋月餅及關懷長者福袋慈善義賣2017" and "仁愛堂慈善步行日2017". Both events received great success in raising awareness for our stakeholders, and we will continue our efforts in community services, encourage employees to join volunteering activities, and dedicate resources for further contributions in the future.

DIRECTORS' REPORT

The Directors are pleased to present their report together with the audited consolidated financial statements of the Group for the year ended 31 December 2017 ("**2017 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 Suites 1904-05A, 19/F, Sino Plaza, 255-257 Gloucester Road, Causeway Bay, Hong Kong.

The principal activity of the Company is investment holding. The principal activities of its subsidiaries are set out in note 24 to the consolidated financial statements.

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:

(a) Competition

The industries that the Group operate are highly competitive. Areas of competition include production costs, price competition, 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.

The Group has been consistently monitoring its competitors, markets and industries and will adjust its business strategy to adopt changes in business environment.

(b) Financial Risk

The Group is exposed to financial risks, including credit risk, interest rate risk and liquidity risk. 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 continually monitor and implement, if necessary, relevant information technology systems and networks so as to keep up with the pace of technological progression. The Group has adequate back-up procedures and recovery strategies in place in order to reduce the level of severity of the breakdown of information technology systems.

(d) Macro-economic environment

The downturn of macro-economy has negative impact on the business environment. Health related and pharmaceutical products and services 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. The Group will closely monitor of any such changes of economic environment and adjust 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. The Group considered that staff turnover is not avoidable. The Group has adopted the successive plans of key management staff in order to tackle the potential loss of human knowledge and maintaining business continuity.

(f) Regulatory and operational compliance

The Group operates in markets and industries which require compliance with numerous regulations, including but not limited to, (i) the regulation in relation to the Food Manufacturing Practice for the production lines of the pharmaceutical products in the PRC under the China Food and Drug Administration; (ii) the Competition Ordinance (Chapter 619 of the laws of Hong Kong); (iii) Employment Ordinance (Chapter 57 of the laws of Hong Kong) in Hong Kong; (iv) Trade Descriptions Ordinance (Chapter 362 of the laws of Hong Kong) in Hong Kong; (v) Food Safety Ordinance (Chapter 612 of the laws of Hong Kong) in Hong Kong, and the applicable regulations, guidelines, policies and licence terms issued or promulgated under or in connection with these statutes. In addition, the GEM Listing Rules also apply to the Group.

The failure to be responsive to changes to such regulations may adversely affect the Group's reputation, operations and financial performance. In order to mitigating the risk of non-compliance of the aforesaid regulations, the Group seeks to ensure compliance with these requirements through various measures such as implementing internal controls and approval procedures, conducting staff trainings and obtaining legal advices.

DIRECTORS' REPORT

IMMEDIATE AND ULTIMATE HOLDING COMPANY

The Company's immediate and ultimate holding company is Genius Lead Limited ("**Genius Lead**"), a company incorporated in Samoa with limited liability and Genius Earn Limited ("**Genius Earn**"), a company incorporated in the British Virgin Islands with limited liability, respectively.

CHANGE OF COMPANY NAME

Subsequent to the passing of the special resolution in relation to the Proposed Change of Company Name by the shareholders of the Company at the SGM held on 18 October 2017, the Certificate of Incorporation on Change of Name and the Certificate of Secondary Name were issued by the Registrar of Companies in Bermuda on 3 November 2017 certifying that the change of the English name of the Company from "Rui Kang Pharmaceutical Group Investments Limited" to "China Biotech Services Holdings Limited" and the Chinese name of the Company from "銳康藥業集團投資有限公司" to "中國生物科技服務控股有限公司" (as the secondary name of the Company in Bermuda) became effective from 23 October 2017. The Certificate of Registration of Alteration of Name of Registered Non-Hong Kong Company was issued by the Registrar of Companies in Hong Kong on 21 November 2017 confirming the registration of the new company name of the Company in Hong Kong under Part 16 of the Companies Ordinance (Chapter 622 of the Laws of Hong Kong).

RESULTS AND DIVIDENDS

The results of the Group for the 2017 Year are set out in the consolidated statement of profit or loss and other comprehensive income on pages 62 to 63. The state of affairs of the Group and the Company at that date are set out in the consolidated statement of financial position on page 64 and note 34 to the consolidated financial statements of this report respectively.

The Board does not recommend the payment of a dividend for 2017 Year (year ended 31 December 2016 ("**2016 Year**"): HK$Nil).

SEGMENT INFORMATION

An analysis of the principal activities and geographical locations of operations of the Group for the 2017 Year is set out in note 10 to the consolidated financial statements.

CHARITABLE DONATIONS

During the 2017 Year, the Group made charitable donations amounting to approximately HK$Nil (2016 Year: HK$1,000).

MAJOR CUSTOMERS AND SUPPLIERS

For the 2017 Year, the percentages of turnover and purchases attributable to the Group's major customers and suppliers are set out below:

Turnover	
The largest customer	12.95%
Five largest customers in aggregate	44.11%
Purchases	
The largest supplier	47.48%
Five largest suppliers in aggregate	82.66%

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 2017 Year are set out in note 33 to the consolidated financial statements.

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) Placing of existing shares and top-up subscription of new shares under general mandate

On 12 October 2017, Mr. Liu Xiaolin ("**Mr. Liu**") entered into the two placing agreements (the "**Placing Agreements**"), pursuant to which Mr. Liu has agreed to sell 40,000,000 and 28,000,000 shares of the Company (the "**Placing Shares**") to Mr. Chen Huiyong (the "**Placing A**") and Ms. Wing Man Yi (the "**Placing B**") respectively at a price of HK$0.70 per Placing Share (the "**2017 Placing**"). On the same date, Mr. Liu entered into the top-up subscription agreement with the Company (the "**Top-up Subscription Agreement**"). Pursuant to the Top-up Subscription Agreement, the Company conditionally agreed to allot and issue, and Mr. Liu conditionally agreed to subscribe for 68,000,000 shares of the Company (the "**Top-up Subscription Shares**") (equivalent to the number of Placing Shares sold by Mr. Liu under the Placing Agreements) at a price of HK$0.70 per Top-up Subscription Share (the "**Top-up Subscription**"). The completion of the Placing B, the Placing A and the Top-up Subscription took place on 13 October 2017, 16 October 2017 and 24 October 2017 respectively. Details of the 2017 Placing and Top-up Subscription are disclosed in the announcements of the Company dated 12 October 2017, 13 October 2017, 16 October 2017 and 24 October 2017.

(b) Share option scheme

The Company adopted a 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.

During the 2017 Year, no share option was granted, exercised and cancelled.

The details of the share option scheme of the Company are set out in note 40 to the consolidated financial statements.

RESERVES

Details of the movements in the reserves of the Group and the Company during the 2017 Year are set out in the consolidated statement of changes in equity on page 65 and in note 34 to the consolidated financial statements respectively.

DISTRIBUTABLE RESERVES

For the 2017 Year, the Company's distributable reserves are set out in note 34 to the consolidated financial statements.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the 2017 Year are set out in note 20 to the consolidated financial statements.

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 46 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 pages 136 to 137 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 2017 Year; (ii) particulars of important events affecting the Group that have occurred since the end of the 2016 Year; (iii) key financial and business performance indicators; (iv) discussion on the Group's likely future business development; and (v) principal risks and uncertainties faced by the Group are set out in the section headed "MANAGEMENT DISCUSSION AND ANALYSIS" on pages 6 to 15 of this report. These discussions form part of this report of the Directors.

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 31 to 42 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. The Company and its subsidiaries operating in Hong Kong and the PRC are subject to requirements under various laws and regulations. For subsidiaries operating in Hong Kong, applicable laws and regulations include, among others, Trade Descriptions Ordinance (Cap. 362 of the laws of Hong Kong), Personal Data (Privacy) Ordinance (Cap. 486 of the laws of Hong Kong), the Competition Ordinance (Cap. 619 of the Laws of Hong Kong), Employment Ordinance (Cap. 57 of the laws of Hong Kong), and the applicable regulations, guidelines, policies and licence terms issued or promulgated under or in connection with these statutes. In addition, GEM Listing Rules apply to the Company. For subsidiaries operating in the PRC, applicable laws and regulations include, among others, Administrative Measures on Foreign Investments in Commercial Sector (外商投資商業領域管理辦法), Law on Environmental Impact Assessment of the PRC (中華人民共和國環境影響評價法), Law on Wholly Foreign Owned Enterprises of the PRC (中華人民共和國外資企業法) and Administrative Regulations on Company Registration of the PRC (中華人民共和國公司登記管理條例). During the 2017 Year and up to the date of this report, save as disclosed in this report, the Group has compiled with the relevant laws and regulations that have significant impact on the Group in Hong Kong and the PRC.

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.

Providing a work environment that is free from all forms of discrimination, the Group has devised an integrated human capital strategy to recruit, develop and motivate employees, making sure that employees are provided with competitive remuneration package, appropriate training and development opportunities and their performance goals are aligned with the Group's business objectives.

In the 2017 Year, there were no known reports of any incidence of discrimination by the employees. Management and staff at all levels are responsible to ensure all employees are working in compliance with the statutory requirements, arrange adequate resources to fulfil the safety requirements and carry out training and supervision.

Customers

The Group is committed to provide safe and high quality products and 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.

Aligned with the Group's mission in striving to improve customer's wellbeing, our medical laboratory and health check centers has obtained ISO 15189 qualification since 2007, and is accepted by the Hong Kong Accreditation Service as a HOKLAS Accredited Laboratory of Category S(Directed by Biomedical Scientist).

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.

For approved suppliers, evaluations are carried out annually regarding their performance, and records are maintained. In case of any inferior or substandard raw materials received, suppliers are informed and requests regarding replacements are raised immediately.

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 31 to 42 of this annual report.

DIRECTORS' REPORT

DIRECTORS

The Directors during the 2017 Year and up to the date of this report were:

Executive Directors

Mr. Liu Xiaolin *(Chairman)*	*Appointed on 7 August 2017*
Mr. Chan Ka Chung *(Chairman)*	*Resigned on 28 August 2017*
Mr. Leung Pak Hou Anson	
Mr. Wang Zheng	Appointed on 7 August 2017
Ms. Chen Miaoping *(Chief Executive Officer)*	*Resigned on 30 April 2017*
Mr. Cheung Wai Kwan	*Resigned on 28 August 2017*

Non-executive Directors

Mr. Huang Song	*Appointed on 15 September 2017*
Mr. Gao Yongping	*Appointed on 18 April 2017 and resigned on 9 October 2017*

Independent non-executive Directors

Mr. Yan Guoxiang	*Appointed on 7 August 2017*
Mr. Ho Fung Shan Bob	
Mr. Qian Hongji	*Appointed on 2 March 2018*
Mr. Leung Ka Fai	*Resigned on 5 December 2017*
Mr. Yuen Chun Fai	*Resigned on 28 August 2017*

The reason of each of the resignation of the relevant Directors is set out on page 19 of this report.

Pursuant to bye-law 83(2) of the bye-laws of the Company, the Directors shall have the power from time to time and at any time to appoint any person as a Director either to fill a casual vacancy on the Board or, subject to authorisation by the members in general meeting, as an addition to the existing Board. Any Director so appointed by the Board to fill a casual vacancy shall hold office only until the next following general meeting of the Company after his appointment and shall be subject to re-election at such general meeting. Mr. Qian Hongji will hold office until the first general meeting and being eligible, will offer himself for re-election at the at such general meeting.

In addition, pursuant to bye-law 84(1) of the bye-laws of the Company, at each annual general meeting ("**AGM**") 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. Mr. Leung Pak Hou Anson and Mr. Ho Fung Shan Bob will retire and, being eligible, offer themselves for re-election at the forthcoming AGM.

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 17 of this report.

DIRECTORS' SERVICE CONTRACTS

All of the Directors are subject to retirement by rotation and re-election at the AGM 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.

None of the Directors who are proposed for re-election at the forthcoming AGM has a service contract or letter of appointment (as the case may be) 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' INTERESTS IN TRANSACTIONS, ARRANGEMENTS AND CONTRACTS OF SIGNIFICANCE

No Director has or had material interest, 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 during or at the end of the 2017 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 2017 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 2017 Year.

EMOLUMENT POLICY

The emolument policy of the Directors and senior management of the Group is set by the Remuneration Committee 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, 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 are set out in note 40 to the consolidated financial statements.

Pursuant to code provision B.1.5 of the CG Code, the remuneration of the Directors and senior management of the Company for the 2017 Year by bands is as follows:

Emoluments bands	Number of individuals
HK$Nil to HK$1,000,000	10
HK$1,000,001 to HK$1,500,000	1
HK$1,500,001 to HK$3,500,000	1

Further particulars in relation to Directors' remuneration and the five individuals with highest emoluments are set out in notes 14 and 15 to the consolidated financial statements.

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

As at 31 December 2017, the interests and short positions of each of the Directors and the chief executive of the Company in the shares, underlying shares or debentures of the Company or any of its associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong (the "**SFO**")) as recorded in the register required to the 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:

(i) Long position in shares of the Company

Name of Director	Capacity and nature of interest	No. of shares held	Approximate percentage *(Note a)*
Mr. Liu	Interest of controlled corporations	529,500,546 *(Note b)*	61.83%
	Beneficial owner	93,820,000	10.96%
	Total	623,320,546	72.79%

Notes:

(a) As at 31 December 2017, the total number of the issued shares of the Company was 856,366,750 ordinary shares of HK$0.10 each of the Company.

(b) Genius Lead is the beneficial owner of these shares of the Company, and Genius Lead is wholly-owned by Genius Earn, which is in turn wholly-owned by Mr. Liu. As such, Mr. Liu is deemed to be interested in the shares of the Company held by Genius Lead under the SFO.

(ii) Long position in shares of associated corporation

Name of Director	Name of associated corporation	Nature of interest	No. of shares held in associated corporation	Approximate percentage
Mr. Liu	Genius Earn	Beneficial owner	1	100%

Save as disclosed above, as at 31 December 2017, none of the Directors nor chief executive of the Company had any interests or short positions in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which were recorded in the register required to be kept under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the required standard of dealings by Directors as referred to in Rule 5.46 of the GEM Listing Rules.

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

As at 31 December 2017, 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 shareholder	Capacity and nature of interest	No. of shares held	Approximate percentage *(Note a)*
Genius Earn *(Note b)*	Interest of a controlled corporation	529,500,546	61.83%
Genius Lead *(Note b)*	Beneficial owner	529,500,546	61.83%

Notes:

(a) As at 31 December 2017, the total number of the issued shares of the Company was 856,366,750 ordinary shares of HK$0.10 each of the Company.

(b) Genius Lead is wholly-owned by Genius Earn. As such, Genius Earn is deemed to be interested in the shares of the Company held by Genius Lead under the SFO.

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

DIRECTOR' RIGHTS TO ACQUIRE SHARES AND DEBENTURES

At no time during the 2017 Year or at the end of the 2017 Year has been/was the Company, its holding company, or any of its subsidiaries or fellow subsidiaries a party to any arrangement whose objects are, or one of whose objects is, to enable the Directors to acquire benefits by means of the acquisition of shares 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 2017 Year.

MATERIAL ACQUISITION AND DISPOSAL OF SUBSIDIARIES AND AFFILIATED COMPANIES

Except for the disposal of subsidiaries and associates as disclosed in the section headed "BUSINESS REVIEW" in "MANAGEMENT DISCUSSION AND ANALYSIS", the Group did not have any other material acquisition or disposal of subsidiaries and affiliated companies for the 2017 Year.

RELATED PARTY AND CONNECTED TRANSACTIONS

The Company had not entered into any connected transaction during the 2017 Year which is required to be disclosed under the GEM Listing Rules. Related party transactions entered into by the Group during the 2017 Year are disclosed in note 45 to the consolidated financial statements.

Other than the related party transaction disclosed in note 45 to the consolidated financial statements, no transactions, arrangements, contracts of significance in relation to the Group's business to which the Company or any of its subsidiaries was a party, and in which a Director or his connected entity had a material interest, whether directly or indirectly, were entered into or subsisted at the end of the reporting period or at any time during the 2017 Year.

CORPORATE GOVERNANCE

Principal corporate governance practices as adopted by the Company are set out in the section headed "Corporate Governance Report" set out on pages 18 to 30 of this report.

RETIREMENT BENEFIT SCHEMES

Details of the Group's retirement benefit schemes in operation for the 2017 Year are set out in note 16 to the consolidated financial statements.

CONFIRMATION OF INDEPENDENCE

Each of the independent non-executive Directors has submitted a written statement to the Stock Exchange confirming their independence. The Company has received from each of the independent non-executive Directors an annual confirmation of his independence pursuant to Rule 5.09 of the GEM Listing Rules and the Board considers that all the independent non-executive Directors to be independent and meet the requirements set out in Rule 5.09 of the GEM Listing Rules as at the date of this report.

SUFFICIENCY OF PUBLIC FLOAT

The Company did not satisfy the minimum public float requirement under Rule 11.23(7) of the GEM Listing Rules between the date of 28 August 2017 and 24 October 2017 following the close of the Mandatory General Cash Offer by Genius Lead, the controlling shareholders of the Company to acquire all the issued shares in the capital of the Company, Genius Lead and its parties acting in concert were interested in 623,320,546 issued shares of the Company, representing approximately 79.1% of the then issued share capital of the Company on 28 August 2017 after the close of the Mandatory General Cash Offer; details of which are set out in the announcement of the Company dated 28 August 2017.

The Company applied to the Stock Exchange for a temporary waiver from strict compliance with the minimum public float requirement for a period from 28 August 2017 up to and including 13 October 2017.

