



CHINA BIOTECH SERVICES HOLDINGS LIMITED

中國生物科技服務控股有限公司

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

Stock Code: 8037

• 未來生物科技平臺
• Future Biotechnology Platform

• 精準檢測
• Precision Diagnosis

• 精準治療
• Precision Treatment

Annual Report 2020

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CORPORATE INFORMATION

EXECUTIVE DIRECTORS

Mr. Liu Xiaolin (*Co-Chairman*)
 Mr. Yao Michael Yi (*Co-Chairman*)
 Mr. He Xun
 Mr. Huang Song
 Mr. Leung Pak Hou Anson
 Mr. Wang Zheng

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Yan Guoxiang
 Dr. Ho Ivan Chun Kit
 Mr. Qian Hongji

AUDIT COMMITTEE

Mr. Yan Guoxiang (*Chairman*)
 Dr. Ho Ivan Chun Ki
 Mr. Qian Hongji

NOMINATION COMMITTEE

Mr. Liu Xiaolin (*Chairman*)
 Mr. Yan Guoxiang
 Dr. Ho Ivan Chun Kit

REMUNERATION COMMITTEE

Mr. Yan Guoxiang (*Chairman*)
 Mr. Liu Xiaolin
 Dr. Ho Ivan Chun Kit

COMPLIANCE OFFICER

Mr. Leung Pak Hou Anson

COMPANY SECRETARY

Ms. Wong Miu Shun, HKICPA

AUTHORISED REPRESENTATIVES

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 Mr. Wang Zheng

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 Bank of China Limited
 CMB Wing Lung Bank Limited
 Hang Seng Bank Limited
 The Hongkong and Shanghai
 Banking Corporation Limited
 Shanghai Commercial Bank Limited
 Industrial and Commercial Bank of China
 Nanyang Commercial Bank Limited
 Ping An Bank Co., Ltd.

COMPANY WEBSITE

www.cbshhk.com

STOCK CODE

8037

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 2020 (**"2020 Year"**) to the shareholders of the Company.

The 2020 Year was a difficult and extraordinary year. It was a year of advancement giving opportunities for the Group. Together with the Hong Kong government, the Group was on the frontline of the fight against the novel coronavirus, guarding the safety of the family in Hong Kong.

During the 2020 Year, an indirect non-wholly owned subsidiary of the Company, 上海隆耀生物科技有限公司 (in English, for identification purpose only, Shanghai Longyao Biotech Company Limited) (**"Shanghai Longyao"**), made scientific research achievements. Shanghai Longyao's LY007 Cellular Injection is the first and the only CD20-targeted CAR-T product in China whose application for registered clinical trial has been approved. A research paper has been published in a subjournal of "Science".

UNIVERSAL PRECISION TESTING COULD BRING ABOUT CONTINUAL AND STABLE DEVELOPMENT

As a listed company and a leading third-party testing enterprise in Hong Kong, the Group has social responsibility to prioritize the health of Hong Kong citizens. In the early stage of the outbreak of the pandemic, the Group responded quickly and decisively to establish Sunrise Diagnostic Centre Limited (華昇診斷中心有限公司) (**"SDCL"**) with BGI Health (HK) Company Limited (**"BGI"**) to provide sampling and testing services for high-risk groups, including elderly homes, taxi drivers, etc. In September 2020, SDCL participated in the Universal Community Testing Programme to provide Hong Kong citizens with COVID-19 nucleic acid testing services. Sunrise Diagnostic Centre has completed over 1,700,000 tests under the Universal Community Testing Programme. The highest number of tests per day was 230,000. As the only laboratory with the capability to undertake universal nucleic acid testing, the air-inflated Huo-Yan Laboratory of Sunrise Diagnostic Centre cumulatively performed 2,300,000 tests in the 2020 Year, devoting to the prevention and control of the pandemic in Hong Kong.

In December 2020, SDCL moved into the Hong Kong International Airport and set up a mobile laboratory to provide arrival travellers in Hong Kong with one-stop services of nasopharyngeal sampling and two-hour rapid RT-PCR arrival acid testing round the clock, significantly shortening the waiting time of passengers from eight to twelve hours to two to three hours for arrivals. As Hong Kong Airport is an important hub for Asian aviation, the demand for nucleic acid testing for passenger traffic will be a continuous driving force for the Group's healthcare and testing services.

Since its establishment, the nucleic acid testing laboratory has received applause and appreciation from different sectors of the Hong Kong community. This reminds the Group of the importance of social responsibility of a listed company.

Through its testing business, the Group has established close cooperative relationships with wider group organisations/enterprises. The Group will develop its cooperation programmes on providing high-end body checks, precision body checks, vaccines, and other relative services, which will establish a good foundation and customer network. The Group's professionalism, pursuing of service and medical quality have built a good reputation, which has gained recognition from different sectors of the community and has further raised brand awareness and goodwill in Hong Kong. At the same time, the Group has nurtured many professional talents in testing technology and will continue to devote itself to disease prevention and control, cancer examination, and future genomic projects.

CHAIRMAN'S STATEMENT

ENRICHING THE CAR-T RESEARCH AND DEVELOPMENT PIPELINE TO STRENGTHEN INDUSTRY LEADERSHIP

On 21 January 2021, Shanghai Longyao received the approval for clinical trial from the National Medical Products Administration for Shanghai Longyao's product named LY007 Cellular Injection ("**LY007 Cellular Injection**"). The classification of the registration is Class I New Drug.

LY007 Cellular Injection has been developed independently by Shanghai Longyao and incorporates its patented OX40 co-stimulatory signal design. LY007 Cellular Injection is currently the first and the only CD20-targeted CAR-T product in China whose application for registered clinical trial has been approved. The National Medical Products Administration's approval of Shanghai Longyao's clinical trial application for LY007 Cellular Injection demonstrates Shanghai Longyao's capabilities in the research and development of immunocellular drugs.

On 28 January 2021, a paper entitled "A chimeric antigen receptor with antigen-independent OX40 signaling mediates potent antitumor activity" written by Dr. Yang Xuanming (the Chief Scientist of Shanghai Longyao) and others was published in "Science Translational Medicine". The approval of its investigational new drug application (IND) and the publication of the paper in a top international journal are both the recognition of the research and development capabilities of Shanghai Longyao in the field of immune cell drugs and an important milestone in its growth history.

In the 2020 Year, from testing and the fight against the pandemic to scientific research breakthroughs, the Group paid its utmost effort to walk through this extraordinary year of 2020.

Despite the challenging future and trembling pathway on the road, the Group will continue to plough deep, stay grounded, and develop steadily and healthily. We are committed to self invention of the world's best immune cell therapy technology, providing the most precise testing services with the best value for money, and continuously creating greater value for our shareholders.

APPRECIATION

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

Liu Xiaolin

Co-Chairman and Executive Director

Hong Kong, 23 March 2021

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

During the year ended 31 December 2020 ("**2020 Year**"), the principal activities of the Group were (i) provision of tumor immune cell therapy, immune cell storage and health management services in the People's Republic of China (the "**PRC**"); (ii) the manufacture, research and development, sale and distribution of health related and pharmaceutical products in the PRC and Hong Kong; (iii) provision of medical laboratory testing services and health check services in Hong Kong; (iv) provision of insurance brokerage; and (v) trading of securities in Hong Kong.

Turnover

During the 2020 Year, the Group recorded a turnover of approximately HK\$655,792,000, representing a significant increase of approximately 10.07 times as compared with that of approximately HK\$59,214,000 for the year ended 31 December 2019 (the "**2019 Year**"). In view of the rapid spread of the novel coronavirus ("**COVID-19**") epidemic worldwide, tremendous impacts have been brought to the business operation of various industries and overall global economy. In order to capture the market share of demand shift focusing on COVID-19 testing services, the Group has set up a laboratory and an additional temporary laboratory with 16 air membrane in Hong Kong to provide COVID-19 tests to Hong Kong citizens. In the third wave of COVID-19 infection which came in mid-July in Hong Kong, the Group provided COVID-19 testing services for private clinics, and corporate and government clients, and individuals. As a result, the revenue from medical laboratory testing services and health check services segment increased significantly with strategic development and marketing and promotion campaigns for the 2020 Year.

Provision of tumor immune cell therapy services

上海隆耀生物科技有限公司 (in English, for identification purpose only, Shanghai Longyao Biotech Company Limited) ("**Shanghai Longyao**"), an indirect non-wholly-owned subsidiary of the Company, is engaged in tumor immune cell therapy, immune cell storage and health management services in the PRC. Shanghai Longyao has completed the clinical research cooperation for cell therapy with 3 Class III Grade A hospitals in the PRC. Also, Shanghai Longyao has conducted an investigator initiated clinical research on its self-developed new generation of CD20-targeted autologous CAR-T. During 2020 Year, Shanghai Longyao has applied to the Center for Drug Evaluation of the National Medical Products Administration for registration of the clinical trial of a medical product manufactured in China under the product name of LY007 Cellular Injection (the "**LY007 Cellular Injection**"). On 21 January 2021, Shanghai Longyao received the approval letter for clinical trial from the National Medical Products Administration for LY007 Cellular Injection. The classification of the registration is Class I new drug. LY007 Cellular Injection is a chimeric antigen receptor T-cell (CAR-T) injection and is mainly used in the treatment of relapsed/refractory CD20-positive B-cell non-Hodgkin lymphoma, including diffuse large B-cell lymphoma and metastatic follicular lymphoma. LY007 Cellular Injection has been developed independently by Shanghai Longyao and incorporates its patented OX40 co-stimulatory signal design. No turnover from this segment was generated during the 2020 Year.

Manufacture and sale of health related and pharmaceutical products

Manufacture and sale of health related and pharmaceutical products segment recorded a slight decrease during the 2020 Year. The turnover of this segment decreased from approximately HK\$1,448,000 for the 2019 Year to approximately HK\$869,000 for the 2020 Year mainly due to the tough economic environment in Hong Kong and COVID-19 pandemic.