On 12 October 2017, Mr. Liu entered into the Placing Agreements, pursuant to which Mr. Liu has agreed to sell 40,000,000 and 28,000,000 shares of the Company (i.e. the Placing Shares) to Mr. Chen Huiyong (i.e. the Placing A) and Ms. Wing Man Yi (i.e. the Placing B) respectively at a price of HK$0.70 per Placing Share (the "2017 Placing"). On the same date, Mr. Liu entered into the Top-up Subscription Agreement with the Company. Pursuant to the Top-up Subscription Agreement, the Company conditionally agreed to allot and issue, and Mr. Liu conditionally agreed to subscribe for 68,000,000 shares the Company (i.e. the Top-up Subscription Shares) (equivalent to the number of Placing Shares sold by Mr. Liu under the Placing Agreements) at a price of HK$0.70 per Top-up Subscription Share (i.e. the Top-up Subscription). The completion of the Placing B, the Placing A and the Top-up Subscription took place on 13 October 2017, 16

October 2017 and 24 October 2017 respectively. Details of the 2017 Placing and Top-up Subscription are disclosed in the announcements of the Company dated 12 October 2017, 13 October 2017, 16 October 2017 and 24 October 2017. Upon completion of the Top-up Subscription, the public float of the Company was restored to not less than 25% of the issued share capital of the Company in compliance with Rule 11.23(7) of the GEM Listing Rules, details of which are set out in the announcement of the Company dated 16 October 2017.

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.

INDEMNITY PROVISION

Bye-law 164(1) of the Company's Bye-laws provides that the Directors or other officers of the Company shall be indemnified and secured harmless out of the assets of the Company against all actions, costs, charges, losses, damages and expenses which they or any of them shall or may incur or sustain by or by reason of any act done, concurred in or omitted in or about the execution of their duty provided that the indemnity shall not be extended to any matter in respect of any fraud or dishonesty which may be attached to the relevant Director or officer of the Company.

INDEPENDENT AUDITOR

On 31 October 2016, Cheng & Cheng Limited, who acted as auditor of the Company, resigned and HLB Hodgson Impey Cheng Limited was appointed as auditor of the Company. The details of the change of auditor are set out in the Company's announcement dated 31 October 2016.

On 3 November 2017, HLB Hodgson Impey Cheng Limited, who acted as auditor of the Company, resigned and RSM Hong Kong was appointed as auditor of the Company. The details of the change of auditor are set out in the Company's announcement dated 3 November 2017.

Save for the above, there were no other changes of auditor of the Company in the past three years.

The consolidated financial statements of the Group for the 2017 Year have been audited by RSM Hong Kong, who will retire and be eligible to offer themselves for re-appointment. A resolution will be proposed at the forthcoming annual general meeting to re-appoint RSM Hong Kong as the Company's auditor and to fix their remuneration.

On behalf of the Board

China Biotech Services Holdings Limited
Liu Xiaolin
Chairman

Hong Kong, 19 March 2018

INDEPENDENT AUDITOR'S REPORT

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TO THE SHAREHOLDERS OF CHINA BIOTECH SERVICES HOLDINGS LIMITED
(FORMERLY KNOWN AS "RUI KANG PHARMACEUTICAL GROUP INVESTMENTS LIMITED")
(Incorporated in the Cayman Islands and continued in Bermuda with limited liability)

OPINION

We have audited the consolidated financial statements of China Biotech Services Holdings Limited (formerly known as Rui Kang Pharmaceutical Group Investments Limited) (the "**Company**") and its subsidiaries (the "**Group**") set out on pages 62 to 135, which comprise the consolidated statement of financial position as at 31 December 2017, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2017, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("**HKFRSs**") issued by the Hong Kong Institute of Certified Public Accountants (the "**HKICPA**") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

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

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. The key audit matter we identified are:

Key Audit Matter	How our audit addressed the Key Audit Matter
Impairment assessment of goodwill, intangible assets and property, plant and equipment ("**PPE**") for manufacture and sale of health related and pharmaceutical products segment. Refer to Notes 20, 22 and 23 to the consolidated financial statements. At 31 December 2017, the Group has recorded an impairment loss of approximately HK$1,478,000 on goodwill and approximately HK$11,085,000 on intangible assets. The goodwill and intangible assets arose from the acquisition of Guizhou Shuang Sheng Pharmaceutical Co., Ltd. in 2014. All of the goodwill and intangible assets have been fully impaired during the year from the Chinese medicine product business within the manufacture and sale of health related and pharmaceutical product segment. The revenue and profitability of the Chinese medicine product business within manufacture and sales of health related and pharmaceutical products segment have been lower than expectations. The manufacture and sales of Chinese medicine products recorded a net loss for the current year which management considered was an indicator of potential impairment of the non-current assets attributable to this business unit.	Our procedures included: – assessing management's identification of CGUs, the amounts of goodwill, intangible assets and PPE allocated to each CGU and, with the assistance of our internal valuation specialists, the impairment assessment methodology adopted by management with reference to the requirements of the prevailing accounting standards; – evaluating the competence, capabilities and objectivity of the independent appraiser engaged by the Company to prepare discounted cash flow forecasts to help management assess the value-in-use of the relevant GCUs; – obtaining the independent valuation report from the independent appraiser engaged by management and comparing key inputs in the calculations, which include revenue growth rates, gross profit ratios and working capital assumptions, with the financial budget approved by the directors, available relevant external data and our own views based on our experience and knowledge of the industry in which the Group operates;

Key Audit Matter	How our audit addressed the Key Audit Matter
Goodwill and intangible assets with an indefinite useful life are tested for impairment annually. PPE is tested for impairment when indicators of potential impairment are identified. For goodwill, intangible assets with indefinite useful lives and PPE where indicators of impairment were identified, management assessed the recoverable amounts of the separately identifiable cash generating unit ("**CGU**") to which the relevant assets were allocated based on value-in-use calculations using discounted cash flow forecasts. An independent appraiser was engaged by management to prepare the valuation report in order for management to assess the impairment. The preparation of discounted cash flow forecasts involves the exercise of significant management's judgement, in particular in forecasting revenue growth rates and in determining long-term growth rates, inflation rates and the discount rates applied.	– utilising our internal valuation specialists to assist us in evaluating the assumptions and judgements adopted in the discounted cash flow forecasts relating to inflation, the growth rate beyond the forecast period and the discount rates applied to derive the recoverable amount of the CGUs. This evaluation included researching public information relating to inflation and independently recalculating the discount rates applied with reference to those of other comparable companies in the same industries; – comparing the key assumptions adopted in cash flow forecasts prepared in the previous year with the current year's actual performance to assess the historical accuracy of management's forecasting process and considering whether any significant variances had been incorporated in the current year's cash flow forecasts; – considering the disclosure in the consolidated financial statements in respect of management's impairment assessments.

Key Audit Matter	How our audit addressed the Key Audit Matter
Impairment assessment of goodwill, intangible assets and PPE for the provision of medical laboratory testing services and health check services segment. Refer to Notes 20, 22 and 23 to the consolidated financial statements At 31 December 2017, the Group has goodwill and intangible assets of approximately HK$264,000 and HK$44,661,000 respectively after impairment loss. The goodwill and intangible assets arose from the acquisition of DVF Holdco (Cayman) Limited and its subsidiaries in 2015. Goodwill and intangible assets with an infinite useful life are tested for impairment annually. PPE and intangible assets with finite useful life are tested for impairment when indicators of potential impairment are identified.	Our procedures included: – assessing management's identification of CGUs, the amounts of goodwill, intangible assets and PPE allocated to each CGU and, with the assistance of our internal valuation specialists, the impairment assessment methodology adopted by management with reference to the requirements of the prevailing accounting standards; – evaluating the competence, capabilities and objectivity of the independent appraiser engaged by the Company to prepare discounted cash flow forecasts to help management assess the value-in-use of the relevant GCUs; – obtaining the independent valuation report from the independent appraiser engaged by management and comparing key inputs in the calculations, which include revenue growth rates, gross profit ratios and working capital assumptions, with the financial budget approved by the directors, available relevant external data and our own views based on our experience and knowledge of the industry in which the Group operates;

Key Audit Matter	How our audit addressed the Key Audit Matter
For goodwill, intangible assets with finite useful lives and PPE where indicators of impairment were identified, management assessed the recoverable amounts of the separately identifiable CGU to which the relevant assets were allocated based on value-in-use calculations using discounted cash flow forecasts. An independent appraiser was engaged by management to prepare the valuation report in order for management to assess the impairment. The preparation of discounted cash flow forecasts involves the exercise of significant management's judgement, in particular in forecasting revenue growth rates and in determining long-term growth rates, inflation rates and the discount rates applied.	– utilising our internal valuation specialists to assist us in evaluating the assumptions and judgements adopted in the discounted cash flow forecasts relating to inflation, the growth rate beyond the forecast period and the discount rates applied to derive the recoverable amount of the CGUs. This evaluation included researching public information relating to inflation and independently recalculating the discount rates applied with reference to those of other comparable companies in the same industries; – comparing the key assumptions adopted in cash flow forecasts prepared in the previous year with the current year's actual performance to assess the historical accuracy of management's forecasting process and considering whether any significant variances had been incorporated in the current year's cash flow forecasts; – considering the disclosure in the consolidated financial statements in respect of management's impairment assessments.

OTHER INFORMATION

The directors are responsible for the other information. The other information comprises all of the information included in the Company's annual report other than the consolidated financial statements and our auditor's report thereon.

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

The Audit Committee assists the directors in discharging their responsibilities for overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

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

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

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

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

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

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

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Liu Eugene.

RSM Hong Kong
Certified Public Accountants
Hong Kong, 19 March 2018

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2017

	Notes	2017 HK$'000	2016 HK$'000
Continuing operations			
Gross proceeds	*8*	**216,850**	135,258
Revenue	*8*	**105,135**	86,565
Cost of sales		**(74,933)**	(56,522)
Gross profit		**30,202**	30,043
Net loss on financial assets at fair value through profit or loss		**(32,671)**	(25,679)
Other income, gains/(losses)	*9*	**667**	1,512
Selling and distribution expenses		**(16,807)**	(19,996)
Administrative expenses		**(54,676)**	(52,533)
Loss from operations		**(73,285)**	(66,653)
Finance costs	*11*	**(2,189)**	(2,010)
Share of profits of associates		**6,642**	8,648
Share of loss of a joint venture		**–**	(4,043)
Loss on disposal of asset held for sales		**(493)**	–
Gain on disposal of associates		**8,066**	–
Gain/(loss) on disposal of subsidiaries	*41*	**2,473**	(217)
Impairment loss on available-for-sale financial assets	*26*	**(4,049)**	(3,195)
Impairment loss on goodwill	*22*	**(1,478)**	(27,669)
Impairment loss on intangible assets	*23*	**(11,085)**	–
Loss before tax		**(75,398)**	(95,139)
Income tax expense	*12*	**(1,132)**	(479)
Loss for the year from continuing operations	*13*	**(76,530)**	(95,618)
Discontinued operation			
Profit for the year from discontinued operation	*17*	**–**	35,526
Loss for the year		**(76,530)**	(60,092)
Loss for the year attributable to:			
Owners of the Company		**(63,022)**	(50,151)
Non-controlling interests		**(13,508)**	(9,941)
		(76,530)	(60,092)

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2017

	Notes	2017 HK$'000	2016 HK$'000
Loss for the year		**(76,530)**	(60,092)
Other comprehensive income after tax:			
Items that may be reclassified to profit or loss:			
Exchange differences on translating foreign operations		**1,215**	(3,000)
Release of exchange differences upon disposal of assets held for sales		**1,716**	–
Release of exchange differences upon disposal of investments in associates		**(184)**	–
Release of exchange differences upon disposal of investments in subsidiaries	*41*	**1,728**	–
Release of exchange differences upon disposal of discontinued operation	*17*	**–**	(24,802)
Share of exchange differences of investments in associates		**596**	(175)
Share of exchange differences of an investment in a joint venture		**–**	(688)
Other comprehensive income for the year, net of tax		**5,071**	(28,665)
Total comprehensive income for the year		**(71,459)**	(88,757)
Total comprehensive income for the year attributable to:			
Owners of the Company		**(58,386)**	(77,791)
Non-controlling interests		**(13,073)**	(10,966)
		(71,459)	(88,757)
Loss per share	*19*		
From continuing and discontinued operations			
Basic and diluted (cents)		**7.9**	7.1
From continuing operations			
Basic and diluted (cents)		**7.9**	12.1

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2017

	Notes	2017 HK$'000	2016 HK$'000
ASSETS			
Non-current assets			
Property, plant and equipment	20	**41,428**	41,421
Prepaid land lease payments	21	**8,175**	7,842
Goodwill	22	**264**	1,742
Intangible assets	23	**44,661**	56,610
Investments in associates	25	**5,285**	48,743
Available-for-sale financial assets	26	**21,612**	20,621
		121,425	176,979
Current assets			
Prepaid land lease payments	21	**241**	224
Inventories	27	**6,579**	7,395
Trade and other receivables	28	**83,945**	40,097
Loan and interest receivable	29	**15,017**	–
Held for trading securities	30	**2,966**	53,844
Income tax recoverable		**46**	945
Bank and cash balances	31	**73,181**	34,695
		181,975	137,200
Assets classified as held for sale	32	**–**	8,777
Total current assets		**181,975**	145,977
TOTAL ASSETS		**303,400**	322,956
EQUITY AND LIABILITIES			
Share capital	33	**85,637**	78,837
Other reserves	35	**169,037**	186,673
Equity attributable to owners of the Company		**254,674**	265,510
Non-controlling interests		**(3,366)**	9,707
TOTAL EQUITY		**251,308**	275,217
LIABILITIES			
Non-current liabilities			
Loan from a non-controlling shareholder of a subsidiary	36	**4,759**	3,120
Deferred tax liabilities	37	**1,598**	1,786
		6,357	4,906
Current liabilities			
Trade and other payables	38	**18,444**	23,979
Bank and other borrowings	39	**26,784**	18,854
Current tax liabilities		**507**	–
Total current liabilities		**45,735**	42,833
TOTAL EQUITY AND LIABILITIES		**303,400**	322,956

Approved by the Board of Directors on 19 March 2018 and are signed on its behalf by:

Liu Xiaolin
Director

Leung Pak Hou Anson
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2017

	Attributable to owners of the Company											
	Share capital	**Share premium**	**Share based payment reserve**	**Special reserve**	**Other reserve**	**Statutory surplus reserve fund**	**Statutory enterprise expansion fund**	**Foreign currency translation reserve**	**Accumulated losses**	**Sub-total**	**Non-controlling interests**	**Total equity**
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
			(note 35b(i))	*(note 35b(ii))*	*(Note 35b(iii))*	*(Note 35b(iv))*	*(Note 35b(v))*	*(Note 35b(vi))*				
At 1 January 2016	65,699	270,972	3,385	235,391	3,154	15,479	3,098	21,691	(297,811)	321,058	21,680	342,738
Total comprehensive income for the year	–	–	–	–	–	–	–	(27,640)	(50,151)	(77,791)	(10,966)	(88,757)
Change in ownership interests in subsidiaries without loss of control	–	–	–	–	1,009	–	–	–	–	1,009	(1,007)	2
Issue of shares on placement	13,138	9,065	–	–	–	–	–	–	–	22,203	–	22,203
Less: Shares issue expenses	–	(969)	–	–	–	–	–	–	–	(969)	–	(969)
Disposal of discontinued operation	–	–	–	(22,443)	–	(15,479)	(3,098)	–	41,020	–	–	–
Transfer of share based payment reserve upon lapse of share options *(note 40)*	–	–	(3,385)	–	–	–	–	–	3,385	–	–	–
Changes in equity for the year	13,138	8,096	(3,385)	(22,443)	1,009	(15,479)	(3,098)	(27,640)	(5,746)	(55,548)	(11,973)	(67,521)
At 31 December 2016	78,837	279,068	–	212,948	4,163	–	–	(5,949)	(303,557)	265,510	9,707	275,217
At 1 January 2017	**78,837**	**279,068**	**–**	**212,948**	**4,163**	**–**	**–**	**(5,949)**	**(303,557)**	**265,510**	**9,707**	**275,217**
Total comprehensive income for the year	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**1,376**	**(63,022)**	**(61,646)**	**(13,073)**	**(74,719)**
Release of exchange difference upon disposal of assets held for sales	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**1,716**	**–**	**1,716**	**–**	**1,716**
Release of exchange difference upon disposal of associates	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(184)**	**–**	**(184)**	**–**	**(184)**
Release of exchange differences upon disposal of investments in subsidiaries	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**1,728**	**–**	**1,728**	**–**	**1,728**
Top-up share subscription *(note 33)*	**6,800**	**40,800**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**47,600**	**–**	**47,600**
Less: Share issue expenses *(note 33)*	**–**	**(50)**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(50)**	**–**	**(50)**
Changes in equity for the year	**6,800**	**40,750**	**–**	**–**	**–**	**–**	**–**	**4,636**	**(63,022)**	**(10,836)**	**(13,073)**	**(23,909)**
At 31 December 2017	**85,637**	**319,818**	**–**	**212,948**	**4,163**	**–**	**–**	**(1,313)**	**(366,579)**	**254,674**	**(3,366)**	**251,308**

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2017

	Notes	2017 HK$'000	2016 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
(Loss)/profit before tax			
Continuing operations		**(75,398)**	(95,139)
Discontinued operation		**–**	35,577
		(75,398)	(59,562)
Adjustments for:			
Interest income	*9*	**(144)**	(326)
Finance costs	*11*	**2,189**	2,583
Share of profits of associates		**(6,642)**	(8,648)
Share of loss of a joint venture		**–**	4,043
Dividends income from equity investments	*9*	**–**	(4,596)
(Gain)/loss on disposal of subsidiaries	*41*	**(2,473)**	217
Gain on disposal of associates		**(8,066)**	–
Gain on disposal of discontinued operation	*17*	**–**	(34,230)
Loss on disposal of asset held for sales		**493**	–
Depreciation of property, plant and equipment	*20*	**5,814**	5,932
Amortisation of intangible assets	*23*	**1,225**	1,225
Amortisation of prepaid land lease payments	*21*	**232**	258
(Gain)/loss on disposals of property, plant and equipment		**(74)**	35
Fair value losses on financial assets at fair value through profit or loss		**32,671**	25,679
Write-down for inventories		**1,191**	189
Allowance for doubtful debts	*28*	**2,732**	5,106
Impairment loss on goodwill	*22*	**1,478**	27,669
Impairment loss on available-for-sale financial assets	*26*	**4,049**	3,195
Impairment loss on intangible assets	*23*	**11,085**	–
Written off on property, plant and equipment	*20*	**–**	6,134
Operating cash flows before working capital changes		**(29,638)**	(25,097)
(Increase)/decrease in inventories		**(375)**	8,600
(Increase)/decrease in trade and other receivables		**(29,560)**	25,236
(Increase)/decrease in loan receivables		**(15,017)**	6,025
Net fund generated from/(used in) held for trading securities		**18,207**	(34,025)
Decrease in trade and other payables		**(654)**	(4,827)
Cash used in operations		**(57,037)**	(24,088)
Income taxes refund/(paid)		**86**	(1,304)
Net cash used in operating activities		**(56,951)**	(25,392)

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2017

	Notes	2017 HK$'000	2016 HK$'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of investments in associates		–	(27,951)
Acquisition of assets through acquisition of a subsidiary		–	(15,206)
Proceeds from disposal of asset held for sales		10,000	–
Proceeds from disposal of associates		41,000	–
Proceeds from disposal of subsidiaries	41	204	–
Proceeds from disposal of discontinued operation	17	–	10,488
Interest received		34	106
Dividends received		–	4,596
Purchases of property, plant and equipment		(5,070)	(8,207)
Proceeds from disposal of property, plant and equipment		74	85
Purchase of available-for-sale financial assets		(5,040)	(20,216)
Net cash generated from/(used in) investing activities		41,202	(56,305)
CASH FLOWS FROM FINANCING ACTIVITIES			
Repayment of borrowings		(3,120)	(42,352)
Borrowings raised		8,083	59,386
Loan from a non-controlling shareholder of a subsidiary		1,650	3,298
Proceeds from allotments of shares of subsidiaries		–	2
Interest paid		(2,090)	(2,541)
Proceeds from issue of shares		47,550	21,234
Net cash generated from financing activities		52,073	39,027
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		36,324	(42,670)
Effect of foreign exchange rate changes		2,162	(872)
CASH AND CASH EQUIVALENTS AT 1 JANUARY		34,695	78,237
CASH AND CASH EQUIVALENTS AT 31 DECEMBER		73,181	34,695
ANALYSIS OF CASH AND CASH EQUIVALENTS			
Bank and cash balances		73,181	34,695

1. GENERAL INFORMATION

China Biotech Services Holdings Limited (formerly known as "Rui Kang Pharmaceutical Group Investments Limited") (the "**Company**", together with its subsidiaries, the "**Group**") was incorporated 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. 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 address of its registered office is Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda. The address of its principal place of business in Hong Kong is Suites 1904-05A, 19/F, Sino Plaza, 255-257 Gloucester Road, Causeway Bay, Hong Kong. The Company's shares are listed on GEM of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**").

The Company is an investment holding company. The principal activities of its subsidiaries are set out in note 24 to the consolidated financial statements.

In the opinion of the directors of the Company, Genius Lead Limited, a company incorporated in Samoa with limited liability, is the immediate holding company, Genius Earn Limited, a company incorporated in the British Virgin Islands with limited liability, is the ultimate holding company and Mr. Liu Xiaolin ("**Mr. Liu**") is the ultimate controlling party of the Company.

2. BASIS OF PREPARATION

These consolidated financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("**HKFRSs**") issued by the Hong Kong Institute of Certified Public Accountants (the "**HKICPA**"). HKFRSs comprise Hong Kong Financial Reporting Standards ("**HKFRS**"); Hong Kong Accounting Standards ("**HKAS**"); and Interpretations. 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 and with the disclosure requirements of the Hong Kong Companies Ordinance (Cap. 622). Significant accounting policies adopted by the Group are disclosed below.

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Group. Note 3 provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these consolidated financial statements.

3. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

(a) Application of new and revised HKFRSs

The HKICPA has issued a number of new and revised HKFRSs that are first effective for annual periods beginning on or after 1 January 2017. None of these impact on the accounting policies of the Group. However, the Amendments to HKAS 7 Statement of Cash Flows: Disclosure Initiative require disclosure of changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. The effect of the amendments on the Group's consolidated financial statements has been the inclusion of additional disclosures in note 41.

(b) New and revised HKFRSs in issue but not yet effective

The Group has not early applied new and revised HKFRSs that have been issued but are not yet effective for the financial year beginning 1 January 2017. These new and revised HKFRSs include the following which may be relevant to the Group.

	Effective for accounting periods beginning on or after
HKFRS 9 Financial Instruments	1 January 2018
HKFRS 15 Revenue from Contracts with Customers	1 January 2018
HKFRS 16 Leases	1 January 2019
HK(IFRIC) 23 Uncertainty over Income Tax Treatments.	1 January 2019

The Group is in the process of making an assessment of what the impact of these amendments and new standards is expected to be in the period of initial application. So far the Group has identified some aspects of the new standards which may have a significant impact on the consolidated financial statements. Further details of the expected impacts are discussed below. While the assessment has been substantially completed for HKFRS 9 and HKFRS 15, the actual impacts upon the initial adoption of the standards may differ as the assessment completed to date is based on the information currently available to the Group, and further impacts may be identified before the standards are initially applied in the Group's interim financial report for the six months ended 30 June 2018. The Group may also change its accounting policy elections, including the transition options, until the standards are initially applied in that interim financial report.

3. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS – *Continued*

(b) New and revised HKFRSs in issue but not yet effective – *Continued*

HKFRS 9 Financial Instruments

HKFRS 9 will replace HKAS 39 Financial Instruments: Recognition and Measurement. HKFRS 9 introduces new requirements for classification and measurement of financial assets, new rules for hedge accounting and a new impairment model for financial assets.

HKFRS 9 is effective for annual periods beginning on or after 1 January 2018 on a retrospective basis. The Group plans to adopt the new standard on the required effective date and will not restate comparative information.

Based on an analysis of the Group's financial assets and financial liabilities as at 31 December 2017 on the basis of the facts and circumstances that exist at that date, the directors of the Company have assessed the impact of HKFRS 9 to the Group's consolidated financial statements as follows:

(a) Classification and measurement

The Group expects to irrevocably designate those listed and unlisted equity securities currently classified as available-for-sale as at fair value through other comprehensive income.

Fair value gains and losses on these instruments will no longer be recycled to profit or loss on disposal. Impairment losses on debt securities will be measured applying the general impairment model in HKFRS 9 as described in (b) below and recognsied in profit or loss. Impairment losses on equity securities will no longer be recognised in profit or loss but rather in other comprehensive income. In addition, the Group currently measures certain unlisted equity securities at cost less impairment. Under HKFRS 9 these instruments will be measured at fair value.

(b) Impairment

HKFRS 9 requires the Group to recognise and measure either a 12-month expected credit loss or lifetime expected credit loss, depending on the asset and the facts and circumstances. The Group expects that the application of the expected credit loss model will result in earlier recognition of credit losses. Based on a preliminary assessment, if the Group were to adopt the new impairment requirements at 31 December 2017, accumulated impairment loss at that date would not be significantly impacted.

HKFRS 15 Revenue from Contracts with Customers

HKFRS 15 establishes a comprehensive framework for recognising revenue from contracts with customers. HKFRS 15 will replace the existing revenue standards, HKAS 18, Revenue, which covers revenue arising from sale of goods and rendering of services, and HKAS 11, Construction contracts, which specifies the accounting for revenue from construction contracts.

HKFRS 15 is effective for annual periods beginning on or after 1 January 2018. The standard permits either a full retrospective or a modified retrospective approach for the adoption. The Group intends to adopt the standard using the modified retrospective approach which means that the cumulative impact of the adoption will be recognised in retained earnings as of 1 January 2018 and that comparatives will not be restated.

3. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS – *Continued*

(b) New and revised HKFRSs in issue but not yet effective – *Continued*

HKFRS 15 Revenue from Contracts with Customers– Continued

Based on the assessment completed to date, the Group has identified the following areas which are expected to be affected:

(a) Timing of revenue recognition

Currently, revenue arising from the sales of health related and pharmaceutical products and the medical laboratory testing services and health check services are generally recognised when the risks and rewards of ownership have passed to the customers.

Under HKFRS 15, revenue is recognised when the customer obtains control of the promised good or service in the contract. HKFRS 15 identifies 3 situations in which control of the promised good or service is regarded as being transferred over time:

a) When the customer simultaneously receives and consumes the benefits provided by the entity's performance, as the entity performs;

b) When the entity's performance creates or enhances an asset (for example work in progress) that the customer controls as the asset is created or enhanced;

c) When the entity's performance does not create an asset with an alternative use to the entity and the entity has an enforceable right to payment for performance completed to date.

If the contract terms and the entity's activities do not fall into any of these 3 situations, then under HKFRS 15 the entity recognises revenue for the sale of that good or service at a single point in time, being when control has passed. Transfer of risks and rewards of ownership is only one of the indicators that will be considered in determining when the transfer of control occurs.

For contracts with customers in which the sale of sales manufactured goods and trading of raw materials is generally expected to be the only performance obligation, adoption of HKFRS 15 is not expected to have any impact on the Group's revenue or profit or loss. The Group expects the revenue recognition to occur at a point in time when control of the asset is transferred to the customer, generally on delivery of the goods.

3. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS – *Continued*

(b) New and revised HKFRSs in issue but not yet effective – *Continued*

HKFRS 16 Leases

HKFRS 16 replaces HKAS 17 Leases and related interpretations. The new standard introduces a single accounting model for lessees. For lessees the distinction between operating and finance leases is removed and lessees will recognise right-of-use assets and lease liabilities for all leases (with optional exemptions for short-term leases and leases of low value assets). HKFRS 16 carries forward the accounting requirements for lessors in HKAS 17 substantially unchanged. Lessors will therefore continue to classify leases as operating or financing leases.

HKFRS 16 is effective for annual periods beginning on or after 1 January 2019. The Group intends to apply the simplified transition approach and will not restate comparative amounts for the year prior to first adoption.

Based on a preliminary assessment, the standard will affect primarily the accounting for the Group's operating leases. The Group's office property leases are currently classified as operating leases and the lease payments (net of any incentives received from the lessor) are recognised as an expense on a straight-line basis over the lease term. Under HKFRS 16 the Group may need to recognise and measure a liability at the present value of the future minimum lease payments and recognise a corresponding right-of-use asset for these leases. The interest expense on the lease liability and depreciation on the right-of-use asset will be recognised in profit or loss. The Group's assets and liabilities will increase and the timing of expense recognition will also be impacted as a result.

As disclosed in note 44, the Group's future minimum lease payments under non-cancellable operating leases for its office properties amounted to approximately HK$14,766,000 as at 31 December 2017. These leases are expected to be recognised as lease liabilities, with corresponding right-of-use assets, once HKFRS 16 is adopted. The amounts will be adjusted for the effects of discounting and the transition reliefs available to the Group.

HK(IFRIC) 23 Uncertainty over Income Tax Treatments

The interpretation of HKAS 12 Income Taxes sets out how to apply that standard when there is uncertainty about income tax treatments. Entities are required to determine whether uncertain tax treatments should be assessed separately or as a group depending on which approach will better predict the resolution of the uncertainties. Entities will have to assess whether it is probable that a tax authority will accept an uncertain tax treatment. If yes, the accounting treatment will be consistent with the entity's income tax filings. If not, however, entities are required to account for the effects of the uncertainty using either the most likely outcome or expected value method depending on which method is expected to better predict its resolution.

The Group is unable to estimate the impact of the interpretation on the consolidated financial statements until a more detailed assessment has been completed.

4. SIGNIFICANT ACCOUNTING POLICIES

These consolidated financial statements have been prepared under the historical cost convention, unless mentioned otherwise in the accounting policies below (e.g. certain financial instruments that are measured at fair value).

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in note 5.

The significant accounting policies applied in the preparation of these consolidated financial statements are set out below.

(a) Consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries made up to 31 December 2017. Subsidiaries are entities over which the Group has control. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The Group has power over an entity when the Group has existing rights that give it the current ability to direct the relevant activities, i.e. activities that significantly affect the entity's returns.

When assessing control, the Group considers its potential voting rights as well as potential voting rights held by other parties. A potential voting right is considered only if the holder has the practical ability to exercise that right.

Subsidiaries are consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date the control ceases.

The gain or loss on the disposal of a subsidiary that results in a loss of control represents the difference between (i) the fair value of the consideration of the sale plus the fair value of any investment retained in that subsidiary and (ii) the Company's share of the net assets of that subsidiary plus any remaining goodwill and any accumulated foreign currency translation reserve relating to that subsidiary.

Intragroup transactions, balances and unrealised profits are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Non-controlling interests represent the equity in subsidiaries not attributable, directly or indirectly, to the Company. Non-controlling interests are presented in the consolidated statement of financial position and consolidated statement of changes in equity within equity. Non-controlling interests are presented in the consolidated statement of profit or loss and consolidated statement of profit or loss and other comprehensive income as an allocation of profit or loss and total comprehensive income for the year between the non-controlling shareholders and owners of the Company.

4. SIGNIFICANT ACCOUNTING POLICIES – *Continued*

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

Changes in the Company's ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions (i.e. transactions with owners in their capacity as owners). The carrying amounts of the controlling and non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiary. 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 the owners of the Company.

In the Company's statement of financial position, an investment in a subsidiary is stated at cost less impairment loss, unless the investment is classified as held for sale (or included in a disposal group that is classified as held for sale).

(b) Business combination and goodwill

The acquisition method is used to account for the acquisition of a subsidiary in a business combination. The consideration transferred in a business combination is measured at the acquisition-date fair value of the assets given, equity instruments issued, liabilities incurred and any contingent consideration. Acquisition-related costs are recognised as expenses in the periods in which the costs are incurred and the services are received. Identifiable assets and liabilities of the subsidiary in the acquisition are measured at their acquisition-date fair values.

The excess of the sum of the consideration transferred over the Group's share of the net fair value of the subsidiary's identifiable assets and liabilities is recorded as goodwill. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the sum of the consideration transferred is recognised in consolidated profit or loss as a gain on bargain purchase which is attributed to the Group.

In a business combination achieved in stages, the previously held equity interest in the subsidiary is remeasured at its acquisition-date fair value and the resulting gain or loss is recognised in consolidated profit or loss. The fair value is added to the sum of the consideration transferred in a business combination to calculate the goodwill.

The non-controlling interests in the subsidiary are initially measured at the non-controlling shareholders' proportionate share of the net fair value of the subsidiary's identifiable assets and liabilities at the acquisition date.

After initial recognition, goodwill is measured at cost less accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the cash-generating units ("**CGUs**") or groups of CGUs that is expected to benefit from the synergies of the combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the Group at which the goodwill is monitored for internal management purposes. Goodwill impairment reviews are undertaken annually, or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of the CGU containing the goodwill is compared to its recoverable amount, which is the higher of value in use and the fair value less costs of disposal. Any impairment is recognised immediately as an expense and is not subsequently reversed.

4. SIGNIFICANT ACCOUNTING POLICIES – *Continued*

(c) Associates

Associates are entities over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of an entity but is not control or joint control over those policies. The existence and effect of potential voting rights that are currently exercisable or convertible, including potential voting rights held by other entities, are considered when assessing whether the Group has significant influence. In assessing whether a potential voting right contributes to significant influence, the holder's intention and financial ability to exercise or convert that right is not considered.

Investment in an associate is accounted for in the consolidated financial statements by the equity method and is initially recognised at cost. Identifiable assets and liabilities of the associate in an acquisition are measured at their fair values at the acquisition date. The excess of the cost of the investment over the Group's share of the net fair value of the associate's identifiable assets and liabilities is recorded as goodwill. The goodwill is included in the carrying amount of the investment and is tested for impairment together with the investment at the end of each reporting period when there is objective evidence that the investment is impaired. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of acquisition is recognised in consolidated profit or loss.

The Group's share of an associate's post-acquisition profits or losses and other comprehensive income is recognised in consolidated statement of profit or loss and other comprehensive income. When the Group's share of losses in an associate equals or exceeds its interest in the associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate. If the associate subsequently reports profits, the Group resumes recognising its share of those profits only after its share of the profits equals the share of losses not recognised.

The gain or loss on the disposal of an associate that results in a loss of significant influence represents the difference between (i) the fair value of the consideration of the sale plus the fair value of any investment retained in that associate and (ii) the Group's entire carrying amount of that associate (including goodwill) and any related accumulated foreign currency translation reserve. If an investment in an associate becomes an investment in a joint venture, the Group continues to apply the equity method and does not remeasure the retained interest.

Unrealised profits on transactions between the Group and its associates are eliminated to the extent of the Group's interests in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

4. SIGNIFICANT ACCOUNTING POLICIES – *Continued*

(d) Joint arrangements

A joint arrangement is an arrangement of which two or more parties have joint control. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control. Relevant activities are activities that significantly affect the returns of the arrangement. When assessing joint control, the Group considers its potential voting rights as well as potential voting rights held by other parties. A potential voting right is considered only if the holder has the practical ability to exercise that right.

A joint arrangement is either a joint operation or a joint venture. A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement. 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 arrangement. The Group has assessed the type of each of its joint arrangements and determined them to all be joint ventures.

Investment in a joint venture is accounted for in the consolidated financial statements by the equity method and is initially recognised at cost. Identifiable assets and liabilities of the joint venture in an acquisition are measured at their fair values at the acquisition date. The excess of the cost of the investment over the Group's share of the net fair value of the joint venture's identifiable assets and liabilities is recorded as goodwill. The goodwill is included in the carrying amount of the investment and is tested for impairment together with the investment at the end of each reporting period when there is objective evidence that the investment is impaired. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of acquisition is recognised in consolidated profit or loss.

The Group's share of a joint venture's post-acquisition profits or losses and other comprehensive income is recognised in consolidated statement of profit or loss and other comprehensive income. When the Group's share of losses in a joint venture equals or exceeds its interest in the joint venture (which includes any long-term interests that, in substance, form part of the Group's net investment in the joint venture), the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the joint venture. If the joint venture subsequently reports profits, the Group resumes recognising its share of those profits only after its share of the profits equals the share of losses not recognised.