MANAGEMENT DISCUSSION AND ANALYSIS

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 and three medical testing central laboratories. The turnover of this segment has increased from approximately HK\$53,551,000 for the 2019 Year to approximately HK\$646,748,000 for the 2020 Year. It significantly increased by 11.08 times as compared with 2019 Year. To minimise the impact on the performance of the Group resulting from the COVID-19 epidemic, the Group has entered into distribution agreements with suppliers in relation to detection test kit of COVID-19 and provided COVID-19 testing to customers, in order to capture the market share of demand shift focusing on COVID-19 tests. Besides, the Group has set up a laboratory and an additional temporary laboratory with 16 air membrane in Hong Kong to provide COVID-19 tests to Hong Kong citizens and adjusted strategic development and launched marketing and promotion campaigns on medical laboratory testing services and health check services segment. In the third wave of COVID-19 infection which came in mid-July in Hong Kong, the Group provided COVID-19 testing services for private clinics, and corporates and government clients, and individuals. As a result, the revenue from medical laboratory testing services and health check services segment increased significantly for the 2020 Year.

Provision of insurance brokerage services

Having completed the acquisition of 51% issued shares in Fortstone International (Hong Kong) Limited ("**Fortstone**"), a company engaged in insurance brokerage services, on 31 October 2019, the Group has established a foothold in provision of insurance brokerage services and the total turnover from the business was approximately HK\$6,875,000 during the 2020 Year (2019 Year: HK\$2,402,000). Its full year's turnover was recognised for the 2020 Year while only its turnover after the completion of the acquisition in October 2019 was recognised for the 2019 Year.

Money lending business

Ferran Finance Limited, an indirect wholly-owned subsidiary of the Company, is a holder of money lenders license under the Money Lenders Ordinance (Chapter 163 of the Laws of Hong Kong). With the increasing market demands of the micro-financing business in Hong Kong, the Group has utilised HK\$17.1 million for the money lending business. The Group's loan portfolio comprises unsecured loans granted to individual customers. The loan receivables carry an interest rate at 8% to 10% per annum and are repayable within one year. The money lending business recorded an interest income of approximately HK\$1,300,000 for the 2020 Year (2019 Year: HK\$1,688,000).

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

The Group's investment portfolio comprises investments in listed securities in Hong Kong. This business segment recorded a net of loss on financial assets at FVTPL of approximately HK\$47,000 during the 2020 Year (2019 Year: HK\$1,252,000).

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 mitigate possible financial risks related to the equity investments.

Gross profit and gross profit margin

The Group recorded a gross profit of approximately HK\$339,082,000 for the 2020 Year, representing an increase of approximately HK\$316,709,000 when compared with that of approximately HK\$22,373,000 in the 2019 Year. Also, the gross profit margin for the 2020 Year was approximately 51.71%, representing an increase of approximately 13.93 percentage point when compared with the gross profit margin of approximately 37.78% for the 2019 Year. The increase in gross profit margin was attributable to a substantial growth in the turnover from medical laboratory testing services and health check services segment.

MANAGEMENT DISCUSSION AND ANALYSIS

Selling and distribution expenses

Selling and distribution expenses were approximately HK\$11,848,000 (2019 Year: HK\$12,379,000) for the 2020 Year, representing a decrease of approximately HK\$531,000 or 4.29% compared with such expenses for the 2019 Year. The decrease is due to less rental expenses incurred during the 2020 Year.

Administrative expenses

The administrative expenses mainly consisted of staff costs, share-based payment, legal and professional fees, depreciation, research and development costs, and amortisation of intangible assets. The administrative expenses for the 2020 Year were approximately HK\$132,489,000, representing an increase of approximately HK\$38,378,000 or 40.78%, as compared with that of approximately HK\$94,111,000 for the 2019 Year. The increase in administrative expenses was mainly attributable to (i) increase in research and development costs and amortisation of intangible assets of approximately HK\$29,192,000 (2019 Year: HK\$10,680,000) and HK\$8,392,000 (2019 Year: HK\$7,756,000) for the 2020 Year respectively resulted from tumor immune cell therapy services segment; and (ii) increase in staff costs by HK\$8,632,000 due to expansion of medical laboratory testing services and health check services segment.

Finance costs

During the 2020 Year, the Group's interest expenses amounted to approximately HK\$6,498,000 (2019 Year: HK\$1,692,000). The increase in the finance costs was mainly attributable to the issue of convertible bonds during the 2020 Year.

Profit/(loss) for the year

The Group recorded a net profit of approximately HK\$167,623,000 for the 2020 Year (2019 Year: net loss of approximately HK\$107,483,000). The turnaround from net loss for the 2019 Year to net profit for the 2020 Year was mainly attributable to (i) substantial increase in demand for COVID-19 testing services due to third wave of COVID-19 infection in mid-July in Hong Kong; (ii) being one of the participants of COVID-19 testing services under Universal Community Testing Programme for Hong Kong citizens; and (iii) a robust growth in revenue and gross profit from medical laboratory testing services and health check service segment with strategic development and marketing and promotion campaigns.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

Memorandum of understanding in relation to the possible investment in the equity interest in Hechao Reproductive Medical Centre Limited

On 25 March 2020, the Company entered into a non-legally binding memorandum of understanding with 合巢生殖醫學中心有限公司 (in English, for identification purpose only, Hechao Reproductive Medical Centre Limited) ("**Hechao Reproductive Medical Centre**") in relation to the Group's possible investment in Hechao Reproductive Medical Centre, which is a company principally engaged in the provision of reproductive medical services. No legally binding agreement has been entered into by the Company with Hechao Reproductive Medical Centre in respect of the possible investment. Details were disclosed in the announcements of the Company dated 25 March 2020 and 24 June 2020.

Placing of convertible bonds under general mandate and use of proceeds

On 24 April 2020, the Company and Guoyuan Capital (Hong Kong) Limited (the "**Placing Agent**") entered into a placing agreement (the "**Placing Agreement**"), pursuant to which the Placing Agent conditionally agreed, on a best efforts basis, to procure subscriber(s) to enter into a subscription agreement with the Company and to subscribe for and pay for, and the Company conditionally agreed to issue, convertible bonds at the issue price of US\$10,000,000 (the "**Convertible Bonds**") (equal to 100 per cent. of the principal amount of the Convertible Bonds) on the completion date. On the same date, pursuant to the Placing Agreement, the Company further entered into a subscription agreement with Guoyuan Securities Investment (Hong Kong) Limited (the "**Subscriber**") (being the placee procured by the Placing Agent) (the "**Subscription Agreement**") pursuant to which the Subscriber conditionally agreed to subscribe for the Convertible Bonds in the aggregate principal amount of US\$10,000,000 (equivalent to approximately HK\$77,500,000). Based on the initial conversion price of HK\$1.75 per conversion share at the exchange rate of HK\$7.85 to US\$1.00, a maximum number of 44,857,142 conversion shares will be allotted and issued upon exercise of the conversion rights attached to the Convertible Bonds in full. The conversion price represented a premium of approximately 56.25% to the closing price of HK\$1.12 per share of the Company as quoted on the Stock Exchange on 24 April 2020, being the date of the Subscription Agreement. The gross and net proceeds from the subscription (after deducting related expenses) were approximately HK\$77,500,000 and HK\$76,800,000 respectively. The net price of the conversion shares is HK\$1.71 per conversion share. The completion of the placing took place on 11 May 2020. Details of the placing were disclosed in the announcements of the Company dated 24 April 2020, 27 April 2020 and 11 May 2020 respectively.

The Board considered it beneficial to strengthen the capital base of the Group through the placing in preparation for long-term development and further strengthening of financial position of the Group. The issue of the Convertible Bonds would not have an immediate dilution effect on the shareholding of the existing shareholders of the Company and the conversion price is at a premium over the average closing price of the shares of the Company for the last five trading days up to the date of the Subscription Agreement. The Directors also considered that the issue of Convertible Bonds would provide an opportunity for the Company, if the conversion rights attached to the Convertible Bonds are exercised, to enlarge and strengthen its capital base and also broaden its shareholders base by the introduction of new investor.

Grant of share options

On 2 September 2020 and 26 November 2020, the Company granted to eligible participants share options to subscribe for up to a total of 14,660,000 ordinary shares of nominal value of HK\$0.10 each in the share capital of the Company. Details were disclosed in the announcements of the Company dated 2 September 2020, 26 November 2020 and 1 December 2020 respectively.

MANAGEMENT DISCUSSION AND ANALYSIS

Repurchase of shares

During the 2020 Year, the Company repurchased 3,880,000 shares of the Company ranged from HK\$1.01 to HK\$1.33 per share on the Stock Exchange pursuant to the general mandate to repurchase the shares of the Company granted by the shareholders of the Company to the Board at the annual general meeting of the Company held on 15 May 2019 and 26 May 2020 respectively. The Company subsequently cancelled the 2,955,000 and 925,000 repurchased shares on 22 July 2020 and 9 February 2021 respectively.

Disposal of subsidiaries

Having taken into consideration that the performance of Huge Profit Trading Limited and its subsidiary (collectively, the **"Huge Profit Group"**) for the past financial years was not satisfactory, the Directors considered that the disposal of the Huge Profit 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 Huge Profit Group took place on 14 September 2020. For details, please refer to the disclosure made in note 42(c) to the consolidated financial statement.

Sale and purchase agreement and master services agreement

On 30 September 2020, Sunrise Diagnostic Centre Limited (**"SDCL"**), an indirect non-wholly-owned subsidiary of the Company, and BGI Health (HK) Company Limited (**"BGI"**), a company incorporated in Hong Kong with limited liability and the holder of 40% of the issued share capital of SDCL, entered into a master services agreement in respect of the provision of the COVID-19 test services through RT-PCR method. On the same date, SDCL and BGI also entered into a sale and purchase agreement in relation to the sale and purchase of the equipment for performing COVID-19 nucleic acid testing services at a consideration of HK\$145,393,461.77. Details were disclosed in the announcements of the Company dated 30 September 2020 and 18 December 2020 respectively and the circular of the Company dated 22 December 2020.