The gain or loss on the disposal of a joint venture that results in a loss of joint control represents the difference between (i) the fair value of the consideration of the sale plus the fair value of any investment retained in that joint venture and (ii) the Group's entire carrying amount of that joint venture (including goodwill) and any related accumulated foreign currency translation reserve. If an investment in a joint venture becomes an investment in an associate, the Group continues to apply the equity method and does not remeasure the retained interest.

Unrealised profits on transactions between the Group and its joint ventures are eliminated to the extent of the Group's interests in the joint ventures. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of joint ventures have been changed where necessary to ensure consistency with the policies adopted by the Group.

4. SIGNIFICANT ACCOUNTING POLICIES – *Continued*

(e) Foreign currency translation

(i) Functional and presentation currency

Items included in the consolidated financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in Hong Kong dollars ("**HK$**"), which is the Company's presentation and functional currency. Other than those subsidiaries established in the People's Republic of China ("**PRC**") whose functional currency of the principal operating subsidiaries of the Group is Renminbi ("**RMB**"), the functional currency of other subsidiaries is HK$. The directors consider that choosing HK$ as the presentation currency best suits the needs of the shareholders and investors.

(ii) Transactions and balances in each entity's financial statements

Transactions in foreign currencies are translated into the functional currency on initial recognition using the exchange rates prevailing on the transaction dates. Monetary assets and liabilities in foreign currencies are translated at the exchange rates at the end of each reporting period. Gains and losses resulting from this translation policy are recognised in profit or loss.

Non-monetary items that are measured at fair value in foreign currencies are translated using the exchange rates at the dates when the fair values are determined.

When a gain or loss on a non-monetary item is recognised in other comprehensive income, any exchange component of that gain or loss is recognised in other comprehensive income. When a gain or loss on a non-monetary item is recognised in profit or loss, any exchange component of that gain or loss is recognised in profit or loss.

Translation on consolidation

The results and financial position of all the Group entities that have a functional currency different from the Company's presentation currency are translated into the Company's presentation currency as follows:

– Assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;

– Income and expenses are translated at average exchange rates for the period (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the exchange rates on the transaction dates); and

– All resulting exchange differences are recognised in other comprehensive income and accumulated in the foreign currency translation reserve.

On consolidation, exchange differences arising from the translation of monetary items that form part of the net investment in foreign entities are recognised in other comprehensive income and accumulated in the foreign currency translation reserve. When a foreign operation is sold, such exchange differences are reclassified to consolidated profit or loss as part of the gain or loss on disposal.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

4. SIGNIFICANT ACCOUNTING POLICIES – *Continued*

(f) Property, plant and equipment

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

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are recognised in profit or loss during the period in which they are incurred.

Depreciation of property, plant and equipment is calculated at rates sufficient to write off their cost less their residual values over the estimated useful lives on a straight-line basis. The principal annual rates are as follows:

Leasehold Improvements	Over the shorter of the lease term or 5 years
Land and buildings	Over the shorter of the term of lease, or 20 years
Motor vehicles	3-10 years
Furniture, fixtures and office equipments	1-10 years
Plant and machinery	3-20 years

The residual values, useful lives and depreciation method are reviewed and adjusted, if appropriate, at the end of each reporting period.

Construction in progress represents buildings under construction and plant and equipment pending installation, and is stated at cost less impairment losses. Depreciation begins when the relevant assets are available for use.

The gain or loss on disposal of property, plant and equipment is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in profit or loss.

(g) Leases

The Group as lessee

(i) Operating leases

Leases that do not substantially transfer to the Group all the risks and rewards of ownership of assets are accounted for as operating leases. Lease payments (net of any incentives received from the lessor) are recognised as an expense on a straight-line basis over the lease term.

Prepaid land lease payments are stated at cost and subsequently amortised on the straight-line basis over the remaining term of the lease.

4. SIGNIFICANT ACCOUNTING POLICIES – *Continued*

(h) Intangible assets

(i) Internally-generated intangible assets – research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred. An internally generated intangible asset arising from the Group's development activities is recognised only if all of the following conditions are met:

- The technical feasibility of completing the intangible asset so that it will be available for use or sale;
- Management intends to complete the intangible asset and use or sell it;
- There is ability to use or sell the intangible asset;
- It can be demonstrated how the intangible asset will generate probable future economic benefits;
- Adequate technical, financial and other resources to complete the development and to use or sell the intangible asset are available;
- The expenditure attributable to the intangible asset during its development can be reliably measured.

Internally generated intangible assets are stated at cost less accumulated amortisation and impairment losses. Amortisation is calculated on a straight-line basis over their estimated useful lives. 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.

(ii) Intangible assets acquired in a business combination – Pharmaceutical licenses, brand name and customer relationship

Pharmaceutical licenses 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.

(i) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average basis. The cost of finished goods and work in progress comprises raw materials, direct labour and an appropriate proportion of all production overhead expenditure, and where appropriate, subcontracting charges. 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.

4. SIGNIFICANT ACCOUNTING POLICIES – *Continued*

(j) Recognition and derecognition of financial instruments

Financial assets and financial liabilities are recognised in the consolidated statement of financial position when the Group becomes a party to the contractual provisions of the instruments.

Financial assets are derecognised when the contractual rights to receive cash flows from the assets expire; the Group transfers substantially all the risks and rewards of ownership of the assets; or the Group neither transfers nor retains substantially all the risks and rewards of ownership of the assets but has not retained control on the assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and the cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid is recognised in profit or loss.

(k) Financial assets

Financial assets are recognised and derecognised on a trade date basis where the purchase or sale of an financial asset is under a contract whose terms require delivery of the financial assets within the timeframe established by the market concerned, and are initially measured at fair value, plus directly attributable transaction costs except in the case of held for trading securities.

The Group classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables, held-to-maturity and available-for-sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

(i) Held for trading securities

Held for trading securities are either financial assets classified as held for trading or designated as at fair value through profit or loss upon initial recognition. These financial assets are subsequently measured at fair value. Gains or losses arising from changes in fair value of these financial assets are recognised in profit or loss.

(ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. These assets are carried at amortised cost using the effective interest method (except for short-term receivables where interest is immaterial) minus any reduction for impairment or uncollectibility. Typically trade and other receivables, bank balances and cash are classified in this category.

4. SIGNIFICANT ACCOUNTING POLICIES – *Continued*

(k) Financial assets – *Continued*

(iii) Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are not classified as loans and receivables, held-to-maturity investments or held for trading securities. Available-for-sale financial assets are subsequently measured at fair value. Gains or losses arising from changes in fair value of these investments are recognised in other comprehensive income and accumulated in the investment revaluation reserve, until the investments are disposed of or there is objective evidence that the investments are impaired, at which time the cumulative gains or losses previously recognised in other comprehensive income are reclassified from equity to profit or loss. Interest calculated using the effective interest method and dividends on available-for-sale equity investments are recognised in profit or loss.

Investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments, are measured at cost less impairment losses.

(l) Trade, loan, interest and other receivables

Trade receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business. If collection of trade and other receivables is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Loan receivables are loans granted to customers in the ordinary course of business. If collection of loan receivables is expected in one year or less, they are classified as current assets. If not, they are presented as non-current assets.

Interest receivables are interests derived from loans granted to customers in the ordinary course of business. If collection of interest and other receivables is expected in one year or less, they are classified as current assets. If not, they are presented as non-current assets.

Trade, loan, interest and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less allowance for impairment.

(m) Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents represent cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term highly liquid investments which are readily convertible into known amounts of cash and subject to an insignificant risk of change in value. Bank overdrafts which are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents.

4. SIGNIFICANT ACCOUNTING POLICIES – *Continued*

(n) Non-current assets held for sale and discontinued operation

Non-current assets or disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset or disposal group is available for immediate sale in its present condition. The Group must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Non-current assets or disposal groups classified as held for sale are measured at the lower of the asset's or disposal group's previous carrying amount and fair value less costs to sell.

A discontinued operation is a component of the Group (i.e. the operations and cash flows of which can be clearly distinguished from the rest of the Group) that either has been disposed of, or is classified as held for sale, and which represents a separate major line of business or geographical area of operations, or is part of a single co-ordinated 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 component meets the criteria to be classified as held for sale in accordance with HKFRS 5, if earlier. It also occurs when the component is abandoned.

When an operation is classified as discontinued, a single amount is presented in the statement of profit or loss, 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 constituting the discontinued operation.

(o) Financial liabilities and equity instruments

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument under HKFRSs. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. The accounting policies adopted for specific financial liabilities and equity instruments are set out below.

(p) Bank and other borrowings

Bank and other borrowings, and loan from a non-controlling shareholder of a subsidiary are recognised initially at fair value, net of transaction costs incurred, and subsequently measured at amortised cost using the effective interest method.

Bank and other borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

4. SIGNIFICANT ACCOUNTING POLICIES – *Continued*

(q) Trade and other payables

Trade and other payables are recognised initially at their fair value and subsequently measured at amortised cost using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost.

(r) Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

(s) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and is recognised when it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably.

Revenue from the sales of health related and pharmaceutical products is recognised on the transfer of significant risks and rewards of ownership, which generally coincides with the time when the goods are delivered and the title has passed to the customers.

Revenue from medical laboratory testing services and health check services is recognised as services are rendered.

Net gains/losses on held for trading securities and those securities held for trading, include realised gains/losses which are recognised on the transaction dates when the relevant contract notes are exchanged; and unrealised fair value gains/losses which are recognised in the period in which they arise.

Interest income on financial assets and loan, on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset.

Bank interest income is recognised on a time-proportion basis using the effective interest method.

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

(t) Employee benefits

(i) Employee leave entitlements

Employee entitlements to annual leave and long service leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave and long service leave as a result of services rendered by employees up to the end of the reporting period.

Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

The Group operates various post-employment schemes, including defined contribution pension plans.

4. SIGNIFICANT ACCOUNTING POLICIES – *Continued*

(t) Employee benefits – *Continued*

(ii) Pension obligations

The Group contributes to defined contribution retirement schemes which are available to all employees. Contributions to the schemes by the Group and employees are calculated as a percentage of employees' basic salaries. The retirement benefit scheme cost charged to profit or loss represents contributions payable by the Group to the funds.

(iii) Termination benefits

Termination benefits are recognised at the earlier of the dates when the Group can no longer withdraw the offer of those benefits, and when the Group recognises restructuring costs and involves the payment of termination benefits.

(u) Share-based payments

The Group issues equity-settled share-based payments to certain employees. Equity-settled share-based payments are measured at the fair value (excluding the effect of non-market based vesting conditions) of the equity instruments at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest and adjusted for the effect of non-market based vesting conditions.

(v) 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 capitalised as part of 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.

To the extent that funds are borrowed generally and used for the purpose of obtaining a qualifying asset, the amount of borrowing costs eligible for capitalisation is determined by applying a capitalisation rate to the expenditures on that asset. The capitalisation rate is the weighted average of the borrowing costs applicable to the borrowings of the Group that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset.

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

(w) Government grants

A government grant is recognised when there is reasonable assurance that the Group will comply with the conditions attaching to it and that the grant will be received.

Government grants relating to income are deferred and recognised in profit or loss over the period to match them with the costs they are intended to compensate.

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

4. SIGNIFICANT ACCOUNTING POLICIES – *Continued*

(x) Taxation

Income tax represents the sum of the current tax and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit recognised in profit or loss 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 liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on 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 and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences, unused tax losses or unused tax credits can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint arrangements, 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.

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

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised, based on tax rates that have been enacted or substantively enacted by the end of the reporting period. Deferred tax is recognised in profit or loss, except when it relates to items recognised in other comprehensive income or directly in equity, in which case the deferred tax is also recognised in other comprehensive income or directly in equity.

The measurement of deferred tax assets and liabilities 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.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

4. SIGNIFICANT ACCOUNTING POLICIES – *Continued*

(y) Impairment of non-financial assets

The carrying amounts of non-financial assets are reviewed at each reporting date for indications of impairment and where an asset is impaired, it is written down as an expense through the consolidated statement of profit or loss to its estimated recoverable amount. The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. If this is the case, recoverable amount is determined for the cash-generating unit to which the asset belongs. Recoverable amount is the higher of value in use and the fair value less costs of disposal of the individual asset or the cash-generating unit.

Value in use is the present value of the estimated future cash flows of the asset/cash-generating unit. Present values are computed using pre-tax discount rates that reflect the time value of money and the risks specific to the asset/cash-generating unit whose impairment is being measured.

Impairment losses for cash-generating units are allocated first against the goodwill of the unit and then pro rata amongst the other assets of the cash-generating unit. Subsequent increases in the recoverable amount caused by changes in estimates are credited to profit or loss to the extent that they reverse the impairment.

(z) Impairment of financial assets

At the end of each reporting period, the Group assesses whether its financial assets (other than those at fair value through profit or loss) are impaired, based on objective evidence that, as a result of one or more events that occurred after the initial recognition, the estimated future cash flows of the (group of) financial asset(s) have been affected.

For available-for-sale equity instruments, a significant or prolonged decline in the fair value of the investment below its cost is considered also to be objective evidence of impairment.

In addition, for trade receivables that are assessed not to be impaired individually, the Group assesses them collectively for impairment, based on the Group's past experience of collecting payments, an increase in the delayed payments in the portfolio, observable changes in economic conditions that correlate with default on receivables, etc.

Only for trade receivables, the carrying amount is reduced through the use of an allowance account and 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 all other financial assets, the carrying amount is directly reduced by the impairment loss.

For financial assets measured at amortised cost, if the amount of the impairment loss decreases in a subsequent period and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed (either directly or by adjusting the allowance account for trade receivables) through profit or loss. However, the reversal must not result in a carrying amount that exceeds what the amortised cost of the financial asset would have been had the impairment not been recognised at the date the impairment is reversed.

4. SIGNIFICANT ACCOUNTING POLICIES – *Continued*

(z) Impairment of financial assets – *Continued*

For available-for-sale debt securities, impairment losses are subsequently reversed through profit or loss if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss. In respect of available-for-sale equity securities, an increase in fair value subsequent to an impairment loss is recognised in other comprehensive income and accumulated in revaluation reserve; impairment losses are not reversed through profit or loss.

(aa) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group has a present legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow is remote.

(bb) Events after the reporting period

Events after the reporting period that provide additional information about the Group's position at the end of the reporting period are adjusting events and are reflected in the consolidated financial statements. Events after the reporting period that are not adjusting events are disclosed in the notes to the consolidated financial statements when material.

5. KEY SOURCES OF ESTIMATION UNCERTAINTY

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

(a) Property, plant and equipment and depreciation

The Group determines the estimated useful lives, residual values and related depreciation charges for the Group's property, plant and equipment. This estimate is based on the historical experience of the actual useful lives and residual values of property, plant and equipment of similar nature and functions. The Group will revise the depreciation charge where useful lives and residual values are different to those previously estimated, or it will write-off or write-down technically obsolete or non-strategic assets that have been abandoned.

The carrying amount of property, plant and equipment as at 31 December 2017 was approximately HK$41,428,000 (2016: HK$41,421,000).

5. CRITICAL JUDGEMENTS AND KEY ESTIMATES – *Continued*

Key sources of estimation uncertainty – *Continued*

(b) Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating unit to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. The carrying amount of goodwill at the end of the reporting period was approximately HK$264,000 (2016: HK$1,742,000) after an impairment loss of approximately HK$1,478,000 (2016: HK$27,669,000) was recognised during the year. Details of the impairment loss calculation are provided in note 22 to the consolidated financial statements.

(c) Impairment loss for bad and doubtful debts

The Group makes impairment loss for bad and doubtful debts based on assessments of the recoverability of the trade and other receivables, including the current creditworthiness and the past collection history of each debtor. Impairments arise where events or changes in circumstances indicate that the balances may not be collectible. The identification of bad and doubtful debts, in particular of a loss event, requires the use of judgement and estimates. Where the actual result is different from the original estimate, such difference will impact the carrying value of the trade and other receivables and doubtful debt expenses in the year in which such estimate has been changed.

As at 31 December 2017, accumulated impairment loss for bad and doubtful debts amounted to approximately HK$7,580,000 (2016: HK$4,711,000).

(d) Allowance for slow-moving inventories

Allowance for slow-moving inventories is made based on the ageing and estimated net realisable value of inventories. The assessment of the allowance amount involves judgement and estimates. Where the actual outcome in future is different from the original estimate, such difference will impact the carrying value of inventories and allowance charge/write-back in the period in which such estimate has been changed. approximately HK$1,191,000 for slow-moving inventories was made for the year ended 31 December 2017 (2016: HK$189,000).

(e) Fair value of financial assets at fair value though profit or loss

In the absence of quoted market prices in an active market, the Group has engaged an independent valuer to estimate the fair value of the Group's financial assets at fair value though profit or loss as at 31 December 2017.

The carrying amount of the investment as at 31 December 2017 was approximately HK$2,966,000 (2016: HK$53,844,000). As at 31 December 2016, the fair value of the Group's held for trading securities is based on the quoted market prices in an active market.

(f) Income taxes

The Group is subject to income taxes in several jurisdictions. Significant estimates are required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made. During the year ended 31 December 2017, approximately HK$1,132,000 (2016: HK$479,000) of income tax was charged to profit or loss based on the estimated profit from continuing operations.

6. FINANCIAL RISK MANAGEMENT

The Group's activities expose it to a variety of financial risks: foreign currency risk, price risk, credit risk, liquidity risk and interest rate risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

(a) Foreign currency risk

The Group has certain exposure to foreign currency risk as most of its business transactions, assets and liabilities are principally denominated in the functional currencies of the Group entities HK$ and RMB. The Group currently does not have a foreign currency hedging policy in respect of foreign currency transactions, assets and liabilities. The Group monitors its foreign currency exposure closely and will consider hedging significant foreign currency exposure should the need arise. The foreign currency risk is not significant to the Group.

(b) Price risk

The Group is exposed to equity price risk mainly through its investment in equity securities. The management manages this exposure by maintaining a portfolio of investments with different risk and return profiles. The Group's equity price risk is mainly concentrated on equity securities quoted on the Stock Exchange.