OUTLOOK

The economic outlook for the coming year will continue to be sluggish with the uncertain geopolitical and macroeconomic environment challenges including the ongoing trade conflict between the US and China and COVID-19 outbreak.

While the novel coronavirus pandemic continues in Hong Kong, the successful research and development of vaccines is expected to mitigate the impact of the pandemic in Hong Kong and the rest of the world. With the continued discovery of variant strains of the novel coronavirus and the postponement of distribution of vaccination worldwide, the recovery of the global economy from the pandemic is expected to be a long and tortuous process.

The Group's business is being affected in various aspects. The continuation of the pandemic will generate revenue through the Group's novel coronavirus testing business and airport testing. As more and more people get vaccinated, the Group will adjust its testing business to capture new opportunities. With more mature continuous measures towards the pandemic, it is expected that the Group will initiate more international collaboration, including overseas registrations in respect of immune cell drug research and development and the introduction of overseas projects.

MANAGEMENT DISCUSSION AND ANALYSIS

According to a report by Market Research Future, the global CAR-T market is expected to grow at a compound growth rate of 59% in the future and will reach US\$8,716.06 million by 2025. In addition, it is expected that China will approve the first CAR-T product for sale on the market in 2021, ushering in a new phase of development for the CAR-T market in China. All these will benefit research and development enterprises of immune cell drugs, which are represented by CAR-T. Up to 23 February 2021, four CAR-T products have been approved for sale on the market in the United States of America.

The Group is confident that in the coming year, we will overcome the challenges and seize opportunities to actively explore the diversification and transformation of our testing business; commence Phase I clinical trials of CAR-T products that have already received clinical approval as soon as possible; advance the research and development and preparation work for clinical approval filing of CAR-T products targeting solid tumors and generic CAR-T products; introduce overseas projects with potential; and deepen our medical and healthcare industry deployment in the Greater Bay Area, striving to become an advanced international biomedical innovation 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 2020, the Group held cash and bank balances of approximately HK\$384,539,000 (2019: HK\$45,518,000), all were principally denominated in Renminbi and Hong Kong dollars. The increase in cash and bank balances of approximately HK\$339,021,000 is mainly due to placing of convertible bonds and generating from operating activities.

As at 31 December 2020, the Group had convertible bonds of approximately US\$9,844,000 (equivalent to approximately HK\$76,292,000) (31 December 2019: HK\$Nil) which are secured by 529,500,546 ordinary shares of the Company held by Genius Lead Limited, the controlling shareholder of the Company and guaranteed by Mr. Liu Xiaolin, co-chairman and executive director of the Company and carried a fixed interest rate of 8.5% per annum and is repayable on 11 May 2022.

As at 31 December 2020, the Group had no loan from controlling shareholder. As at 31 December 2019, the Group had a loan from controlling shareholder of approximately HK\$20,000,000 which was unsecured and carried a fixed interest rate of 6% per annum and was repayable within one year. The loan from controlling shareholder was fully repaid during the 2020 Year.

As at 31 December 2020, the Group had unsecured other borrowing of approximately HK\$10,664,000 (equivalent to approximately USD500,000 and RMB5,700,000) (31 December 2019: unsecured other borrowing of approximately RMB3,500,000 (equivalent to approximately HK\$3,911,000)), which carried a fixed interest rate of 8% to 10% (31 December 2019: 8%) per annum and is repayable within one year.

The increase in the other borrowings were mainly due to the issue of convertible bonds during the 2020 Year.

MANAGEMENT DISCUSSION AND ANALYSIS

As at 31 December 2020, total assets of the Group were approximately HK\$904,121,000 (31 December 2019: HK\$416,584,000), whereas total liabilities were approximately HK\$392,016,000 (31 December 2019: HK\$103,221,000). The gearing ratio of the Group, calculated as total liabilities over total assets, was approximately 43.36% (31 December 2019: 24.78%). Current ratio (defined as total current assets divided by total current liabilities) was 1.64 times (31 December 2019: 1.61 times).

Fortstone, an indirect non-wholly owned subsidiary of the Company, is a holder of insurance broker licence under the Insurance Ordinance. As an insurance brokerage company, Fortstone is subject to capital and net assets requirement under the Insurance Ordinance. Fortstone shall maintain a minimum net assets value and a minimum paid up share capital of HK\$500,000 at all times. Fortstone oversees its compliance with the capital and net assets requirement by monitoring Fortstone's liquid asset and ranking liabilities at all times to ensure they are well above the minimum required level (i.e. HK\$500,000). As at 31 December 2020, Fortstone has complied with the capital and net assets requirement during the 2020 Year.

Capital Structure

As at 31 December 2020, the total issued share capital of the Company was HK\$96,685,115 (31 December 2019: HK\$96,980,615) divided into 966,851,150 (31 December 2019: 969,806,150) ordinary shares of HK\$0.10 each.

Placing of convertible bonds under general mandate and use of proceeds

On 11 May 2020, Convertible Bonds in the total principal amount of US\$10,000,000 were issued by the Company to the Subscriber at the issue price of US\$10,000,000 (equivalent to approximately HK\$77,500,000). Based on the initial conversion price of HK\$1.75 per conversion share at the exchange rate of HK\$7.85 to US\$1.00, a maximum number of 44,857,142 conversion shares will be allotted and issued upon exercise of the conversion rights attached to the Convertible Bonds in full. The use of proceeds from the issue of the Convertible Bonds is as follows:

Intended use	Net proceeds HK\$'000	Utilisation up to 31 December 2020 HK\$'000	Remaining balances as at 31 December 2020 HK\$'000
Repayment of loan and interests to the controlling shareholder	21,000 (equivalent to US\$2.699 million)	21,000 (equivalent to US\$2.699 million)	–
Potential investments	35,000 (equivalent to US\$4.499 million)	35,000 (equivalent to US\$4.499 million)	–
Research and development costs and general working capital	20,800 (equivalent to US\$2.673 million)	20,800 (equivalent to US\$2.673 million)	–

MANAGEMENT DISCUSSION AND ANALYSIS

SIGNIFICANT INVESTMENT HELD AND PERFORMANCE

As at 31 December 2020, the Group's financial assets at fair value through other comprehensive income amounted to approximately HK\$98,845,000 (31 December 2019: HK\$82,622,000) including three (31 December 2019: three) investments in unlisted equity securities. It mainly consisted an investment of approximately HK\$47,006,000 in Pillar Biosciences, Inc. ("**Pillar**") (which represented 5.20% of the total asset of the Group as at 31 December 2020) and an investment of HK\$47,252,000 in Broncus Holding Corporation ("**Broncus**") (which represented 5.23% of the total asset of the Group as at 31 December 2020).

(i) Investment in Pillar

As at 31 December 2020, the Group held approximately 4% (2019: 5.21%) of equity interest of Pillar or 1,638,216 series B preferred stock in Pillar with fair value of HK\$47,006,000 (equivalent to US\$6,064,000) (2019: HK\$38,880,000 (equivalent to US\$4,993,000)) and at an initial investment costs of US\$4,999,999 (equivalent to HK\$39,208,000). Pillar is a precision testing company for cancer based in Boston, Massachusetts, the United States of America with a wholly-owned subsidiary in Shanghai, the PRC. Based on the latest unaudited consolidated financial statements of Pillar for the year ended 31 December 2020, it recorded an unaudited consolidated loss of approximately US\$16.3 million. A fair value gain on the Group's investment in Pillar of approximately HK\$8,126,000 (2019 Year: fair value loss of approximately HK\$328,000) has been recognised in other comprehensive income for the 2020 Year. No dividend income was received from Pillar for both years. The Group believes that the investment in Pillar will create synergies with the Group's medical laboratory testing services and health check services.

(ii) Investment in Broncus

As at 31 December 2020, the Group held approximately 1.63% (2019: 2.05%) of equity interest of Broncus or 1,641,794 series B preferred stock in Broncus with fair value of HK\$47,252,000 (equivalent to US\$6,097,000) (2019: HK\$39,307,000) and at an initial investment costs of US\$5,000,001.54 (equivalent to HK\$39,282,000). Broncus is a company mainly engaged in the development and manufacturing of navigation, diagnostic and therapeutic technologies to treat patients with lung disease. Based on the latest unaudited consolidated financial statements of Broncus for the year ended 31 December 2019, it recorded an unaudited consolidated loss of approximately US\$17.33 million. A fair value gain on the Group's investment in Broncus of approximately HK\$7,945,000 (2019: HK\$Nil) has been recognised in other comprehensive income for the 2020 Year. No dividend income was received from Broncus for both years. The investment in Broncus enables the Group to strategically lay out in precision diagnosis, and to enter into the field of precision treatment. Other than bringing investment return to the Group, the Group will also explore collaborative opportunity with Broncus.

The Group did not hold any other significant investments with a market value that account for more than 5% of the Group's audited total assets as at 31 December 2020.

MATERIAL ACQUISITION AND DISPOSAL OF SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

Except for the disposal of subsidiaries as disclosed in the section headed "BUSINESS REVIEW" above, the Group did not have any other material acquisition or disposal of subsidiaries, associates and joint ventures for the 2020 Year.

MANAGEMENT DISCUSSION AND ANALYSIS

CAPITAL COMMITMENTS

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

CHARGES ON THE GROUP'S ASSETS

As at 31 December 2020 and 2019, the Group had no charge on its assets.

CONTINGENT LIABILITIES

As at 31 December 2020 and 2019, the Group has no contingent liabilities.

FOREIGN EXCHANGE AND INTEREST RATE EXPOSURE

During the 2020 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 2020, the Group had a total of 129 (2019: 143) full time employees which were located in the PRC and Hong Kong. Total staff costs for the 2020 Year was approximately HK\$67,551,000 (2019 Year: HK\$48,739,000).

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 2020 Year were approximately HK\$1,543,000 (2019 Year: HK\$1,597,000).

BIOGRAPHICAL DETAILS OF DIRECTORS

DIRECTORS

Executive Directors

Mr. Liu Xiaolin ("Mr. Liu"), aged 50, 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. Mr. Liu is a vice chairman of the School Council of Nanjing Medical University since November 2018. He possesses over 15 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. Liu is the sole director of Genius Lead Limited (which beneficially owns 529,500,546 shares in the Company) and its holding company, Genius Earn Limited.

Mr. Yao Michael Yi ("Mr. Yao"), aged 62, has been appointed as a co-chairman and executive Director since 20 May 2019. He was a senior medical evaluator of the gene and cellular therapy section of U.S. Food and Drug Administration (the "FDA") from October 2004 to December 2017 and have taken part in the drafting and editing work of the FDA's Guidance for Industry for gene and cellular therapies. Mr. Yao was presented the Outstanding Career Service Award by the FDA in 2017 for his outstanding achievements in the realm of gene and cellular therapy. Mr. Yao received his medical Bachelor's degree in China Medical University, the People's Republic of China in 1983 and completed the program of physical medicine and rehabilitation in Medical College of Wisconsin in 2002. Mr. Yao has been involved in a variety of academic activities in teaching and training programs of regulatory science, tumor immunology therapy and gene therapy. Professionally, Mr. Yao is a member of each of the American Medical Association, the American Society of Neuroscience, the American Academy of Microbiology, the American College of Rheumatology and the American Pain Society. Mr. Yao was also the chief executive officer of Bioceltech Therapeutics (Beijing), Ltd. from October 2018 to May 2019.

Mr. He Xun ("Mr. He"), aged 56, has been appointed as an executive Director on 7 August 2018. He was the founding president of Shenzhen Life Science and Biotechnology Association. Since 2016, Mr. He has been appointed as the general manager of Shenzhen Sinobioway Xinpeng Biomedicine Co., Ltd.* (深圳未名新鵬生物醫藥有限公司) and Jiangsu Sinobioway Biomedicine Co., Ltd.* (江蘇未名生物醫藥有限公司) and the vice president of Beijing Sinobioway Group Co., Ltd.* (北京北大未名生物工程集團有限公司). Since 2018, Mr. He has been appointed as the committee member and investment consultant of Shenzhen Fortune Link Thousand Eagle Growth Equity Investment Fund* (深圳匯富未名千鷹成長股權投資基金合夥企業(有限合夥)). With effect from January 2019, Mr. He is the independent non-executive director of Shenzhen Weiguang Biological Products Co., Ltd. (stock code: 002880.SZ), a company listed on the Shenzhen Stock Exchange. Mr. He obtained a Bachelor's degree in chemical engineering and a Master's degree in chemical engineering from Tsinghua University in 1987 and 1991 respectively. Mr. He also obtained the Degree of Master of Business Administration from the National University of Singapore in 2001.

Mr. Huang Song ("Mr. Huang"), aged 39, has been appointed as a non-executive Director since 15 September 2017 and re-designated as an executive Director on 16 December 2019. Mr. Huang joined the National Institute of Biological Sciences in Beijing (the "Institute"), the People's Republic of China (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.

BIOGRAPHICAL DETAILS OF DIRECTORS

Mr. Leung Pak Hou Anson ("Mr. Leung"), aged 54, 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 15 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 38, 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 SuperRobotics 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.

Independent non-executive Directors

Mr. Yan Guoxiang ("Mr. Yan"), aged 55, has been appointed as an independent non-executive Director on 7 August 2017. Mr. Yan is currently an executive director of Shenzhen Sichen Consulting Service Co., Ltd.* (深圳市士辰諮詢服務有限責任公司). 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. Since November 2015, Mr. Yan is the independent non-executive director of Eaglerise Electric (China) Co., Ltd. (stock code: 002922.SZ), a company listed on the Shenzhen Stock Exchange. Since August 2018, Mr. Yan is the independent non-executive director of Shenzhen Topway Video Communication Co., Ltd. (stock code: 002238.SZ), a company listed on the Shenzhen Stock Exchange.

BIOGRAPHICAL DETAILS OF DIRECTORS

Dr. Ho Ivan Chun Kit (“Dr. Ho”), aged 44, has been appointed as an independent non-executive Director on 31 December 2018. Dr. Ho received his bachelor degree of Arts summa cum laude in Chemistry from Harvard College in Cambridge, MA, USA in 1997 and a medical doctor’s degree from Harvard Medical School in Boston, MA, USA in 2001.

Dr. Ho is currently a Partner in cardiac electrophysiology at Los Angeles Cardiology Associate and an Assistant Health Sciences Clinical Professor of Medicine at University of California Los Angeles David Geffen School of Medicine since 2010. He is the Medical Director of the Complex Ablation Program at the Good Samaritan Hospital, and the assistant director of Atrial Fibrillation Research of Cedars-Sinai Medical Center Health Institute. He is also the director of Cardiac Electrophysiology Program and Laboratory at Garfield Medical Center. Professionally, he is a fellow of Heart Rhythm Society and the America College of Cardiology. Starting in February 2019, he joined the faculty of Keck School of Medicine at University of Southern California where he is an Associate Professor of Clinical Medicine, and the director of Clinical Electrophysiology of Keck Medical Center at University of Southern California.

Mr. Qian Hongji (“Mr. Qian”), aged 45, 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 2020 ("**2020 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 2020 Year, the Company has complied with the code provisions in the Corporate Governance Code (the "**CG Code**") as set out in Appendix 15 to the GEM Listing Rules.

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 2020 Year.

BOARD OF DIRECTORS

Composition

As at 31 December 2020, the Board comprises six executive Directors and three independent non-executive Directors as follows:

Executive Directors

Mr. Liu Xiaolin (*Co-Chairman*)
 Mr. Yao Michael Yi (*Co-Chairman*)
 Mr. He Xun
 Mr. Huang Song
 Mr. Leung Pak Hou Anson
 Mr. Wang Zheng

Independent Non-executive Directors

Mr. Yan Guoxiang
 Dr. Ho Ivan Chun Kit
 Mr. Qian Hongji

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

There is no resignation of Directors during the 2020 Year.

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

CORPORATE GOVERNANCE 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 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 are set out in the section above headed "Biographical Details of Directors" on page 14 to page 16 of this report. Their role and function are published on the websites of the Company and the Stock Exchange. Save as disclosed in this report, none of the Directors has any relationship (including financial, business, and family or other material/relevant relationship) with each other.

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

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

CORPORATE GOVERNANCE REPORT

Attendance of Directors at Meetings

The attendance of the Directors at the general meetings of the Company, the meetings of each of the Board, the Audit Committee, the Remuneration Committee, and the Nomination Committee during the 2020 Year are set out below:

Name of Directors	Board Meeting	Audit Committee Meeting	Remuneration Committee Meeting	Nomination Committee Meeting	General Meeting
Executive Directors					
Mr. Liu Xiaolin	12/12	N/A	2/2	2/2	1/1
Mr. Yao Michael Yi	12/12	N/A	N/A	N/A	1/1
Mr. He Xun	12/12	N/A	N/A	N/A	1/1
Mr. Huang Song	10/12	N/A	N/A	N/A	1/1
Mr. Leung Pak Hou Anson	12/12	N/A	N/A	N/A	1/1
Mr. Wang Zheng	12/12	N/A	N/A	N/A	1/1
Independent non-Executive Directors					
Mr. Yan Guoxiang	12/12	5/5	2/2	2/2	1/1
Dr. Ho Ivan Chun Kit	12/12	5/5	2/2	2/2	1/1
Mr. Qian Hongji	11/12	4/5	N/A	N/A	1/1

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 have prepared minutes of the Board meetings and kept records of matters discussed and decisions resolved at all Board meetings. The Company Secretary also has kept the minutes of the Board meetings, which are open for inspection at any reasonable time on reasonable notice by any Director.

CORPORATE GOVERNANCE REPORT

APPOINTMENT, RE-ELECTION AND REMOVAL OF DIRECTORS

Pursuant to code provision A.4.1 of the CG Code non-executive Directors should be appointed for a specific term, subject to re-election. All 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 at least three independent non-executive Directors; at least one of them has appropriate professional qualification or accounting or related financial management expertise. The Company confirmed that annual confirmations of independence were received from each of the Company's independent non-executive Directors pursuant to Rule 5.09 of the GEM Listing Rules and all independent non-executive Directors are considered to be independent.

BOARD COMMITTEES

As part of the corporate governance practices, the Board has established the Audit Committee, the Nomination Committee and the Remuneration Committee 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 2020 were set out below:

Audit Committee

The Audit Committee is currently composed of three independent non-executive Directors, namely, Mr. Yan Guoxiang (Chairman of Audit Committee), Dr. Ho Ivan Chun Kit and Mr. Qian Hongji. The financial results for the 2020 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;

CORPORATE GOVERNANCE REPORT

- (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 that 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 2020 Year, the Audit Committee had five meetings and has performed the above mentioned principal duties and reviewed the Company's monthly unaudited consolidated financial statements, annual results, annual report, interim report and quarterly reports and to advise and comments thereon to the Board. The Audit Committee has performed the duties to review the compliance procedures, report on the Company's internal control and risk management. The Audit Committee also met the external auditor twice without the presence of the executive Directors. Besides, there is no disagreement between the Board and the Audit Committee regarding the re-appointment of external auditor.

The Audit Committee 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

The Remuneration Committee is currently composed of two independent non-executive Directors, namely Mr. Yan Guoxiang (Chairman of the Remuneration Committee) and Dr. Ho Ivan Chun Kit and one executive Director, namely Mr. Liu Xiaolin, the co-chairman of the Company.

The principal duties of the Remuneration Committee include:

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

The Remuneration Committee held two meetings during the 2020 Year to perform the above mentioned principal duties.