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

If equity prices had been 5% higher/lower (2016: 5% higher/lower):

- loss after tax for the year ended 31 December 2017 would decrease/increase by approximately HK$124,000 (2016: decrease/increase by HK$2,248,000). This is mainly due to the changes in fair value of held-for-trading investments.

(c) Credit risk

The Group's credit risk is primarily attributable to its trade receivables. In order to minimise credit risk, the directors have delegated a team to be responsible for the determination of credit limits, credit approvals and other monitoring procedures. In addition, the directors review the recoverable amount of each individual trade debt regularly to ensure that adequate impairment losses are recognised for irrecoverable debts. In this regard, the directors consider that the Group's credit risk is significantly reduced.

The Group has concentration of credit risk as 20% (2016: 15%) and 49% (2016: 47%) of the total trade receivables was due from the Group's largest trade receivables and the five largest trade receivables respectively.

It has policies in place to ensure that sales are made to customers with an appropriate credit history.

The credit risk on cash and bank balances and derivative financial instruments is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies.

6. FINANCIAL RISK MANAGEMENT – *Continued*

(d) Liquidity risk

The Group's policy is to regularly monitor current and expected liquidity requirements to ensure that it maintains sufficient reserves of cash to meet its liquidity requirements in the short and longer term.

The maturity analysis based on contractual undiscounted cash flows of the Group's non-derivative financial liabilities is as follows:

	On demand or within 1 year HK$'000	Between 1 and 2 years HK$'000	Between 2 and 5 years HK$'000	Total discounted cash flow HK$'000	Carrying amount HK$'000
At 31 December 2017					
Trade and other payables	**18,360**	**–**	**–**	**18,360**	**18,360**
Bank and other borrowings	**26,784**	**–**	**–**	**26,784**	**26,784**
Loan from a non-controlling shareholder of a subsidiary	**–**	**3,298**	**1,650**	**4,948**	**4,759**
	45,144	**3,298**	**1,650**	**50,092**	**49,903**
At 31 December 2016					
Trade and other payables	18,113	–	–	18,113	18,113
Bank and other borrowings	18,854	–	–	18,854	18,854
Loan from a non-controlling shareholder of a subsidiary	–	–	3,298	3,298	3,120
	36,967	–	3,298	40,265	40,087

Bank borrowing with a repayment on demand clause is included in the "on demand or within 1 year" time band in the above maturity analysis. Taking into account the Group's financial position, the directors do not believe that it is probable that the bank will exercise its discretionary rights to demand immediate repayment. The directors believe that such bank loan will be repaid in accordance with the scheduled repayment dates set out in the loan agreement.

(e) Interest rate risk

The Group's cash flow interest rate risk primarily relates to its cash held in securities trading accounts with stock brokers and bank borrowing.

At 31 December 2017, if interest rates had been 100 basis points lower with all other variables held constant, consolidated loss after tax for the year would have been approximately HK$217,000 (2016: HK$44,000 higher) lower, arising mainly as a result of lower interest expense on its cash held in securities trading accounts with stock brokers and bank borrowing. If interest rates had been 100 basis points higher, with all other variables held constant, consolidated loss after tax for the year would have been approximately HK$217,000 (2016: HK$44,000 lower) higher, arising mainly as a result of higher interest expense on its cash held in securities trading accounts with stock brokers and bank borrowing.

6. FINANCIAL RISK MANAGEMENT – *Continued*

(f) Categories of financial instruments at 31 December

	2017 HK$'000	2016 HK$'000
Financial assets:		
Held for trading securities	**2,966**	53,844
Loans and receivables (including cash and cash equivalents)	**165,602**	71,330
Available-for-sale financial assets	**21,612**	20,621
Financial liabilities:		
Financial liabilities measured at amortised cost	**49,903**	40,087

(g) Fair values

The carrying amounts of the Group's financial assets and financial liabilities as reflected in the consolidated statement of financial position approximate their respective fair values.

7. FAIR VALUE MEASUREMENTS

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. The following disclosures of fair value measurements use a fair value hierarchy that categorises into three levels the inputs to valuation techniques used to measure fair value:

Level 1 inputs: quoted prices (unadjusted) in active markets for identical assets or liabilities that the Group can access at the measurement date.

Level 2 inputs: inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3 inputs: unobservable inputs for the asset or liability.

The Group's policy is to recognise transfers into and transfers out of any of the three levels as of the date of the event or change in circumstances that caused the transfer.

7. FAIR VALUE MEASUREMENTS – *Continued*

(a) Disclosures of level in fair value hierarchy at 31 December 2017:

	Fair value measurements using: Level 1 HK$'000	Level 2 HK$'000	Total 2017 HK$'000
Description			
Recurring fair value measurements:			
Financial assets			
Held for trading securities			
Listed securities in Hong Kong	–	2,966	2,966
Total	–	2,966	2,966

(b) Disclosures of level in fair value hierarchy at 31 December 2016:

	Fair value measurements using: Level 1 HK$'000	Level 2 HK$'000	Total 2016 HK$'000
Description			
Recurring fair value measurements:			
Financial assets			
Held for trading securities			
Listed securities in Hong Kong	53,844	–	53,844
Total	53,844	–	53,844

(c) Disclosure of valuation process used by the Group and valuation techniques and inputs used in fair value measurements at 31 December 2017 and 2016:

Level 2 fair value measurements			**Fair value**			
			2017 HK$'000		2016 HK$'000	
Description	**Valuation technique**	**Inputs**	**Assets**	**Liabilities**	Assets	Liabilities
Held for trading securities	Market approach	Share transaction	2,966	–	–	–

8. REVENUE

An analysis of the Group's revenue for the year from continuing operations is as follows:

	2017 HK$'000	2016 HK$'000
Manufacture and sale of health related and pharmaceutical products	**43,720**	26,846
Provision of medical laboratory testing services and health check services	**61,379**	57,048
Provision of research and development services	**20**	1,758
Money lending business	**16**	913
	105,135	86,565
Gross proceeds from trading of securities *(note)*	**111,715**	48,693
Gross proceeds	**216,850**	135,258

Note:

The gross proceeds from trading of securities were recorded in "net loss on financial assets at fair value through profit or loss" after setting off the relevant cost.

9. OTHER INCOME, GAINS/(LOSSES)

	2017 HK$'000	2016 HK$'000
Continuing operations		
Interest income	**144**	326
Government grants *(note)*	**104**	662
Forfeiture of consideration received	**–**	1,360
Dividends income from equity investments	**–**	4,596
Gain/(loss) on disposal of property, plant and equipment	**74**	(35)
Net foreign exchange (loss)/gain	**(9)**	38
Written off on property, plant and equipment	**–**	(6,134)
Others	**354**	699
	667	1,512

Note:

During the year ended 31 December 2017, a special government funding of approximately RMB90,000 (equivalent to approximately HK$104,000) (2016: RMB56,000 or equivalent to approximately HK$66,000) received by a subsidiary of the Company in the PRC for research and development.

During the year ended 31 December 2016, a government incentive subsidy of RMB500,000 (equivalent to approximately HK$596,000) received by a subsidiary of the Company in the PRC as a result of its developed pharmaceutical formulation being registered in the Chinese Pharmacopoeia (2015 Edition).

10. SEGMENT INFORMATION

The Group has four operating segments as follows:

Pharmaceutical products	–	manufacture, research and development, sale and distribution of health related and pharmaceutical products
Medical and health related services	–	provision of medical laboratory testing services and health check services
Securities	–	trading of securities
Others	–	provision of research and development services, money lending business

One operation (the manufacture and sale of consumer cosmetics and the manufacture and sale of health supplement wine, dental materials and equipment) were discontinued in 2016. The segment information reported does not include any amounts for this discontinued operation, which are described in more detail in note 17.

The Group's reportable segments are strategic business units that offer different products and services. They are managed separately because each business requires different technology and marketing strategies.

The Group's other operating segments include provision of research and development services and money lending business. None of these segments meets any of the quantitative thresholds for determining reportable segments. The information of these other operating segments is included in the 'others' column.

The accounting policies of the operating segments are the same as those described in note 4 to the consolidated financial statements. Segment profits or losses do not include other income, gains/(losses), unallocated administrative expenses, share of profits of associates, share of loss of a joint venture, gain on disposal of associates, gain/(loss) on disposal of subsidiaries, finance costs and income tax expense. Segment assets do not include the unallocated bank and cash balances, interests in associates, current and deferred tax assets. Segment liabilities do not include borrowings, current and deferred tax liabilities. Segment non-current assets do not include financial instruments, deferred tax assets and post-employment benefit assets.

The Group accounts for intersegment sales and transfers as if the sales or transfers were to third parties, i.e. at current market prices.

10. SEGMENT INFORMATION – *Continued*

Information about operating segment profit or loss, assets and liabilities from continuing operations:

	Pharmaceutical products HK$'000	Medical and health related services HK$'000	Securities HK$'000	Others HK$'000	Total HK$'000
Year ended 31 December 2017					
Revenue from external customers *(note)*	**43,720**	**61,379**	**111,715**	**36**	**216,850**
Segment loss	**(27,956)**	**(475)**	**(37,346)**	**(804)**	**(66,581)**
Other income, gain/(loss)					**667**
Finance costs					**(2,189)**
Share of profits of associates					**6,642**
Loss on disposal of assets held for sales					**(493)**
Gain on disposal of associates					**8,066**
Gain on disposal of subsidiaries					**2,473**
Unallocated corporate expenses					**(23,983)**
Loss before tax					**(75,398)**
Income tax expense					**(1,132)**
Loss for the year					**(76,530)**
As at 31 December 2017					
Segment assets	**35,732**	**88,406**	**33,674**	**17,038**	**174,850**
Unallocated corporate assets					**128,550**
					303,400
Segment liabilities	**10,956**	**12,794**	**95**	**104**	**23,949**
Unallocated corporate liabilities					**28,143**
					52,092

10. SEGMENT INFORMATION – *Continued*

Information about operating segment profit or loss, assets and liabilities from continuing operations: – *Continued*

	Pharmaceutical products HK$'000	Medical and health related services HK$'000	Securities HK$'000	Others HK$'000	Total HK$'000
Year ended 31 December 2016					
Revenue from external customers *(note)*	26,846	57,048	48,693	2,671	135,258
Segment loss	(21,639)	(33,003)	(30,606)	(2,954)	(88,202)
Other income, gains/(losses)					7,681
Finance costs					(2,010)
Share of profits of associates					8,648
Share of loss of a joint venture					(4,043)
Loss on disposal of a subsidiary					(217)
Unallocated corporate expenses					(16,996)
Loss before tax					(95,139)
Income tax expense					(479)
Loss for the year					(95,618)
As at 31 December 2016					
Segment assets	52,068	89,176	55,061	8,857	205,162
Assets classified as held for sale					8,777
Unallocated corporate assets					109,017
					322,956
Segment liabilities	10,863	10,964	115	4,945	26,887
Unallocated corporate liabilities					20,852
					47,739

10. SEGMENT INFORMATION – *Continued*

Information about operating segment profit or loss, assets and liabilities from continuing operations: – *Continued*

Note:

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

	2017 HK$'000	2016 HK$'000
Gross proceeds	216,850	135,258
Less: Gross proceeds from trading of securities	(111,715)	(48,693)
Revenue	105,135	86,565

Other segment information

Other segment information for the year ended 31 December 2017:

	Pharmaceutical products HK$'000	Medical and health related services HK$'000	Securities HK$'000	Others HK$'000	Total HK$'000
Capital expenditures	2,162	1,042	15	1,851	5,070
Amortisation of prepaid land lease payments	232	–	–	–	232
Amortisation of intangible assets	–	1,225	–	–	1,225
Depreciation of property, plant and equipment	1,060	4,086	4	664	5,814
Gain on disposal of property, plant and equipment	–	–	–	(74)	(74)
Share of profit of associates	–	–	–	(6,642)	(6,642)
Impairment loss on goodwill	1,478	–	–	–	1,478
Impairment loss on intangible assets	11,085	–	–	–	11,085
Allowance for doubtful debts	2,732	–	–	–	2,732
Impairment loss on available-for-sale financial assets	–	–	–	4,049	4,049
Write-down of inventories	894	297	–	–	1,191

10. SEGMENT INFORMATION – *Continued*

Other segment information – *Continued*

Other segment information for the year ended 31 December 2016

	Pharmaceutical products HK$'000	Medical and health related services HK$'000	Securities HK$'000	Others HK$'000	Total HK$'000
Capital expenditures	3,752	18,706	–	824	23,282
Amortisation of prepaid land lease payments	235	–	–	–	235
Amortisation of intangible assets	–	1,225	–	–	1,225
Depreciation of property, plant and equipment	1,796	3,478	–	370	5,644
Loss on disposal of property, plant and equipment	–	35	–	–	35
Written off on property, plant and equipment	5,863	252	–	19	6,134
Share of profits of associates	–	–	–	(8,648)	(8,648)
Share of loss of a joint venture	–	–	–	4,043	4,043
Impairment loss on goodwill	–	27,669	–	–	27,669
Allowance for doubtful debt	5,075	–	–	–	5,075
Impairment loss on available-for-sale financial assets	–	–	–	3,195	3,195
Write-down of inventories	189	–	–	–	189

10. SEGMENT INFORMATION – *Continued*

Geographical information:

The Group's revenue from continuing operations from external customers by location of operations and information about its non-current assets by location of assets are detailed below:

	Revenue		Non-current assets	
	2017	2016	**2017**	2016
	HK$'000	HK$'000	**HK$'000**	HK$'000
Hong Kong	**67,835**	61,401	**71,616**	75,296
PRC except Hong Kong	**8,284**	15,049	**28,197**	50,036
Malaysia	**10,467**	5,385	**–**	–
Singapore	**13,515**	4,730	**–**	–
Germany	**4,657**	–	**–**	–
India	**377**	–	**–**	–
Switzerland	**–**	–	**–**	31,026
	105,135	86,565	**99,813**	156,358

Revenue from major customers:

Revenue from customers in relation to continuing operations contributing over 10% of the total revenue of the Group is as follows:

	2017	2016
	HK$'000	HK$'000
Manufacture and sale of health related and pharmaceutical products segment		
Customer A	**13,515**	N/A[1]
Provision of medical and health related services segment		
Customer B	**13,612**	10,938

[1] The revenue contributed from customer A was not over 10% for the year ended 31 December 2016.

11. FINANCE COSTS

	2017 HK$'000	2016 HK$'000
Interest on bank borrowing	**105**	51
Interest on other borrowings	**2,539**	2,389
Imputed interest on loan from a non-controlling shareholder of a subsidiary	**99**	42
Total borrowing costs	**2,743**	2,482
Amount capitalised	**(554)**	(472)
	2,189	2,010

The weighted average capitalisation rate on funds borrowed generally is at a rate of 1% per month (2016: 1% per month).

12. INCOME TAX EXPENSE

Income tax relating to continuing operations has been recognised in profit or loss as following:

	2017 HK$'000	2016 HK$'000
Current tax		
Hong Kong Profits Tax	**1,321**	705
Over-provision in prior years	**(1)**	–
	1,320	705
Deferred tax *(note 37)*	**(188)**	(226)
	1,132	479

Hong Kong Profits Tax has been provided at a rate of 16.5% (2016: 16.5%) on the estimated assessable profits arising in Hong Kong for the year ended 31 December 2017.

One of the subsidiaries had been certified by the relevant PRC authorities as high technology enterprises. Pursuant to the Income Tax Law in the PRC, the subsidiary was subjected to EIT rate of 15%.

PRC Enterprise Income Tax has been provided at a rate of 25% (2016: 25%).

Tax charge on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretation and practices in respect thereof.