CORPORATE GOVERNANCE REPORT

The following is a summary of work performed by the Remuneration Committee during the 2020 Year:

- (a) reviewing and recommending the policy and structure of the remuneration of the Directors to the Board;
- (b) assessing individual performance of the Directors;
- (c) reviewing specific remuneration packages of the Directors with reference to the Board's corporate goals and objectives as well as individual performances; and
- (d) reviewing and making recommendations to the Board on the appointment letters of each Directors.

Details of the Directors' remuneration and five individuals with highest emoluments are set out in notes 15 and 14 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

The Nomination Committee is currently composed of two independent non-executive Directors, namely Mr. Yan Guoxiang and Dr. Ho Ivan Chun Kit and one executive Director, namely Mr. Liu Xiaolin (Chairman of the Nomination Committee), the co-chairman of the Company.

The Nomination Committee leads the process and makes recommendations for appointments to the Board, whether as additional appointment or to fill up the casual vacancy of directorship as and when they arise, in the light of the business development and requirements of the Company. In evaluating and selecting candidate(s) for directorship, the Nomination Committee considers the criteria of nomination and appointment of the directors as sets out in the director nomination policy of the Company, which include but not limited to the character and integrity; skills and expertise; professional and educational backgrounds; potential time commitment for the board and/or committee responsibilities; and the elements of the board diversity policy of the Company and so on. If the nomination process yields one or more desirable candidates, the Nomination Committee will rank them by order of preference based on the needs of the Company and reference check of each candidate (where applicable). The Nomination Committee will then make recommendation to the Board to appoint the appropriate person among the candidates nominated for directorship. Suitable candidate(s) shall be appointed by the Board in accordance with the bye-laws of the Company and the GEM Listing Rules.

In case of re-appointments of members of the Board at general meetings of the Company, the Nomination Committee will review the overall contribution and service to the Company of the retiring Director and his/her level of participation and performance on the Board, as well as whether the retiring Director continues to meet the nomination and appointment criteria as set out in the director nomination policy of the Company, prior to making recommendations to the Board for its consideration and recommendations to the shareholders of the Company.

CORPORATE GOVERNANCE REPORT

The following is a summary of the work performed by the Nomination Committee during the 2020 Year:

- (a) reviewing and evaluating the structure, size and composition (including the skills, knowledge and experience) of the Board to complement the Company's corporate strategy;
- (b) reviewing and recommending the re-appointment of the retiring Directors at the annual general meeting of the Company held on 26 May 2020;
- (c) assessing independence of the independent non-executive Directors; and
- (d) reviewing and recommending the appointment letters of each Directors.

The principal duties of the Nomination Committee include:

- (a) reviewing the structure, size and composition (including the skills, knowledge and experience) of the Board at least annually and the diversity (including but not limited to gender, age, cultural and education background or professional experience or geography pursuant to Rule 17.104 of the GEM Listing Rules) of the Board on a regular basis and recommending any changes to the Board to complement the Company's corporate strategy;
- (b) identifying individuals suitably qualified to become Board members and selecting or 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, taking into account the Company's corporate strategy and diversity, including but not limited to the proposed candidate's reputation for integrity, qualifications, skills, knowledge and experience that are relevant to the Group's business.

During the 2020 Year, two 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 code provision A.2.1 of the CG Code, the roles of chairman and chief executive 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 should be clearly established and set out in writing. The position of the chairman is co-held by Mr. Liu Xiaolin and Mr. Yao Michael Yi. 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.

CORPORATE GOVERNANCE REPORT

As at 31 December 2020 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. 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.

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 2020 Year.

CONTINUING PROFESSIONAL DEVELOPMENT OF DIRECTORS

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

Directors' training is an ongoing process. During the 2020 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 2020 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.

CORPORATE GOVERNANCE REPORT

During the 2020 Year, the Directors have participated in the following trainings at the Company's expenses:

Name of Directors	Type of trainings	
	Seminars	Reading Materials
<i>Executive Directors</i>		
Mr. Liu Xiaolin	v	v
Mr. Yao Michael Yi	v	v
Mr. He Xun	v	v
Mr. Huang Song	v	v
Mr. Leung Pak Hou Anson	x	v
Mr. Wang Zheng	v	v
<i>Independent Non-executive Directors</i>		
Mr. Yan Guoxiang	v	v
Dr. Ho Ivan Chun Kit	x	v
Mr. Qian Hongji	x	v

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 64 to 71 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 2020 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.

CORPORATE GOVERNANCE REPORT

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 have responsibility to review and monitor the effectiveness of the Group's risk management and internal control systems 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.

CORPORATE GOVERNANCE REPORT

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 2020 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 (i) review of treasury of the Company and inventories cycle of the subsidiaries in Hong Kong for the 2020 Year; and (ii) follow-up review of deficiencies identified in the 2019 Year, which are revenue, capital expenditure and operating expense cycles of the subsidiaries in Hong Kong. The review plan has been approved by the Board and the Audit Committee. The Board and the Audit Committee have 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 2020 Year, issued by the independent professional firm, listed out the findings of the weaknesses identified in the 2020 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 2020 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, and (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 2020 Year.

CORPORATE GOVERNANCE REPORT

Auditor's remuneration

For the 2020 Year, the fee payable to RSM Hong Kong in respect of audit services amounted to HK\$1,100,000 (2019 Year: HK\$980,000) and the fee payable to RSM Hong Kong in respect of non-audit services, which included the reporting accountant for major transaction, amounted to approximately HK\$140,000 (2019 Year: HK\$1,100,000).

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 2020 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 other shareholders' meetings. 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.

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 in accordance with the provisions of the Companies Act 1981 of Bermuda.

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 SGM. The requirements and procedures are set out above in the paragraph headed "Procedures for the Shareholders to Convene a Special General Meeting".

CORPORATE GOVERNANCE REPORT

DIVIDEND POLICY

The Board has approved and adopted a dividend policy on 25 March 2019 ("**Dividend Policy**") which took effect on 25 March 2019. The Dividend Policy allows the shareholders of the Company to participate in the Company's profits by provision of dividends whilst preserving the Company's liquidity to capture future growth opportunities.

According to the Dividend Policy, the Board shall consider the following factors, among others, before proposing and declaring dividends:

- (i) the Group's operation and financial performance;
- (ii) the Group's capital requirements and future funding needs;
- (iii) the liquidity conditions of the Group;
- (iv) the availability of reserves of the Company and each of the members of the Group;
- (v) any restriction on payment of dividends;
- (vi) the general economic conditions and other internal and external factors that may have an impact on the business or financial performance and position of the Group; and
- (vii) any other factors that the Board may consider relevant.

The declaration of dividends by the Company is also subject to the compliance with applicable laws and regulations, including the laws of Bermuda, the GEM Listing Rules, bye-laws of the Company and any applicable laws, rules and regulations. The Dividend Policy will be reviewed from time to time by the Board and may adopt changes as appropriate at the relevant time. There can be no assurance that dividends will be paid in any particular amount for any given period.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

REPORTING SCOPE

China Biotech Services Holdings Limited and its subsidiaries (thereafter “**Group**” or “**We**”) are fully committed to environmental protection, social responsibility and is equipped with the strictest corporate governance. In pursuant to the requirements 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 (the “**GEM Listing Rules**”) of the Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”), we have prepared the *2020 Environmental Social and Governance (“ESG”) Report* (thereafter “**ESG Report**”), covering business segments principally in (i) provision of tumor immune cell therapy, immune cell storage and health management services in the People’s Republic of China (the “**PRC**”); (ii) manufacture, research and development, sale and distribution of health related and pharmaceutical products in PRC and Hong Kong; (iii) provision of medical laboratory testing services and health check services in Hong Kong; (iv) provision of insurance brokerage services; and (v) 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 since 2016 and disclosing results as a year-end summary over the 2020 Year. It is also the intention of our management to provide an overview of the Group’s strategy in managing ESG-related issues, driving for ESG initiatives throughout the Group, and communicating our ESG performance with our stakeholders. This year, the Group has continued to include environmental performance data from previous year to better illustrate our trends in ESG performance. Similarly, this year’s carbon emission reporting continues to account for carbon emission associated with paper waste disposal, electricity used for processing fresh water and sewage by government services and business air travel by employees.

The contents presented in this report should allow various stakeholders, including Company management to review and refine the Group’s ESG policies in order to drive better ESG outcomes for the upcoming years.

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 group’s subsidiaries operating in Hong Kong and Shanghai, namely Shanghai Longyao.

Our reporting period shall cover the dates from **1 January 2020** to **31 December 2020** (the “**2020 Year**”).

STAKEHOLDER ENGAGEMENT

The Group is dedicated to minimising the negative influence on the environment, to promoting our employees’ well-being and to contributing to the community.

To ensure that the Group has adequately addressed the various aspects of ESG associated with its operation, it has consulted both internal and external stakeholders about its potential impacts. The Group understands the importance of maintaining good relationship with stakeholders of different backgrounds, and thus included a wide list of parties as consultation targets.

The below table presents key stakeholders of the Group as well as the methods of communication adopted by the Group to communicate with them through a variety of engagement channels during the 2020 Year.

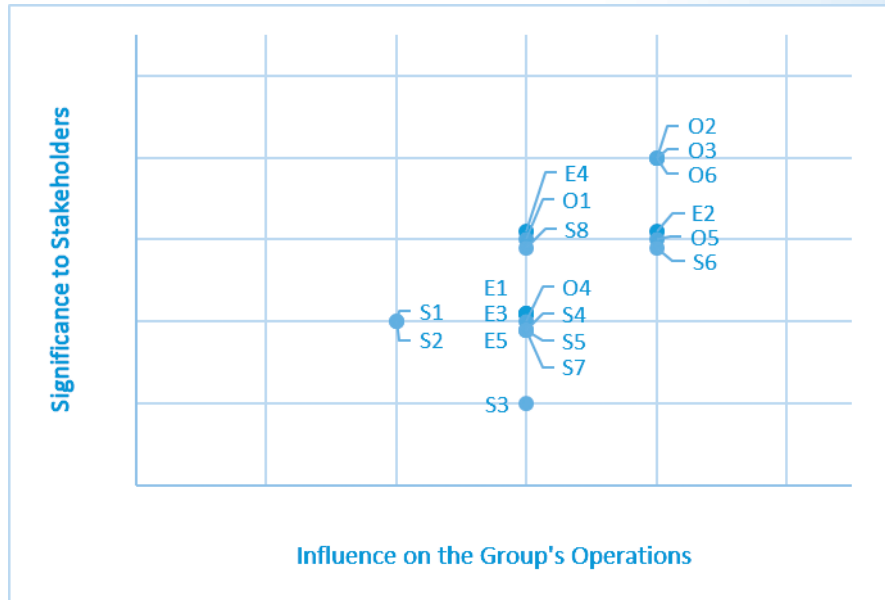
ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Stakeholder Type	Stakeholders	Expectations and Concerns	Engagement Channels
Internal Stakeholders	Employees	<ul style="list-style-type: none"> • Staff salary and benefits • Health and safety of working environment • Training and career development 	<ul style="list-style-type: none"> • Training • Performance Review and Interviews • Internal announcements and publications • Suggestion Box
	Shareholders	<ul style="list-style-type: none"> • Corporate governance • Business compliance • Return on investment 	<ul style="list-style-type: none"> • Press Releases and Announcements • Annual Meeting • Annual, Interim and Quarterly Reports • Company website
	Customers	<ul style="list-style-type: none"> • Customer rights protection • Quality and safety of products and services 	<ul style="list-style-type: none"> • After-sales services • Customer feedback through forms, email and hotline
External Stakeholders	Suppliers	<ul style="list-style-type: none"> • Fair procurement process • Quality of goods • Timely payment for supplied goods/services 	<ul style="list-style-type: none"> • Site visit • Supplier feedback forms
	Government and Regulatory Authorities	<ul style="list-style-type: none"> • Compliance with laws and regulations • Sustainable development 	<ul style="list-style-type: none"> • Supervision on compliance with local laws and regulations • Routine reports to regulatory authorities
	Community	<ul style="list-style-type: none"> • Community involvement • Protection of local environment 	<ul style="list-style-type: none"> • Community activities • Subsidies and Charitable donations

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

MATERIALITY ASSESSMENT

The Group performed a materiality assessment of various ESG topics to identify and evaluate the concerns and interests of the Group's internal and external stakeholders, such as customers, investors, employees, suppliers and the government. The findings of the assessment are presented in a materiality matrix, as shown below:



Legend			
E1	Energy Management	O1	Customer Satisfaction
E2	Environmental Compliance	O2	Product Quality Management
E3	Greenhouse Gas Management	O3	Product Sales and Labelling
E4	Waste Management	O4	Raw Materials Management
E5	Wastewater Management	O5	Supplier Management
		O6	Anti-Corruption
		S1	Anti-discrimination
		S2	Child Labour and Forced Labour Management
		S3	Community Relations
		S4	Diversity and Equal Opportunity
		S5	Employee Communication
		S6	Occupational Safety and Health
		S7	Talent Management
		S8	Training and Development

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

ENVIRONMENT

The Group understands the importance of environmental protection, recognises the potential environmental impacts associated with our operational activities, and strives to minimise our impacts. While we aim to generate revenue for our shareholders, as well as providing high quality products and professional services to our customers, the Group established sets of **Environmental Policy** to ensure compliance with all applicable laws and regulatory requirements in both the PRC and Hong Kong. Our policies also set the direction, and as a guideline for our employees, on best managing our environment impacts on the local environment according to different activities throughout our operations. The key features of our environmental policies include:

- Monitoring of compliance with all applicable environmental laws, standards and regulations;
- Developing a culture of environmental protection among staff members;
- Promoting public awareness of environmental sustainability issues through resource conservation 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 where possible. Awareness programme on environmental protection is also promoted internally throughout our operations. We encourage our clients to work together with us to continuously improve our environmental performance.

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 an Energy Conservation and Efficiency Policy and practices in offices and the adoption of green technologies in our operations, 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 shall 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 and energy-efficient working environment; and
- Energy-conservation practices on utilising electronic devices are adopted throughout working premises, such as electronic appliances shall be switched off or set into energy saving mode when idle.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Paper Saving Measures

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

Water Conservation Policy

- We encourage our staff to be cautious of water consumption during daily operations.

Resource	Annual Consumption		Consumption Intensity/per HKD1000 revenue	
	2020	2019	2020	2019
Electricity	874,427 kWh	681,363 kWh	1.33 kWh	11.54 kWh
Water	6,989 m³	1,272 m ³	0.01 m³	0.21 m ³

The increase in resource consumption during 2020 was mainly due to the incorporation of consumption data from new laboratories.

Air Emission

In Hong Kong and the Pearl River Delta, key air pollutants from human activity include: nitrogen oxides ("NO_x"), sulphur oxides ("SO_x") and respiratory suspended particles ("RSP", also known as Particulate Matter ("PM")). The primary sources of these atmospheric air pollutants include emissions from motor vehicles, marine vessels, power plants as well as local industrial and commercial processes. The Group operates private cars as part of its operations and the associated air emissions have been identified and evaluated. Air emissions are evaluated based on statistics associated with fossil fuel consumption and vehicle usage. The amount of air emissions produced by the Group during the reporting period included 7.5 kg of NO_x, 0.19 kg of SO_x, and 0.49 kg of particulate matter (5.1 kg, 0.16 kg and 0.38 kg respectively in 2019).

Other than vehicle emissions, the Group has not been involved in any combustion process, industrial or heavy transportation activities that could lead to other direct air emissions to the atmosphere.

Greenhouse Gas Emissions

The Group recognizes that greenhouse gas (GHG) emissions is an important metric for environmental performance, hence it is one of our long-term goals to reduce the amount of greenhouse gas emissions associated with our operations. The Group's main source of greenhouse gas emissions originate from its electricity consumption.

The Group estimated its greenhouse gas emissions for the reporting period through the use of data associated with electricity and fossil fuel consumption. To convert energy consumption figures into equivalent greenhouse gas emissions, emission factors obtained from utility invoices, along with reputable third-party references (including electricity & gas consumption data and associated carbon intensity factors), were used in the calculation. In addition to the quantity of carbon dioxide (CO₂) emissions, the greenhouse gas emission calculations also consider the global warming contribution associated with other emitted substances, including methane (CH₄) and nitrous oxide (N₂O), whose impacts are expressed in equivalent quantities of carbon dioxide (CO_{2e}) to determine the cumulative environmental impact of Group's operations with respect to global warming.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

For this reporting period, the Group has started to collect indirect greenhouse gas emission data from sources other than electricity generation, also referred to as Scope 3 emissions. This includes emissions associated with fresh water processing and business air travel.

During the reporting period, no violations were recorded with respect to relevant environmental laws and regulations. The total greenhouse gas emissions associated with the Group's operations during the reporting period was estimated to be 465 tCO_{2e}.

Greenhouse Gas Emissions



WASTE MANAGEMENT

Hazardous Waste

The Group's operation in Hong Kong includes a laboratory testing facility and a clinical product packaging line, where operation activities inevitably contribute to the generation of clinical waste. A Waste Management Policy was developed to provide guidance on the proper handling and management of generated clinical waste, and to ensure compliance with legal requirements of *Waste Disposal Ordinance (Chapter 354 of the Laws of Hong Kong)* and *Waste Disposal (Clinical Waste) (General) Regulation (Chapter 354O of the Laws of Hong Kong)*.

The Group places a strong emphasis on the industry-specific clinical waste matter and has formed strict policies addressing its management. We have our Management of Clinical Waste policy in place to ensure the proper disposal of such clinical wastes.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Furthermore, the Group had formed the Laboratory Safety Committee to ensure the laboratories were being operated in accords to safety procedures. It is also the duty of the committee to manage clinical waste that includes and is not limited to the following:

- Segregate clinical waste from other waste streams and prevent clinical waste from entering and contaminating the disposal chain of municipal solid waste
- Package and label clinical waste properly to enable easy identification, including information on the source of generation to ensure proper handling
- Provide safe and secure temporary storage area for clinical waste
- Collection of clinical waste by licensed clinical waste collectors for disposal
- Record keeping
- Staff safety training for handling of clinical waste

Leak-proof containers were utilised to contain laboratory waste, ensuring they were impermeable to moisture and prevented from tearing or rupture 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. Containers awaiting disposal are stored in well-ventilated areas within the premise, used solely for the storage of clinical waste.

In regards to clinical waste disposal, the Group had hired clinical waste contractors to collect and dispose of clinical waste safely and legally. In summary, and after careful investigation, the Group has no non-compliant activities in respect of our hazardous waste and its handling procedures.

The Group recognised its achievements for the past consecutive years and seeks to maintain this clean record on hazardous waste handling.

Non-Hazardous Waste

For non-hazardous waste, the Group kept a close working relationship with employees to promote waste reduction. Measures such as paper recycling, and the appropriate use of recycled paper was encouraged in workplaces. In addition, the Group took the initiative further by driving towards a paper-less working environment. Staff were encouraged to work and communicate through emails and e-format documents instead of paper copies. During the reporting period, the total paper consumption was about 4 tonnes. In addition, the Group consumed and disposed of 47,580 masks, 196,367 gloves, 5,750 lab gowns, 15,100 nurse caps and 4,200 face shields from its laboratory operations. Due to the nature of the Group's business operations, no packaging materials were consumed by the Group during this reporting period.