12. INCOME TAX EXPENSE – *Continued*

The reconciliation between the income tax expense and the product of loss before tax multiplied by the respective applicable tax rate is as follows:

	2017 HK$'000	2016 HK$'000
Loss before tax	**(75,398)**	(95,139)
Tax at the respective applicable tax rates	**(12,339)**	(15,081)
Tax effect of income that is not taxable	**(1)**	(815)
Tax effect of expenses that are not deductible	**4,431**	9,816
Tax effect of share of profits of associates	**(1,096)**	(1,887)
Tax effect of share of loss of a joint venture	**–**	1,010
Tax effect of temporary differences not recognised	**441**	110
Tax effect of tax losses not recognised	**9,749**	7,473
Tax effect of ultisation of tax losses not previously recognised	**(52)**	–
Over-provision in prior years	**(1)**	–
Others	**–**	(147)
Income tax expense	**1,132**	479

13. LOSS FOR THE YEAR FROM CONTINUING OPERATIONS

The Group's loss for the year is stated after charging/(crediting) the following:

	2017 HK$'000	2016 HK$'000
Amortisation of intangible assets	**1,225**	1,225
Amortisation of prepaid land lease payments	**232**	235
Depreciation of property, plant and equipment	**5,814**	5,644
(Gain)/loss on disposal of property, plant and equipment	**(74)**	35
Operating lease charges		
– Office premises, warehouses and staff quarters	**5,888**	7,014
Staff costs		
– Salaries, bonuses and allowances	**36,595**	35,442
– Retirement benefits scheme contributions	**1,723**	1,911
	38,318	37,353
Auditor's remuneration	**750**	760
Cost of inventories sold	**48,769**	31,410
Write-down on inventories (included in cost of sales)	**1,191**	189
Allowance for doubtful debts	**2,732**	5,075
Impairment loss on goodwill	**1,478**	27,699
Impairment loss on available-for-sale financial assets	**4,049**	3,195
Impairment loss on intangible assets	**11,085**	–
Written off on property, plant and equipment	**–**	6,134

14. EMPLOYEE BENEFITS EXPENSE

	2017 HK$'000	2016 HK$'000
Employee benefits expense:		
Salaries, bonuses and allowances	**36,595**	35,442
Retirement benefit scheme contributions *(note 16)*	**1,723**	1,911
	38,318	37,353

Five highest paid individuals

The five highest paid individuals in the Group during the year included two (2016: one) directors whose emoluments are reflected in the analysis presented in note 15. The emoluments of the remaining three (2016: four) individuals are set out below:

	2017 HK$'000	2016 HK$'000
Basic salaries, bonuses and allowances	**2,921**	3,277
Retirement benefit scheme contributions	**104**	132
	3,025	3,409

The emoluments fell within the following band:

	Number of individuals	
	2017	2016
Nil to HK$1,000,000	**2**	3
HK$1,000,001 to HK$1,500,000	**1**	1
	3	4

15. BENEFITS AND INTERESTS OF DIRECTORS

(a) Directors' emoluments

For the year ended 31 December 2017

	Emoluments paid or receivable in respect of a person's services as a director, whether of the Company or its subsidiary undertaking				
	Fees HK$'000	Salaries and allowances HK$'000	Discretionary bonuses HK$'000	Employer's contribution to a retirement benefit scheme HK$'000	Total HK$'000
Executive Directors					
Mr. Liu *(note c)*	1,202	–	–	5	1,207
Mr. Leung Pak Hou Anson *(note b)*	–	1,049	2,087	18	3,154
Mr. Wang Zheng *(note c)*	288	–	–	–	288
Mr. Chan Ka Chung *(note d)*	–	–	–	–	–
Mr. Cheung Wai Kwan *(note d)*	56	–	–	–	56
Ms. Chen Miaoping *(note b)*	120	–	–	–	120
Non-executive Directors					
Mr. Huang Song *(note e)*	71	–	–	–	71
Mr. Gao Yongping *(note f)*	114	–	–	–	114
Independent Non-executive Directors					
Mr. Ho Fung Shan Bob	120	–	–	–	120
Mr. Yuen Chun Fai *(note d)*	79	–	–	–	79
Mr. Leung Ka Fai *(note g)*	112	–	–	–	112
Mr. Yan Guoxiang *(note c)*	48	–	–	–	48
Total	2,210	1,049	2,087	23	5,369

15. BENEFITS AND INTERESTS OF DIRECTORS – *Continued*

(a) Directors' emoluments – *Continued*

For the year ended 31 December 2016

	Emoluments paid or receivable in respect of a person's services as a director, whether of the Company or its subsidiary undertaking				
	Fees HK$'000	Salaries and allowances HK$'000	Discretionary bonuses HK$'000	Employer's contribution to a retirement benefit scheme HK$'000	Total HK$'000
Executive Directors					
Mr. Chan Ka Chung *(note d)*	–	–	–	–	–
Mr. Leung Pak Hou Anson *(note b)*	–	1,016	80	18	1,114
Ms. Chen Miaoping *(note b)*	360	–	–	–	360
Mr. Cheung Wai Kwan *(note d)*	24	–	–	–	24
Mr. Cheung Hung *(note a)*	450	–	–	–	450
Independent Non-executive Directors					
Mr. Ho Fung Shan Bob	120	–	–	–	120
Mr. Leung Ka Fai *(note g)*	120	–	–	–	120
Mr. Yuen Chun Fai *(note d)*	120	–	–	–	120
Total	1,194	1,016	80	18	2,308

Notes:

(a) Mr. Cheung Hung resigned as an executive director on 1 October 2016.

(b) Mr. Leung Pak Hou Anson was re-designated as the chief executive officer of the Company on 30 April 2017 and resigned as the chief executive officer of the Company on 28 August 2017. Ms. Chen Miaoping resigned as an executive director and the chief executive officer of the Company on 30 April 2017.

(c) Mr. Liu and Mr. Wang Zheng were appointed as executive directors on 7 August 2017. Mr. Liu was appointed as the chairman of the Company on 28 August 2017. Mr. Yan Guoxiang was appointed as an independent non-executive director on 7 August 2017.

(d) Mr. Chan Ka Chung was appointed as an executive director and the chairman of the Company on 1 October 2016 and resigned on 28 August 2017. Mr. Cheung Wai Kwan was appointed as an executive director on 1 October 2016 and resigned on 28 August 2017. Mr. Yuen Chun Fai resigned as an independent non-executive director on 28 August 2017.

(e) Mr. Huang Song was appointed as a non-executive director on 15 September 2017.

(f) Mr. Gao Yongping was appointed as a non-executive director on 18 April 2017 and resigned on 9 October 2017.

(g) Mr. Leung Ka Fai resigned as independent non-executive director on 5 December 2017.

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 during the years ended 31 December 2017 and 2016.

(b) Directors' material interests in transactions, arrangements or contracts

No significant transactions, arrangements and contracts in relation to the Group's business to which the Company or any of its subsidiaries was a party and in which the directors of the Company and the directors' connected party had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

16. RETIREMENT BENEFIT SCHEMES

Provident fund benefits are offered to certain fulltime employees through a registered scheme under the Occupational Retirement Schemes Ordinance ("**ORSO**"). The ORSO scheme is administered by trustees, which are independent, with assets held separately from those of the Group. Under the ORSO scheme, the Group contributes 5% of monthly salaries of employees.

The Group operates a mandatory provident fund scheme (the "**MPF Scheme**") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for all qualifying employees in Hong Kong (other than those who are cover under ORSO scheme). The Group's contributions to the MPF Scheme are calculated at 5% of the salaries and wages subject to a monthly maximum amount of contribution of HK$1,500 per employee and vest fully with employees when contributed into the MPF Scheme.

The employees of the Group's subsidiaries established in the PRC are members of a central pension scheme operated by the local municipal government. These subsidiaries are required to contribute certain percentage of the employees' basic salaries and wages to the central pension scheme to fund the retirement benefits. The local municipal government undertakes to assume the retirement benefits obligations of all existing and future retired employees of these subsidiaries. The only obligation of these subsidiaries with respect to the central pension scheme is to meet the required contributions under the scheme.

17. DISCONTINUED OPERATION

On 17 December 2015, the Company entered into a sale and purchase agreement to dispose of the entire equity interests in Wallfaith Company Limited and its subsidiaries (collectively referred to as "**Wallfaith Group**") at a cash consideration of HK$15,000,000. The completion of the disposal of the Wallfaith Group took place on 16 March 2016. The manufacture and sale of consumer cosmetics and health supplement wine, and trading of dental materials and equipment in the PRC was regarded as discontinued operation of the Group.

	2016 HK$'000
Profit for the year from discontinued operation	1,296
Gain on disposal of the Wallfaith Group	34,230
	35,526

17. DISCONTINUED OPERATION – *Continued*

Profit for the year from discontinued operation:

	2016
	HK$'000
Revenue	23,263
Cost of sales	(15,396)
Gross profit	7,867
Other income, gains/(losses)	322
Selling and distribution expenses	(4,746)
Administrative expenses	(1,523)
Finance costs	(573)
Profit before tax	1,347
Income tax expense	(51)
Profit for the year from discontinued operation	1,296
Discontinued operation	
Staff costs:	
– Salaries, bonuses and other benefits	2,756
– Retirement benefits scheme contributions	321
	3,077
Amortisation of prepaid land lease payments	23
Cost of inventories sold	15,396
Depreciation of property, plant and equipment	288
Allowance for doubtful debts	31
Minimum lease payment under operating lease:	
– Office premises, warehouses and staff quarters	83
Cash flows from discontinued operation:	
Net cash inflows from operating activities	2,278
Net cash outflows from investing activities	(135)
Net cash outflows from financing activities	(573)
Net cash inflows	1,570

17. DISCONTINUED OPERATION – *Continued*

	2016
	HK$'000
Net assets at the date of disposal were as follows:	
Property, plant and equipment	13,137
Prepaid lease payments	4,214
Inventories	53,407
Trade receivables	19,529
Deposits, prepayments and other receivables	5,849
Income tax recoverable	36
Bank and cash balances	4,512
Trade payables	(17,336)
Accruals and other payables	(59,775)
Bank borrowing	(18,001)
Net assets disposed of	5,572
Release of foreign currency translation reserve	(24,802)
Gain on disposal of the Wallfaith Group	34,230
Total consideration-satisfied by cash	15,000
Net cash inflow arising on disposal:	
Cash consideration received	15,000
Cash and cash equivalents disposed of	(4,512)
	10,488

18. DIVIDENDS

The directors of the Company did not recommend payment of any final dividend for the year ended 31 December 2017 (2016: Nil).

19. LOSS PER SHARE

(a) From continuing and discontinued operations

The calculation of the basic and diluted loss per share attributable to the owners of the Company from continuing and discontinued operations is based on the following:

	2017 HK$'000	2016 HK$'000
Loss		
Loss for the year for the purpose of calculating basic and diluted loss per share	**(63,022)**	(50,151)

	2017 '000	2016 '000
Number of shares		
Weighted average number of ordinary shares for the purpose of calculating basic and diluted loss per share	**801,222**	706,883

(b) From continuing operations

The calculation of the basic and diluted earnings per share attributable to the owners of the Company from continuing operations is based on the following:

	2017 HK$'000	2016 HK$'000
Loss		
Loss for the year	**(63,022)**	(50,151)
Less: Profit for the year from discontinued operations	**–**	(35,526)
Loss for the purpose of calculating basic and diluted loss per share from continuing operations	**(63,022)**	(85,677)

The weighted average numbers of ordinary shares used as denominators in calculating the basic and diluted earnings per share are the same.

(c) From discontinued operations

Basic and diluted earnings per share from the discontinued operations for the year ended 2016 is HK5 cents per share, based on the profit for the year ended 31 December 2016 from discontinued operation attributable to the owners of the Company of approximately HK$35,526,000 and the denominators used are the same as those detailed above for both basic and diluted loss per share. The Group did not have any discontinued operation for the year ended 31 December 2017.

20. PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvements HK$'000	Land and buildings HK$'000	Motor vehicles HK$'000	Furniture, fixtures and office equipments HK$'000	Plant and machinery HK$'000	Construction in progress HK$'000	Total HK$'000
Cost							
At 1 January 2016	7,251	8,406	3,726	6,334	27,817	398	53,932
Additions	3,736	553	71	643	1,613	1,456	8,072
Acquisition of an asset through acquisition of a subsidiary	–	15,210	–	–	–	–	15,210
Disposals	–	–	(125)	–	(85)	–	(210)
Written off	(2,419)	–	(195)	(803)	(7,491)	–	(10,908)
Exchange differences	(18)	(329)	(133)	(142)	(703)	(89)	(1,414)
At 31 December 2016 and 1 January 2017	8,550	23,840	3,344	6,032	21,151	1,765	64,682
Additions	674	–	615	1,717	361	1,703	5,070
Written off	–	–	–	(48)	(380)	–	(428)
Disposals	–	–	(1,439)	–	–	–	(1,439)
Disposal of subsidiaries	–	–	(1,438)	(477)	(9)	–	(1,924)
Exchange differences	29	364	47	145	608	194	1,387
At 31 December 2017	**9,253**	**24,204**	**1,129**	**7,369**	**21,731**	**3,662**	**67,348**
Accumulated depreciation							
At 1 January 2016	5,083	1,038	3,065	3,408	10,333	–	22,927
Charge for the year	1,314	611	143	790	2,786	–	5,644
Disposals	–	–	(60)	–	(30)	–	(90)
Written off	(2,415)	–	(189)	(625)	(1,545)	–	(4,774)
Exchange differences	–	(67)	(99)	(62)	(218)	–	(446)
At 31 December 2016 and 1 January 2017	3,982	1,582	2,860	3,511	11,326	–	23,261
Charge for the year	2,022	824	89	889	1,990	–	5,814
Written off	–	–	–	(48)	(380)	–	(428)
Disposals	–	–	(1,439)	–	–	–	(1,439)
Disposal of subsidiaries	–	–	(1,295)	(402)	(6)	–	(1,703)
Exchange differences	1	85	23	54	252	–	415
At 31 December 2017	**6,005**	**2,491**	**238**	**4,004**	**13,182**	**–**	**25,920**
Carrying amount							
At 31 December 2017	**3,248**	**21,713**	**891**	**3,365**	**8,549**	**3,662**	**41,428**
At 31 December 2016	4,568	22,258	484	2,521	9,825	1,765	41,421

At 31 December 2017, the carrying amount of land and buildings approximately HK$14,423,000 (2016: HK$14,914,000) pledged as security for the Group's bank borrowing (note 39).

21. PREPAID LAND LEASE PAYMENTS

The Group's interests in prepaid land lease payments represent prepaid operating lease payments located in PRC and their net book value are analysed as follows:

	2017 HK$'000	2016 HK$'000
At 1 January	**8,066**	8,859
Amortisation for the year	**(232)**	(235)
Exchange differences	**582**	(558)
At 31 December	**8,416**	8,066
Current portion	**(241)**	(224)
Non-current portion	**8,175**	7,842

The prepaid land lease payments are amortised over the period of rights of 38 years (2016: 38 years).

22. GOODWILL

	2017 HK$'000	2016 HK$'000
Cost		
At 1 January	**33,444**	33,444
Disposal of subsidiaries	**(2,512)**	–
At 31 December	**30,932**	33,444
Accumulated impairment		
At 1 January	**31,702**	4,033
Impairment loss recognised for the year	**1,478**	27,669
Disposal of subsidiaries	**(2,512)**	–
At 31 December	**30,668**	31,702
Carrying amount		
At 31 December	**264**	1,742

Goodwill acquired in a business combination is allocated, at acquisition, to the cash generating units ("**CGUs**") that are expected to benefit from that business combination. The carrying amount of goodwill (other than goodwill relating to discontinued operation) had been allocated as follows:

	2017 HK$'000	2016 HK$'000
Manufacture and sale of health related and pharmaceutical products business (Chinese medicine product business):		
– Guizhou Shuang Sheng Pharmaceutical Co. Ltd. ("**Shuang Sheng**") acquired in 2014 ("**CGU A**")	**–**	1,478
Provision of medical laboratory testing services and health check services:		
– DVF Holdco (Cayman) Limited ("**DVF**"), acquired in 2015 ("**CGU B**")	**264**	264
	264	1,742

22. GOODWILL – *Continued*

The recoverable amounts of the CGUs have been determined on the basis of the higher of its fair value less costs of disposal and its value in use using discounted cash flow method. The key assumptions for the discounted cash flow method are those regarding the discount rates, growth rates and budgeted gross margin and turnover during the period. The Group estimates discount rates using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the CGUs. The growth rates are based on long-term average economic growth rate of the geographical area in which the businesses of the CGUs operate. Budgeted gross margin and turnover are based on past practices and expectations on market development.

The Group prepares cash flow forecasts derived from the most recent financial budgets approved by the directors for the next five years with the residual period using the growth rate from CGU A and CGU B of 3% (2016: 3%) and 3% (2016: 3%) respectively. This rate does not exceed the average long-term growth rate for the relevant markets.

The rate used to discount the forecast cash flows from CGU A and CGU B are 19% (2016:21%) and 17% (2016: 20%) respectively.

For the impairment assessment of goodwill for CGU A and CGU B, the directors of the Company assessed their recoverable amount with reference to the valuation performed by an independent qualified professional valuer.

For CGU 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 Shuang Sheng at a cash consideration of RMB25,500,000 (equivalent to approximately HK$31,875,000). The completion of the acquisition of Shuang Sheng took place on 20 November 2014. Details of the acquisition of Shuang Sheng were disclosed in the announcement of the Company dated 18 August 2014. Goodwill of approximately RMB1,967,000 (equivalent to approximately HK$2,478,000) and intangible assets (included pharmaceutical licences) of approximately RMB9,600,000 (equivalent to approximately HK$11,510,000) were recognised at the date of completion.

As at 31 December 2017, before impairment testing, goodwill of approximately HK$1,478,000 was allocated to CGU A. Referred to the section headed "Management discussion and analysis" in this annual report, since the acquisition of Shuang Sheng, it has experienced slow progress in achieving the original business plan and projected financial results, primarily owing to the reasons including (i) the decrease in revenue due to decrease in sales order; (ii) the intense Chinese medicine market competition; (iii) the unsatisfied result of the tenders of new rebranded product in the PRC. The management considered was an impairment indicator of the non-current assets attributable to CGU A, and has revised its cash flow forecasts for CGU A. The carrying amount of CGU A has been reduced to its recoverable amount of approximately HK$28,194,000. As a result, an impairment loss of approximately HK$1,478,000 (2016: HK$Nil) on goodwill and approximately RMB9,600,000 (equivalent to HK$11,085,000) (2016: HK$Nil) on intangible assets were recognised for the year ended 31 December 2017 respectively. As at 31 December 2017, an aggregate impairment loss on goodwill in relation to CGU A was approximately HK$2,478,000 (2016: HK$1,000,000) and the carrying amount is fully impaired. No impairment loss was recognised on property, plant and equipment in relation to CGU A, the directors determined that its fair value less cost to disposal is higher than its carrying amount.

22. GOODWILL – *Continued*

As at 31 December 2016, before impairment testing, goodwill of approximately HK$31,966,000 was allocated to CGU B. For the year ended 31 December 2016, due to the intensifying competition and weak consumption sentiment in the medical laboratory testing services and health check services in Hong Kong, the revenue and profitability of DVF has been lower than expectations set in the business plan. The Group has revised its cash flow forecasts and the carrying amount of CGU B has been reduced to its recoverable amount of approximately HK$65,348,000 and an impairment loss of approximately HK$27,699,000 recognised on goodwill for the year ended 31 December 2016. For the year ended 31 December 2017, the performance of DVF met the business plan, the recoverable amount of CGU B exceeded its carrying amount, the directors considered no impairment indicator of the non-current assets attributable to CGU B.