Waste	Annual Production	
	2020	2019
Hazardous Waste	6.2 tonnes	6.8 tonnes
Non-Hazardous Waste	3.6 tonnes	2.4 tonnes
Wastewater	425 m³	1,030m ³

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Summary

The consolidated data with respect to key performance indicators (KPIs) regarding emissions and resource consumption associated with the Group during the reporting period is summarized below:

Environmental KPIs			
Category	Unit	2020	2019
Energy Consumption			
Total Energy Consumption	GJ	3,597	2,837
Petrol Consumption	GJ (L)	445 (12,862)	384 (11,112)
Electricity Consumption	GJ (kWh)	3,148 (874,427)	2,453 (681,363)
Towngas Consumption	GJ	4	–
Total Consumption Intensity	GJ/1000 HKD revenue	0.005	0.048
Greenhouse Gas Emissions			
Total Greenhouse Gas (GHG) Emissions	t CO _{2e}	465	541
Scope 1 - Direct Emissions	t CO _{2e}	35	30
Carbon Dioxide (CO ₂) Emissions	t	31	26
Methane (CH ₄) Emissions	kg	3	3
Nitrous Oxide (N ₂ O) Emissions	kg	14	12
Scope 2 – Energy Indirect Emissions	t CO _{2e}	339	467
Scope 3 - Other Indirect Emissions	t CO _{2e}	30.9	43.7
Fresh Water Processing	t CO _{2e}	6.1	1.2
Paper Waste Disposed at Landfills	t CO _{2e}	19.2	19.3
Employee Business Travel	t CO _{2e}	5.6	23.2
Total Greenhouse Gas (GHG) Emissions Intensity	t CO _{2e} /1000 HKD revenue	0.00071	0.009
Air Emissions			
Nitrogen Oxides (NO _x) Emissions	kg	7.5	5.1
Sulphur Oxides (SO _x) Emissions	kg	0.19	0.16
Particulate Matter Emissions	kg	0.49	0.38
Waste Management			
Total Hazardous Waste Produced	t	6.2	6.8
Total Non-Hazardous Waste Produced	t	3.6	2.4
Total Hazardous Waste Intensity	kg/1000 HKD revenue	0.0094	0.1148
Total Non-Hazardous Waste Intensity	kg/1000 HKD revenue	0.0055	0.0405
Total Wastewater Generation	m ³	425	1,030

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Environmental KPIs			
Category	Unit	2020	2019
Use of Resources			
Total Water Consumption	m ³	6,990	1,272
Total Water Consumption Intensity	m ³ /1000 HKD revenue	0.011	0.021

SOCIAL

The business of the Group spreads across several industrial sectors, involving a large number of great individuals working with us. Offering our staff with competitive compensation, while treating them with equality and fairness, and complying with laws and regulations have always been part of the Group's guidance 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 that the success of all companies depends largely on the quality of their **People**. The Group recognizes the contribution from its capable workforce and the success that they bring, and their works of excellence must be well-compensated. The Group offers competitive remuneration and benefits schemes to its staff to retain and to procure best talents to match with our long-term organizational growth.

Remuneration Committee

The Remuneration Committee was set up to enable the Group to attract, retain, and motivate 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 Group, 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.

The Group's management regularly reviews remuneration packages of employees, implements targeted performance assessment and makes necessary adjustments according to the prevailing market and industry trends, inflation, and both corporate and employee performance in the previous year. Remuneration package is also related to both the position value and employee performance, which will be assessed by targets and Key Performance Indicators 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 developed to promote the awareness of operation safety, and to drive for the best practices in our premises. We strive to maintain a high level of occupational safety and health standard, and to provide a safe and comfortable working environment to our employees.

The Group strictly complies with *Occupational Safety and Health Ordinance (Chapter 509 of the laws of Hong Kong)*, and no work-related injuries nor lost days were recorded during the reporting period.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Hong Kong

The Group's **Safety Policy** has strict guidelines on laboratory conduct to ensure a safe working environment. Procedures were developed on classification of various types of hazardous materials into specific risk groups, along with proper management in the workspace (i.e. chemicals, reagent, equipment, etc.). Appropriate handling measures are assigned to each family of substances according to their risk levels, and details can be found as below:

1. Strict compliance with ISO 15189:2012 and the Safety Manual, which specifies the basic rules for safety practices in the laboratory.
2. A Laboratory Safety Committee has been established, supervising laboratory safety performance, identifying safety issues, providing relevant safety procedures and arranging trainings to employees.
3. Thorough safety check-up carried out for laboratory units and surrounding areas once every two years.
4. Provision of suitable protective equipment to employees when handling potential hazardous materials.

Shanghai

One of the Group's primary subsidiaries, Shanghai Longyao, which also operates in compliance with our safety culture, has developed a comprehensive procedure for handling of biological wastes, as detailed below:

1. Biological wastes are segregated into respective categories prior to collection, including infectious wastes, pathological wastes, medical waste and chemical waste. Containers used for hazardous waste must be carefully examined for any potential damages or leakages prior to use, to minimize the occurrence of personnel exposure.
2. Wastes potentially containing high-risk agents such as bacterial cultures and toxic venoms should be adequately sterilized by autoclave or by chemical treatment at the production source prior to collection.
3. To reduce the risks of overfilling, containers for collecting medical wastes and sharps are only used up to 75% of their overall volume.
4. Temporary storages of medical waste are set to allow short-term placement of potentially hazardous substances prior to subsequent disposal by authorized agencies. Holding in temporary storages are limited to 2 days maximum, with the storage designed to protect against leakages, and from extreme temperatures/humidity.

In 2020, the Group had no material non-compliance with relevant standards, laws, rules and regulations relating to providing a safe working environment and protecting employees from occupational hazards. In addition, no major accident was encountered during the operation in 2020.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

COVID-19 Response

During the COVID-19 pandemic, the Group proactively introduced a set of comprehensive measures for our employees to prevent the spread of the coronavirus and maintain a safe environment at our working locations. Work-related travel and events, both domestic and international, are suspended to limit exposure to external personnel, in addition to the use of virtual meetings wherever possible. For members of our staff that normally commute by public transportation, the Group encouraged them to work from home as a precaution. Additionally, as a family-friendly measure, work-from-home option is offered to staff members who need to stay home to take care of children.

Strict hygiene rules were implemented at our offices, including mandatory measurement of body temperature prior to entry and wearing of masks at all times. The Group advised its staff to wash their hands frequently and avoid touching their faces to minimise the possibility of catching an infection. Should any members of the staff develop any COVID-19 symptoms, they are advised to take extra precautionary measures, including the taking on sick leaves to seek any necessary medical advice.

Training and Developments

The Group views employees as one of its greatest assets. High-caliber talents equipped with professional training are vital to sustain our success. The Group encourages employees to learn continuously, not only to ensure they perform well at their jobs, but also for their personal growth and career development.

The Group's management has developed specific Training Policy for employees, including:

- Ensure that employees are supported and equipped with necessary knowledge and skill set to meet the changing demands of the Group and its service users so that the Group achieves its strategic objectives;
- Facilitate employee development and 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.

Where possible, we also collaborate with external education institutes to provide internal training courses on different subjects. The courses are tailored specifically to the needs of our operations and are structured to enhance and develop the required skill sets for our staff. The total number of training hours received by our Hong Kong employees during the reporting period is 7.5 hours.

Newly-recruited employees of the Group are provided with orientation training, which covers topics such as:

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

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Equal Opportunities, Diversity and Anti-Discrimination

Employees Composition/Equal Opportunities

The Group's Human Resource Policy and Procedures are designed and implemented in compliance with applicable laws and requirements. Each regional or local management team is responsible for maintaining 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. The Group does not discriminate against person regardless of sex, marital status, family status, pregnancy, disability, age, sexual orientation, race and color, descent, ethnic, nationality and religion.

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 Code 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.

The Group stipulated the terms in the employment contract about the working hours, rest and leave entitlement. The Group also instituted an eight-hour working day and five-day working week system.

Labour Standard

The Group does not tolerate the involvement of forced and child labour in its operations, and strictly abides with laws and regulations relating to labour employment and contracts. The Group's employment policy clearly stipulates that recruits should be at least 18 years of age, and employment of child labour is prohibited. Necessary measures are taken during the recruitment process to verify the age of job applicants, and background checks will be conducted for every new employee for confirming the details concerning the identity of candidates.

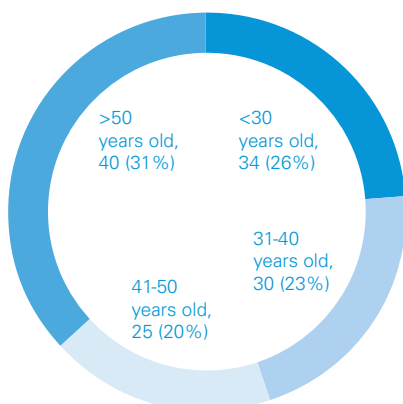
During the reporting period, the Group had no known material instances of non-compliance with relevant employment and labour practices laws and regulations.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

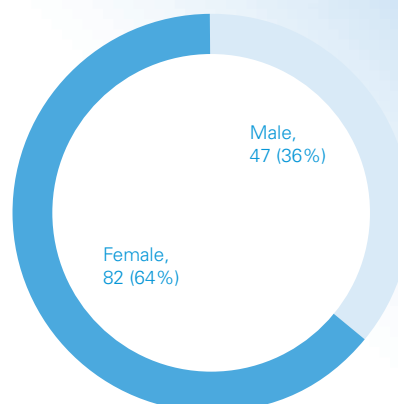
Employee Demographics

In this reporting period, the Group has 107 full-time employees in Hong Kong; and 22 full-time employees in its PRC operations. During the reporting period, the overall turnover rate across the Group was 3%.

Age Distribution



Gender Distribution



Supplier Management Hong Kong

The Group has strict policy on procurement process of supplies consumed during operations. Quality Managers are assigned to be responsible for ensuring the quality of the products are up to the Group's requirement. Reagents and equipment will only be purchased from reliable vendors which are ISO accredited, reputable, reliable in provision of safety services, cost-effective and responsive to our requests, etc.. Revision and re-evaluation of our list of suppliers are conducted annually to ensure that our evaluation of our approved suppliers remains up to date. Should any consumables or reagents is found to be defective or considered substandard, a request for replacement of the defective products will be made to the to supplier, and such incidents may be recorded in our supplier evaluation system for subsequent consideration.