23. INTANGIBLE ASSETS

	Customer relationship HK$'000	Brand name HK$'000	Pharmaceutical licences HK$'000	Research and development expenditures HK$'000	Total HK$'000
Cost					
At 1 January 2016	12,247	34,915	11,459	421	59,042
Exchange differences	–	–	(735)	–	(735)
At 31 December 2016 and 1 January 2017	12,247	34,915	10,724	421	58,307
Disposal of subsidiaries	–	–	–	(421)	(421)
Exchange differences	–	–	786	–	786
At 31 December 2017	**12,247**	**34,915**	**11,510**	**–**	**58,672**
Accumulated amortisation and impairment losses					
At 1 January 2016	51	–	–	421	472
Amortisation for the year	1,225	–	–	–	1,225
At 31 December 2016 and 1 January 2017	1,276	–	–	421	1,697
Amortisation for the year	1,225	–	–	–	1,225
Disposal of subsidiaries	–	–	–	(421)	(421)
Impairment loss for the year	–	–	11,085	–	11,085
Exchange differences	–	–	425	–	425
At 31 December 2017	**2,501**	**–**	**11,510**	**–**	**14,011**
Carrying amount					
At 31 December 2017	**9,746**	**34,915**	**–**	**–**	**44,661**
At 31 December 2016	10,971	34,915	10,724	–	56,610

The average remaining amortisation period of the customer relationship is 8 years (2016: 9 years). For brand name and pharmaceutical licenses, it carries infinite useful life.

23. INTANGIBLE ASSETS – *Continued*

The Group carried out reviews of the recoverable amount of its intangible assets in 2017, CGU A and CGU B (referred to notes 22 to the consolidated financial statements) having regard to the market conditions of the Group's products. These assets are used in the Group's pharmaceutical licences are attributed to CGU A. Pharmaceutical licences of approximately RMB9,600,000 (equivalent to HK$11,085,000) was recognised the date of the completion (referred to note 22 to the consolidated financial statements). Referred to the section headed "Management discussion and analysis" in this annual report, since the acquisition of Shuang Sheng, it has experienced slow progress in achieving the original business plan and projected financial results, primarily owing to the reasons including (i) the decrease in revenue due to decrease in sales order; (ii) the intense Chinese medicine market competition; (iii) the unsatisfied result of the tenders of new rebranded product in the PRC. The management considered was an impairment indicator of the non-current assets attributable to CGU A, and the review led to the recognition of an impairment loss of approximately RMB9,600,000 (equivalent to HK$11,085,000) (2016: HK$Nil) for pharmaceutical licences that have been recognised in profit or loss and was fully impaired. As at 31 December 2017, an aggregate impairment loss on pharmaceutical licences in relation to CGU A was approximately RMB9,600,000 (equivalent to HK$11,085,000) (2016: HK$Nil). The recoverable amount of approximately HK$28,194,000 for the relevant assets has been determined on the basis of the higher of its fair value less costs to disposal and its value in use using discounted cash flow method. The discount rate used was 19% (2016: 21%).

Customer relationship and brand name are attributed to CGU B (referred to note 22 to the consolidated financial statements), have no impairment indicator of the non-current assets attributable to CGU B for the year ended 31 December 2017. The directors assessed the recoverable amount of CGU B exceeded its carrying amount.

24. INVESTMENTS IN SUBSIDIARIES

Particulars of the principal subsidiaries as at 31 December 2017 are as follows:

Name	Place of incorporation	Principal country of operation	Particular of issued share capital	Percentage of ownership interest/ voting power/ profit sharing Direct	Indirect	Principal activities
Kingston Group Holdings Limited	British Virgin Islands ("**BVI**")	Hong Kong	Ordinary shares US$101	–	100%	Investment holding
Icy Snow Limited	BVI	Hong Kong	Ordinary shares US$1	100%	–	Investment holding
Keyun Limited	BVI	Hong Kong	Ordinary shares US$1	–	100%	Investment holding
Angel Rise International Limited	BVI	Hong Kong	Ordinary shares US$1	–	100%	Investment holding
China Biology Services Holdings Limited	Hong Kong	Hong Kong	Ordinary shares HK$1	–	100%	Investment holding
Asia Molecular Diagnostics Limited	Hong Kong	Hong Kong	Ordinary shares HK$1,000	–	97%	Provision of medical diagnostic services
Ferran Finance Limited	Hong Kong	Hong Kong	Ordinary shares HK$1	–	100%	Provision of money lending in Hong Kong
Healthy International Limited	Hong Kong	Hong Kong	Ordinary shares HK$10,000	–	100%	Marketing and sale of health supplements, slimming pills and beauty products and trading of pharmaceutical intermediates
PHC Medical Diagnostic Centre Limited	Hong Kong	Hong Kong	Ordinary shares HK$198,000	–	97%	Provision of medical laboratory testing services and health check services

24. INVESTMENTS IN SUBSIDIARIES – *Continued*

Name	Place of incorporation	Principal country of operation	Particular of issued share capital	Percentage of ownership interest/ voting power/ profit sharing		Principal activities
				Direct	Indirect	
Premier MediCare Services Limited	Hong Kong	Hong Kong	Ordinary shares HK$500,002	–	97%	Provision of health check services
ProGene Molecular Diagnostic Center Limited	Hong Kong	Hong Kong	Ordinary shares HK$70	–	78%	Provision of molecular diagnostic test and genetic investigations
Tower Health Choice Limited	Hong Kong	Hong Kong	Ordinary shares HK$1	–	100%	Sale of health supplements, traditional Chinese medicines, slimming pills and beauty products
Ultra Leap Holdings Limited	Hong Kong	Hong Kong	Ordinary shares HK$1	–	100%	Trading of securities
Victory Medical Laboratory Limited	Hong Kong	Hong Kong	Ordinary shares HK$1,000	–	97%	Provision of medical laboratory testing services and health check services
T. F. Industries Limited	Hong Kong	Hong Kong	Ordinary shares HK$1	–	97%	Property investment
貴州雙升製藥有限公司 Guizhou Shuang Sheng Pharmaceutical Co., Ltd. ("**Shuang Sheng**")*	The PRC	The PRC	Registered capital RMB50,000,000	–	51%	Manufacture and sale of proprietary Chinese medicine products and research and development of proprietary Chinese medicine products

* The English name of the subsidiary is used for identification purpose only. The official name of this entity is in Chinese.

The above list contains the particulars of subsidiaries which principally affected the results, assets or liabilities of the Group.

24. INVESTMENTS IN SUBSIDIARIES– *Continued*

The following table shows information on the subsidiary that has non-controlling interests ("**NCI**") material to the Group. The summarised financial information represents amounts before inter-company eliminations.

Shuang Sheng	2017	2016
Principal place of business/country of incorporation	**PRC/PRC**	PRC/PRC
% of ownership interests/voting rights held by NCI	**49%/49%**	49%/49%
	HK$'000	HK$'000
At 31 December:		
Non-current assets	**21,389**	29,807
Current assets	**13,264**	16,395
Current liabilities	**(33,590)**	(21,029)
Net assets	**1,063**	25,173
Accumulated NCI	**521**	12,335
Year ended 31 December:		
Revenue	**8,206**	13,292
Loss	**(24,999)**	(16,974)
Total comprehensive income	**(24,110)**	(19,064)
Total comprehensive income allocated to NCI	**(11,814)**	(9,341)
Dividends paid to NCI	**–**	–
Net cash used in operating activities	**(5,228)**	(8,507)
Net cash used in investing activities	**(2,161)**	(3,743)
Net cash generated from financing activities	**4,800**	11,852
Net decrease in cash and cash equivalents	**(2,589)**	(398)

As at 31 December 2017, the bank and cash balances of the Group' subsidiary in the PRC denominated in RMB amounted to approximately HK$135,000 (2016: HK$14,438,000). Conversion of RMB into foreign currencies is subject to the PRC's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations.

25. INVESTMENTS IN ASSOCIATES

	2017 HK$'000	2016 HK$'000
Unlisted investments:		
Share of net assets	1,382	22,115
Goodwill	3,903	26,628
	5,285	48,743

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

Name	Place of incorporation/ registration	Issued and paid up capital	Percentage of ownership interest/voting power/profit sharing 2017	2016	Principal activities
New Health Elite International Limited ("**New Health**")	BVI	Ordinary shares US$100	22.62%	23%	Investment holding of subsidiaries which are principally engaged in provision of health management and well-being services
Magical Bloom Limited ("**Magical Bloom**")	BVI	Ordinary shares US$100	–	30%	Investment holding of subsidiaries which are principally engaged in sale of medicated oil products
Ultimate Synergy Limited ("**Ultimate Synergy**")	Republic of Seychelles	Ordinary shares US$9,141	–	Approximately 27.8%	Investment holding of subsidiaries which are principally engaged in development, manufacture and sale of branded cosmetic products and as private-label and management of spa centre in Switzerland

The Group has disposed Magical Bloom and Ultimate Synergy during the year ended 31 December 2017 with the consideration of HK$41,000,000 and HK$20,000,000 respectively. Upon the disposal of Ultimate Synergy, the profit guarantee relating to Ultimate Synergy was lapsed during the year ended 31 December 2017.

25. INVESTMENTS IN ASSOCIATES – *Continued*

The following table shows, in aggregate, the Group's share of the amounts of the individually immaterial associate of New Health that are accounted for using the equity method.

	2017 HK$'000	2016 HK$'000
At 31 December:		
Carrying amounts of interests	**5,285**	5,811
Year ended 31 December:		
(Loss)/profit for the year	**(1,989)**	1,254
Other comprehensive income	**(336)**	1,175
Total comprehensive income	**(2,325)**	2,429

As at 31 December 2017, the bank and cash balances of the Group' associates in the PRC denominated in RMB amounted to approximately HK$1,145,000 (2016: HK$8,526,000). Conversion of RMB into foreign currencies is subject to the PRC's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations.

26. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	2017 HK$'000	2016 HK$'000
Unlisted equity securities, at cost	**28,856**	23,816
Less: Impairment loss	**(7,244)**	(3,195)
	21,612	20,621
Analysed as:		
Current assets	**–**	–
Non-current assets	**21,612**	20,621
	21,612	20,621

Unlisted equity securities with carrying amount of approximately HK$21,612,000 (2016: HK$20,621,000) were carried at cost less accumulated impairment loss as they do not have a quoted market price in an active market and their fair value cannot be reliably measured.

All of the available-for-sale financial assets are denominated HK$.

27. INVENTORIES

	2017 HK$'000	2016 HK$'000
Raw materials	1,183	1,821
Work in progress	378	32
Finished goods	5,018	5,542
	6,579	7,395

28. TRADE AND OTHER RECEIVABLES

	2017 HK$'000	2016 HK$'000
Trade receivables	26,828	26,685
Allowance for doubtful debts	(7,580)	(4,711)
	19,248	21,974
Rental and other deposits	4,026	2,031
Other receivables	4,117	11,817
Prepayments	6,541	3,462
Sales proceeds on disposal of associates *(note 41(c))*	20,000	–
Cash held in securities trading accounts with stock brokers	30,013	813
Total trade and other receivables	83,945	40,097

The Group generally allows an average credit period of 90 days (2016: 90 days) for its pharmaceutical products customers and its laboratory testing and health check services customers. Each customer has a maximum credit limit. For new customers, payment in advance is normally required. The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by the directors.

The aging analysis of trade receivables based on the invoice date, and net of allowance, is as follows:

	2017 HK$'000	2016 HK$'000
0 to 90 days	13,202	16,516
91 to 180 days	2,161	2,104
181 to 365 days	2,191	1,604
Over 365 days	1,694	1,750
	19,248	21,974

As at 31 December 2017, an aggregate allowance was made for estimated irrecoverable trade receivables of approximately HK$7,580,000 (2016: HK$4,711,000).

28. TRADE AND OTHER RECEIVABLES – *Continued*

Reconciliation of allowance for doubtful debts:

	2017 HK$'000	2016 HK$'000
At 1 January	**4,711**	116
Allowance for the year	**2,732**	5,075
Amounts written off	**(301)**	(263)
Exchange differences	**438**	(217)
At 31 December	**7,580**	4,711

As of 31 December 2017, trade receivables of approximately HK$6,046,000 (2016: HK$5,458,000) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default. The ageing analysis of these trade receivables past due but not impaired is as follows:

	2017 HK$'000	2016 HK$'000
Less than 90 days	**2,161**	2,104
91 to 275 days	**2,191**	1,604
Over 275 days	**1,694**	1,750
	6,046	5,458

The carrying amounts of the Group's trade receivables are denominated in the following currencies:

	2017 HK$'000	2016 HK$'000
HK$	**16,357**	14,772
USD	**–**	2,782
RMB	**2,891**	4,420
Total	**19,248**	21,974

29. LOAN AND INTEREST RECEIVABLE

The maturity profile of loan and interest receivables at the reporting date is analysed by the remaining periods to their contractual maturity dates as follows:

	2017 **HK$'000**	2016 HK$'000
Loan and interest receivables	**15,017**	–
Less: non-current portion	**–**	–
Current portion	**15,017**	–

As at 31 December 2017, none of loan and interest receivables was past due but not impaired (2016: Nil). As at 31 December 2017, the amount related to a third party customer for whom there were no recent history of default. Based on past experience, the directors of the Group are of the opinion that no provision for impairment on individual loan is necessary for this balance as there has not been a significant change in credit quality. Accordingly, this balance is still considered to be fully recoverable.

None of the loan receivable has past due but not impaired.

The carrying amounts of the loan and interest receivables are denominated in HK$.

All loan and interest receivable carried a fixed rate of 8% per annum, unsecured and are repayable with fixed terms agreed with the customer.

30. HELD FOR TRADING SECURITIES

	2017 HK$'000	2016 HK$'000
Equity securities, at fair value		
Listed in Hong Kong	**2,966**	53,844
Analysed as:		
Current assets	**2,966**	53,844
Non-current assets	**–**	–
	2,966	53,844

The carrying amounts of the above financial assets are classified as follows:

	2017 HK$'000	2016 HK$'000
Held for trading	**2,966**	53,844

The investments included above represent investments in listed equity securities that offer the Group the opportunity for return through dividend income and fair value gains. They have no fixed maturity or coupon rate.

(i) The fair values of listed securities as at 31 December 2016 are based on current bid prices.

(ii) The current bid prices of the listed securities as at 31 December 2017 is not active (i.e. the listed securities has suspended trading at the year ended), the fair value was reference to the valuation performed by an independent professional qualified valuer. The valuation technique included the use of guideline transaction method by market approach.

31. BANK AND CASH BALANCES

As at 31 December 2017, the bank and cash balances of the Group denominated in RMB amounted to approximately HK$222,000 (2016: HK$14,654,000).

32. ASSETS CLASSIFIED AS HELD FOR SALE

	2016 HK$'000
Allied View International Limited	8,777

On 17 November 2016, Dynasty Well Limited, a direct wholly-owned subsidiary of the Company, as vendor, entered into the sale and purchase agreement with an independent third party, as purchaser, to dispose of the entire issued share capital Allied View and the sale loan (the entire sum owed by Allied View to the Company) at a cash consideration of HK$10,000,000. The completion of the disposal took place on 15 February 2017. The major classes of assets and liabilities of Allied View classified as held for sale as at 31 December 2016, are as follows:

	2016 HK$'000
Investment in a joint venture	8,777
Assets classified as held for sale	8,777
Liabilities associated with assets classified as held for sale	–
Net assets classified as held for sale	8,777

33. SHARE CAPITAL

	Notes	**2017** **Number of shares** **'000**	**HK$'000**	2016 Number of shares '000	HK$'000
Authorised:					
At 1 January		**2,000,000**	**200,000**	4,000,000	200,000
Share consolidation	(a)	**–**	**–**	(2,000,000)	–
At 31 December		**2,000,000**	**200,000**	2,000,000	200,000
Issued and fully paid:					
At 1 January		**788,367**	**78,837**	1,313,974	65,699
Share consolidation	(a)	**–**	**–**	(656,987)	–
Shares issued on placements	(b)	**–**	**–**	131,380	13,138
Top-up share subscription	(c)	**68,000**	**6,800**	–	–
At 31 December		**856,367**	**85,637**	788,367	78,837

Notes:

(a) On 8 January 2016, the Board proposed that every 2 existing shares of HK$0.05 each in the issued and unissued share capital of the Company will be consolidated into 1 share of HK$0.1 in the issued and unissued share capital of the Company ("**2016 Share Consolidation**"). The authorised share capital of the Company will be HK$200,000,000 divided into 2,000,000,000 consolidated shares of HK$0.1 each, of which 656,986,750 consolidated shares will be in issue immediately following the 2016 Share Consolidation becoming effective. The 2016 Share Consolidation was conditional upon, among other conditions, the approval by the shareholders of the Company.

The resolution approving the 2016 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 22 February 2016. The 2016 Share Consolidation became effective on 23 February 2016. For details, please refer to the announcements of the Company dated 8 January 2016 and 22 February 2016, and the circular of the Company dated 2 February 2016.

33. SHARE CAPITAL – *Continued*

Notes: – Continued

(b) On 22 July 2016, the Company and Supreme China Securities Limited ("**Supreme**") entered into a placing agreement, pursuant to which Supreme has conditionally agreed to place, on a best endeavours basis, up to 131,380,000 new shares of the Company, to not less than six placees who and whose ultimate beneficial owners are independent third parties at a price of HK$0.169 per placing share ("**2016 Placing**"). The net issue price was approximately HK$0.162 per placing share and the aggregate nominal value of the placing shares under the 2016 Placing was HK$13,138,000. The net proceeds after deduction of expenses from the 2016 Placing were approximately HK$21.22 million. Details of the 2016 Placing are disclosed in the announcements of the Company dated 22 July 2016 and 15 August 2016.

(c) On 12 October 2017, the Company entered into the top-up subscription agreements in respect of the issue and allotment of an aggregate of 68,000,000 ordinary shares of HK$0.70 to Mr. Liu, the executive director of the Company. The subscription was completed on 24 October 2017 and the premium on the issue of shares, amounting to approximately HK$40,800,000 was credited to the Company's share premium account. The net proceeds after deduction of expenses from the top-up share subscription were approximately HK$40,750,000. Details of the top-up share subscription are disclosed in the announcement of the Company dated 24 October 2017.

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern and to maximise the return to the shareholders through the optimisation of the debt and equity balance.

The Group sets the amount of capital in proportion to risk. The Group manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Group may adjust the payment of dividends, issue new shares, buy-back shares, raise new debts, redeem existing debts or sell assets to reduce debts.

The Group monitors capital on the basis of the debt-to-equity ratio. This ratio is calculated as net debt divided by total equity. Net debt comprises bank and other borrowings and loan from non-controlling shareholder of a subsidiary. Total equity comprises all components of equity (i.e. share capital, non-controlling interest and other reserves).

As at 31 December 2017, bank and cash equivalents amounted to approximately HK$73,181,000 (2016: HK$34,695,000), which exceed total debt of approximately HK$41,638,000 (2016: HK$12,721,000). Accordingly, there was no net debt at 31 December 2017 and 2016 and calculation of debt-to-equity ratio at 31 December 2017 and 2016 is not meaningful.

The decrease in the debt-to-adjusted capital ratio during 2017 resulted primarily from increase of cash and cash equivalents.

The externally imposed capital requirements for the Group are: (i) in order to maintain its listing on the Stock Exchange it has to have a public float of at least 25% of the shares; and (ii) to meet financial covenants attached to the interest-bearing borrowings.

The Group receives a report from the share registrars monthly on substantial share interests showing the non-public float and it demonstrates continuing compliance with the 25% limit throughout the year. As at 31 December 2017, 27.2% (2016: 37.5%) of the shares were in public hands.

Breaches in meeting the financial covenants would permit the bank to immediately call borrowings. There have been no breaches in the financial covenants of any interest-bearing borrowing for the years ended 31 December 2017 and 2016.

34. STATEMENT OF FINANCIAL POSITION AND RESERVE MOVEMENT OF THE COMPANY

(a) Statement of financial position of the Company

	2017 HK$'000	2016 HK$'000
Non-current assets		
Investments in subsidiaries	**1,180**	24,451
Property, plant and equipment	**2,182**	886
	3,362	25,337
Current assets		
Prepayments and other receivables	**32,415**	6,773
Amount due from subsidiaries	**170,621**	240,095
Bank and cash balances	**39,361**	8,384
	242,397	255,252
Current liabilities		
Accruals and other payables	**1,012**	1,832
Amount due to subsidiaries	**803**	12,313
	1,815	14,145
Net current assets	**240,582**	241,107
NET ASSETS	**243,944**	266,444
Capital and reserves		
Share capital	**85,637**	78,837
Reserves	**158,307**	187,607
TOTAL EQUITY	**243,944**	266,444

34. STATEMENT OF FINANCIAL POSITION AND RESERVE MOVEMENT OF THE COMPANY – *Continued*

(b) Reserve movement of the Company

	Share premium HK$'000	Share based payment reserve HK$'000	Special reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1 January 2016	270,972	3,385	212,948	(222,512)	264,793
Total comprehensive income for the year	–	–	–	(85,282)	(85,282)
Issue of shares on placement	9,065	–	–	–	9,065
Less: Share issue expenses	(969)	–	–	–	(969)
Transfer of share based payment reserve upon lapse of share option	–	(3,385)	–	3,385	–
At 31 December 2016 and 1 January 2017	279,068	–	212,948	(304,409)	187,607
Total comprehensive income for the year	**–**	**–**	**–**	**(70,050)**	**(70,050)**
Top-up share subscription	**40,800**	**–**	**–**	**–**	**40,800**
Less: Share issue expenses	**(50)**	**–**	**–**	**–**	**(50)**
At 31 December 2017	**319,818**	**–**	**212,948**	**(374,459)**	**158,307**

As at 31 December 2017, the aggregate amount of reserves of the Company available for distribution to owners of the Company was approximately HK$158,307,000 (2016: HK$187,607,000). 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.

35. RESERVES

(a) Group

The amounts of the Group's reserves and movements therein are presented in the consolidated statement of profit or loss and other comprehensive income and consolidated statement of changes in equity.

(b) Nature and purpose of reserves

(i) Share based payment reserve

The share option reserve represents the fair value of the actual or estimated number of unexercised share options granted to employees of the Group recognised in accordance with the accounting policy adopted for equity-settled share-based payments in note 4(u) to the consolidated financial statements.

35. RESERVES – *Continued*

(b) Nature and purpose of reserves – *Continued*

(ii) Special reserve

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, which was transferred to accumulated losses upon disposal of subsidiaries during the year ended 31 December 2016; 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 the domicile and the capital reorganization of the Company which became effective on 28 August 2013 and 19 September 2013 respectively.

(iii) Other reserves

Other reserves arose from the deemed disposal of partial interests in subsidiaries through issue and allotment of new shares by the then subsidiaries to certain independent third parties.

(iv) Statutory surplus reserve fund

Pursuant to the articles of association of certain subsidiaries of the Company in the 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.

(v) Statutory enterprise expansion fund

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.

(vi) Foreign currency translation reserve

The foreign currency translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations. The reserve is dealt with in accordance with the accounting policies set out in note 4(e) to the consolidated financial statements.

36. LOAN FROM A NON-CONTROLLING SHAREHOLDER OF A SUBSIDIARY

	2017 **HK$'000**	2016 HK$'000
Loan from a non-controlling shareholder	**4,759**	3,120

As at 31 December 2017, the Group received an interest free loan of HK$4,948,000 (2016: HK$3,298,000) from a non-controlling shareholder of a subsidiary. The loan will be fully repayable before 31 March 2020. Using prevailing market interest rates for an equivalent loan of 2.3%, the fair value of the loan was estimated at approximately HK$4,759,000 (2016: HK$3,120,000) on initial recognition.

37. DEFERRED TAX

The following are the deferred tax liabilities and assets recognised by the Group.

Deferred tax liabilities

	Accelerated tax depreciation HK$'000
At 1 January 2016	2,012
Credit to profit or loss for the year *(note 12)*	(226)
At 31 December 2016 and 1 January 2017	1,786
Credit to profit or loss for the year *(note 12)*	(188)
At 31 December 2017	1,598

At the end of the reporting period the Group has unused tax losses of approximately HK$150,371,000 (2016: HK$109,950,000) available for offset against future profits. No deferred tax asset has been recognised due to the unpredictability of future profit streams. Included in unrecognised tax losses are losses of approximately HK$30,343,000 (2016: HK$21,965,000) that will expire in 2022 and 2021 respectively. Other tax losses may be carried forward indefinitely.

38. TRADE AND OTHER PAYABLES

	2017 HK$'000	2016 HK$'000
Trade payables	**5,057**	8,390
Accruals	**4,469**	4,733
Receipt in advance	**84**	4,990
Other payables	**8,834**	5,866
	18,444	23,979

The aging analysis of trade payables based on the date of invoice date, is as follows:

	2017 HK$'000	2016 HK$'000
0 to 90 days	**2,186**	5,348
91 to 180 days	**23**	61
181 to 365 days	**75**	2,042
Over 365 days	**2,773**	939
	5,057	8,390

The carrying amounts of the Group's trade payables are denominated in the following currencies:

	2017 HK$'000	2016 HK$'000
HK$	**2,079**	5,235
RMB	**2,978**	3,155
Total	**5,057**	8,390

39. BANK AND OTHER BORROWINGS

	2017 HK$'000	2016 HK$'000
Bank borrowing – secured	**4,005**	5,065
Other borrowings – unsecured	**22,779**	13,789
	26,784	18,854
The borrowings are repayable as follows:		
Within one year	**23,864**	14,849
Portion of bank borrowing that are due for repayment after one year but contain a repayment on demand clause (shown under current liabilities)	**2,920**	4,005
	26,784	18,854
Less: Amount due for settlement within 12 months (shown under current liabilities)	**(26,784)**	(18,854)
Amount due for settlement after 12 months	**–**	–

The carrying amounts of the Group's borrowings are denominated in the following currencies:

	HK$ HK$'000	RMB HK$'000	Total HK$'000
2017			
Bank borrowing – secured	**4,005**	**–**	**4,005**
Other borrowings – unsecured	**–**	**22,779**	**22,779**
	4,005	**22,779**	**26,784**

	HK$ HK$'000	RMB HK$'000	Total HK$'000
2016			
Bank borrowing – secured	5,065	–	5,065
Other borrowings – unsecured	–	13,789	13,789
	5,065	13,789	18,854

39. BANK AND OTHER BORROWINGS – *Continued*

The average interest rates at 31 December were as follows:

	2017	2016
Bank borrowing – secured	**2.3% per annum**	2.3% per annum
Other borrowings – unsecured	**1% per month/ 12% per annum**	1% per month/ 12% per annum

Bank borrowing of approximately HK$4,005,000 (2016: HK$5,065,000) is arranged at HK$ best lending rate minus 2.7% per annum, thus exposing the Group to cash flow interest rate risk. Other borrowings are arranged at fixed interest rates.

Bank borrowing of approximately HK$4,005,000 (2016: HK$5,065,000) is secured by a charge over the Group's land and buildings (note 20).

40. SHARE-BASED PAYMENTS

Equity-settled share option scheme

The Company operates a share option scheme (the "**Scheme**") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants include the full-time and part-time employees, executives, officers, directors, business consultants, agents, legal and financial advisers of the Company and the Company's subsidiaries. The Scheme became effective on 29 May 2014 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

The maximum number of unexercised share options currently permitted to be granted under the Scheme is an amount equivalent, upon their exercise, to 10% of the shares of the Company in issue at any time. The maximum number of shares issuable under share options to each eligible participant in the 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 shares options in excess of this limit is subject to shareholders' approval in a general meeting.

40. SHARE-BASED PAYMENTS – *Continued*

Equity-settled share option 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 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 is determinable by the directors, and commences after a certain vesting period and ends on a date which is not later than 10 years from the date of the offer of the share options or the expiry date of the Scheme, if earlier.

The exercise price of the share options is determinable by the directors, but may not be less than the highest of (i) the Stock Exchange closing price of the Company's shares on the date of the offer of the share options; (ii) the average Stock Exchange closing price of the Company's shares for the five trading days immediately preceding the date of the offer; and (iii) the nominal value of the Company's shares on the date of the offer, when applicable.

Share options do not confer rights on the holder to dividends or to vote at shareholders' meetings.

Details of the specific categories of options are as follows:

Date of grant	Exercise period	Exercise price HK$
28 August 2014	1 January 2015 – 31 December 2016	1.2674

If the options remain unexercised after a period of 5 years from the date of grant, the options expire. Options are forfeited if the employee leaves the Group.

Details of the movement of share options during the year are as follows:

	2017		2016	
	Number of share options	Weighted average exercise price HK$	Number of share options	Weighted average exercise price HK$
Outstanding at the beginning of the year	–	–	6,288,295	1.2674
Lapsed during the year	–	–	(6,288,295)	1.2674
Outstanding at the end of the year	–	–	–	–
Exercisable at the end of the year	–	–	–	–

41. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

(a) Disposal of Jet Rich Group

On 30 March 2017, Luxury Sun Holdings Limited, an indirect wholly-owned subsidiary of the Company, disposed of its entire equity interests in Jet Rich Investment Limited and its subsidiary (collectively referred to as "**Jet Rich Group**") at a cash consideration of HK$12,700,000.

Net assets at the date of disposal were as follows:

	HK$'000
Property, plant and equipment	221
Deposits, prepayments and other receivables	663
Bank and cash balances	12,528
Accruals and other payables	(4,839)
Net assets disposed of	8,573
Release of foreign currency translation reserve	1,728
Gain on disposal of the Jet Rich Group	2,399
Total consideration-satisfied by cash	12,700
Net cash inflow arising on disposal:	
Cash consideration received	12,700
Cash and cash equivalents disposed of	(12,528)
	172

(b) Disposal of V-Express

On 1 June 2017, Icy Snow Limited, a direct wholly-owned subsidiary of the Company, disposed of its entire equity interests in V-Express Pharmaceutical Limited ("**V-Express**") at a cash consideration of HK$50,000.

Net liabilities at the date of disposal were as follows:

	HK$'000
Bank and cash balances	18
Accruals and other payables	(42)
Net liabilities disposed of	(24)
Gain on disposal of V-Express	74
Total consideration- satisfied by cash	50
Net cash inflow arising on disposal:	
Cash consideration received	50
Cash and cash equivalents disposed of	(18)
	32

(c) Major non-cash transaction

During the year, the Group disposed the equity interest in Ultimate Synergy, sales proceeds of HK$20,000,000 had not been received at the end of the reporting period and have been recorded in other receivables. The sales proceeds of approximately HK$16,653,000 was received after the reporting period.

41. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS – *Continued*

(d) Reconciliation of liabilities arising from financing activities

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

	1 January 2017 HK$'000	Cash flows HK$'000	Interest expenses HK$'000	Exchange difference HK$'000	31 December 2017 HK$'000
Bank and other borrowings *(Note 39)*	18,854	4,963	2,090	877	**26,784**
Loan from non-controlling shareholder of a subsidiary *(Note 36)*	3,120	1,650	(11)	–	**4,759**
	21,974	6,613	2,079	877	**31,543**

42. CONTINGENT LIABILITIES

As at 31 December 2017, the Group did not have any significant contingent liabilities (2016: Nil).

43. CAPITAL COMMITMENTS

Capital commitments authorised for at the end of the reporting period but not yet contracted are as follows:

	2017 HK$'000	2016 HK$'000
Investment and construction of a pharmaceutical factory	**25,438**	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 貴州紅花崗經濟開發區委員會 (in English, for identification purpose, 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).

44. LEASE COMMITMENTS

The Group as lessee

At 31 December 2017, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	2017 HK$'000	2016 HK$'000
Within one year	**8,007**	5,935
In the second to fifth years inclusive	**6,759**	5,475
	14,766	11,410

Operating lease payments represent rentals payable by the Group for certain of its offices, warehouses and staff quarters. Leases are negotiated and rentals are fixed for a term ranging from one to eight years (2016: one to eight years) and do not include contingent rentals.

45. RELATED PARTY TRANSACTIONS

The remuneration of directors and other members of key management during the year was as follows:

	2017 HK$'000	2016 HK$'000
Short-term benefits	**5,346**	3,756
Retirement benefits scheme contributions	**23**	83
	5,369	3,839

46. EVENTS AFTER THE REPORTING PERIOD

On 5 January 2018, China Biology Services Group Limited (the "**Purchaser**"), a company incorporated in Hong Kong with limited liability and an indirect wholly-owned subsidiary of the Company, entered into a non-legally finding memorandum of understanding (the "**MOU**") with安徽未名生物醫藥有限公司 (the "**Vendor**") in relation to the Purchaser's possible acquisition of 34.33% equity interest in安徽未名細胞治療有限公司 ("**Sinobioway Cell Therapy Co., Ltd.**"), company incorporated in the PRC with limited liability. The Purchaser will acquire and the Vendor will sell 34.33% equity interest in Sinobioway Cell Therapy Co., Ltd. at a total cash consideration of RMB165,980,000 (equivalent to approximately HK$199,744,000). Details of the MOU were disclosed in the announcement of the Company dated 5 January 2018.

On 12 January 2018, the Company has granted to eligible participants (the "**Grantees**"), subject to acceptance by the Grantees, certain options to subscribe for up to a total of 27,380,000 ordinary shares of nominal value of HK$ 0.10 each in the share capital of the Company. Details were disclosed in the announcement of the Company dated 12 January 2018.

FIVE YEAR FINANCIAL SUMMARY

Results

	For the period/year				
	1.10.2012 – 31.12.2013 HK$'000	1.1.2014 – 31.12.2014 HK$'000	1.1.2015 – 31.12.2015 HK$'000	1.1.2016 – 31.12.2016 HK$'000	**1.1.2017 – 31.12.2017 HK$'000**
Turnover	227,062	140,385	119,386	109,828	**105,135**
Cost of sales	(181,442)	(87,448)	(87,072)	(71,918)	**(74,933)**
Gross profit	45,620	52,937	32,314	37,910	**30,202**
Net loss on financial assets at fair value through profit or loss	(23,910)	(36,916)	(9,094)	(25,679)	**(32,671)**
Other income and gains/(losses)	38,992	1,126	(6,186)	36,064	**667**
Selling and distribution expenses	(35,773)	(31,582)	(27,608)	(24,742)	**(16,807)**
Administrative expenses	(38,545)	(48,995)	(45,067)	(54,056)	**(54,676)**
Loss from operations	(13,616)	(63,430)	(55,641)	(30,503)	**(73,285)**
Finance costs	(4,528)	(4,433)	(3,118)	(2,583)	**(2,189)**
(Loss)/gain on disposal of subsidiaries	–	–	–	(217)	**2,473**
Loss on disposal of assets held for sale	–	–	(986)	–	**(493)**
Loss on deemed disposal of partial interest in a joint venture	–	(5,892)	–	–	**–**
Gain on disposal of associates	–	–	–	–	**8,066**
Share of profits of associates	–	–	1,055	8,648	**6,642**
Share of (loss)/profit of a joint venture	(191)	83	(8,445)	(4,043)	**–**
Impairment loss on available-for-sale financial assets	–	–	–	(3,195)	**(4,049)**
Impairment loss on goodwill	(20,945)	(8,240)	(1,000)	(27,669)	**(1,478)**
Impairment loss on intangible assets	(7,223)	(421)	–	–	**(11,085)**
Loss before tax	(46,503)	(82,333)	(68,135)	(59,562)	**(75,398)**
Income tax (expense)/credit	(778)	(613)	375	(530)	**(1,132)**
Loss for the period/year	(47,281)	(82,946)	(67,760)	(60,092)	**(76,530)**
Loss attributable to:					
Owners of the Company	(47,281)	(82,929)	(62,269)	(50,151)	**(63,022)**
Non-controlling interests	–	(17)	(5,491)	(9,941)	**(13,508)**
Loss for the period/year	(47,281)	(82,946)	(67,760)	(60,092)	**(76,530)**

FIVE YEAR FINANCIAL SUMMARY

Assets and liabilities

	As at				
	31.12.2013	31.12.2014	31.12.2015	31.12.2016	**31.12.2017**
	HK$'000	HK$'000	HK$'000	HK$'000	**HK$'000**
Total assets	274,380	327,016	478,018	322,956	**303,400**
Total liabilities	(146,189)	(129,103)	(135,280)	(47,739)	**(52,092)**
Total equity	128,191	197,913	342,738	275,217	**251,308**
Non-controlling interests	–	(28,643)	(21,680)	(9,707)	**3,366**
Equity attributable to owners of the Company	128,191	169,270	321,058	265,510	**254,674**