Shanghai

In line with the supplier management standards set by the Group, Shanghai Longyao adopts an assessment matrix to evaluate the suitability of its suppliers, covering the following aspects:

- Supplier Survey
- Product Quality Agreement
- Storage Conditions
- Product Quality Standards
- Analysis of product quality
- Certification (including licenses and registration documents)
- GMP certificate

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Where required, on-site assessment/reassessment of suppliers will be performed to thoroughly evaluate the supplier. An on-site assessment team will be assembled, featuring specialists in various disciplines, including quality management, production, materials, packaging, manufacturing equipment and laboratory systems.

Quality Assurance

Hong Kong

In 2020, one of the Group's medical laboratories have obtained College of American Pathologists qualification. The Group strives to continue its efforts in assuring the highest quality standards of its products. To achieve this, the performance of our operational items, such as our Quality Management System, Organisation and management are regularly assessed. Comprehensive internal audits are conducted annually for close monitoring, and findings will be documented in a formal report format for record purpose. Furthermore, the results of the audit shall be reviewed by the Laboratory Supervisor, and subsequently reported to the senior management regularly for continuous improvement.

Shanghai

A "Procedure of Quality Risk Management" has been developed for the purpose of quality assurance and control of potential risk factors that may negatively impact product quality. A systematic risk assessment is adopted to identify potential causes of product quality risk, estimate their occurrence likelihood and severity of such incidents. For each identified potential risk factor, existing safeguards are identified and evaluated to see whether the residual risk is considered acceptable. Where required, risk mitigation measures will be proposed for consideration by management.

Additionally, a number of common assessment tools for risk management have been employed, including Failure Modes, Effect and Criticality Analysis (FMECA), Fault Tree Analysis (FTA) and Hazard & Operability (HAZOP) Studies. Used in tandem, the assessments provide the management with opportunities to minimize quality risk and develop strategies for continuous improvement.

Data Protection

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

At the laboratories, the Group's **Confidentiality Policy** ensures that the personal information of examinees is carefully handled and stored properly. Stored 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 authorisation was granted by the examinee or the request of the examinee's doctor, patient reports shall not be released to any external party, including the examinee's family members.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Anti-Corruption

The Group is strictly complying with all legal requirements against corruption, and is fully committed to restricting all forms of illegal activities, including corruption, without exception. Staff are requested to understand and work with us to safeguard the Group throughout their daily operation, to prohibit and prevent money laundering activities. To maintain transparency and promote integrity and accountability, the Group established whistleblowing channels for reporting inappropriate conducts and other suspicious irregular activities which are identified to be against relevant internal policies and guidelines. In order to strengthen our employees' understanding on the topic of anti-corruption, regular internal trainings are organized, which feature case studies and recommended measures to avoid situations which may be associated with non-compliance activities. A working guideline on "Anti-Corruption Measures" has been prepared by the Group, and made available for full access to all of its employees.

During 2020, the Group was unaware of any action that non-compliance with laws and regulations relating to corruption, bribery, extortion, fraud and money laundering.

COMMUNITY

Community Investment

The Group encourages employees' active participation in serving the local community, and we take the lead in making donations to various charity organisations.

The Group will continue its efforts in community services, encourage employees' participation in 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 2020 ("**2020 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 Suites 1904-05A, 19/F, Sino Plaza, 255-257 Gloucester Road, Causeway Bay, Hong Kong.

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 include but are 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.

DIRECTORS' REPORT

(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 Good 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); (vi) Insurance Ordinance (Chapter 41 of the law 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.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal activities of its subsidiaries are set out in note 23 to the consolidated financial statements.

RESULTS AND DIVIDENDS

The results of the Group for the 2020 Year are set out in the consolidated statement of profit or loss and other comprehensive income on pages 72 to 73. 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 74 and note 32(a) to the consolidated financial statements of this report respectively.

The Board does not recommend the payment of a dividend for 2020 Year (year ended 31 December 2019 ("**2019 Year**"): HK\$Nil).

SEGMENT INFORMATION

An analysis of the principal activities and geographical locations of operations of the Group for the 2020 Year is set out in note 10 to the consolidated financial statements.

CHARITABLE DONATIONS

During the 2020 Year, the Group made charitable donations amounting to approximately HK\$812,000 (2019 Year: HK\$329,000).

MAJOR CUSTOMERS AND SUPPLIERS

For the 2020 Year, the percentages of turnover and purchases attributable to the Group's major customers and suppliers are set out below:

Turnover

The largest customer	71.07%
Five largest customers in aggregate	84.83%

Purchases

The largest supplier	49.72%
Five largest suppliers in aggregate	84.82%

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

DIRECTORS' REPORT

SHARE CAPITAL

Details of the movements in the share capital of the Company during the 2020 Year are set out in note 31 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) Issuance of convertible bonds

On 24 April 2020, the Company and Guoyuan Capital (Hong Kong) Limited (the "**Placing Agent**") entered into a placing agreement (the "**Placing Agreement**"), pursuant to which the Placing Agent has conditionally agreed, on a best efforts basis, to procure subscriber(s) to enter into a subscription agreement with the Company and to subscribe for and pay for, and the Company has conditionally agreed to issue, convertible bonds at the issue price of US\$10,000,000 (the "**Convertible Bonds**") (equal to 100 per cent. of the principal amount of the Convertible Bonds) on the completion date. On the same date, pursuant to the Placing Agreement, the Company further entered into a subscription agreement with Guoyuan Securities Investment (Hong Kong) Limited (the "**Subscriber**") (being the placee procured by the Placing Agent) pursuant to which the Subscriber has conditionally agreed to subscribe for the Convertible Bonds in the aggregate principal amount of US\$10,000,000 (equivalent to approximately HK\$77,500,000). Based on the initial conversion price of HK\$1.75 per conversion share at the exchange rate of HK\$7.85 to US\$1.00, a maximum number of 44,857,142 conversion shares will be allotted and issued upon exercise of the conversion rights attached to the Convertible Bonds in full. The completion of the placing took place on 11 May 2020. Details of the placing were disclosed in the announcements of the Company dated 24 April 2020, 27 April 2020 and 11 May 2020 respectively.

(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 2020 Year, 9,660,000 and 5,000,000 share options were granted on 2 September 2020 and 26 November 2020 respectively.

The details of the share option scheme of the Company are set out in note 41 to the consolidated financial statements.

DIRECTORS' REPORT

RESERVES

Details of the movements in the reserves of the Group and the Company during the 2020 Year are set out in the consolidated statement of changes in equity on page 75 and in note 32(b) to the consolidated financial statements respectively.

DISTRIBUTABLE RESERVES

For the 2020 Year, the Company's distributable reserves are set out in note 32(b) to the consolidated financial statements.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the 2020 Year are set out in note 19 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.

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 162 to 163 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 2020 Year; (ii) particulars of important events affecting the Group that have occurred since the end of the 2020 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 5 to 13 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 30 to 44 of this report.

DIRECTORS' 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), Insurance Ordinance (Cap. 41 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 2020 Year and up to the date of this report, save as disclosed in this report, the Group has complied with the relevant laws and regulations that have significant impact on the Group in Hong Kong and the PRC.

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 2020 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.

DIRECTORS' REPORT

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 30 to 44 of this annual report.

DIRECTORS

The Directors during the 2020 Year and up to the date of this report were:

Executive Directors

Mr. Liu Xiaolin (*Co-Chairman*)
 Mr. Yao Michael Yi (*Co-Chairman*)
 Mr. He Xun
 Mr. Huang Song
 Mr. Leung Pak Hou Anson
 Mr. Wang Zheng

Independent Non-executive Directors

Mr. Yan Guoxiang
 Dr. Ho Ivan Chun Kit
 Mr. Qian Hongji

No Director resigned during the 2020 Year and up to the date 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 shall hold office only until the next following general meeting of the Company after his appointment and shall be eligible for re-election.

In addition, pursuant to bye-law 84(1) of the bye-laws of the Company, at each 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. He Xun, Mr. Leung Pak Hou Anson and Dr. Ho Ivan Chun Kit will retire and, being eligible, offer themselves for re-election at the forthcoming AGM.

DIRECTORS' REPORT

DIRECTORS' BIOGRAPHIES

Biographical details of the Directors of the Company are set out on pages 14 to 16 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 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

Save for the related party transaction of the Group as disclosed in note 46 to the consolidated financial statements, no Director or an entity connected with a Director, had material interest, either directly or indirectly, in any transactions, arrangements and contract 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 2020 Year.

CONTRACTS BETWEEN THE COMPANY AND ITS CONTROLLING SHAREHOLDERS

Save for the related party transactions disclosed in note 46(a) to the consolidated financial statements, no contract of significance, whether for provision of services or otherwise, between the Company or any of its subsidiaries and the controlling shareholder of the Company or any of its subsidiaries subsisted at any time during the year under review.

PLEDGING OF SHARES BY THE CONTROLLING SHAREHOLDER AND LOAN AGREEMENTS WITH COVENANTS RELATING TO SPECIFIC PERFORMANCE BY THE CONTROLLING SHAREHOLDER

The Convertible Bonds are secured by a personal guarantee executed by Mr. Liu Xiaolin (the "**Individual Guarantor**"), executive Director and co-chairman of the Company, a corporate guarantee executed by Genius Lead Limited (the "**Corporate Guarantor**"), a controlling shareholder of the Company, and a share charge (the "**Share Charge**") over 529,500,546 shares of the Company held by Genius Lead Limited (the "**Charged Shares**").

Pursuant to the terms and conditions of the Convertible Bonds, it is an event of default if (i) the controlling shareholder of the Company, namely, the Corporate Guarantor ceases to hold 51% or more equity interest directly or indirectly in the Company (unless otherwise agreed by the Subscriber in writing), or (ii) the Individual Guarantor ceases to be a Director and the chairman of the Board, or (iii) the Individual Guarantor ceases to hold 51% or more beneficial interest directly or indirectly in the Company (unless otherwise agreed by the Subscriber in writing), or (iv) if there is a breach of any warranty, representation or statement to be made or given, or any other obligations, by the Corporate Guarantor and the Individual Guarantor under the personal guarantee and the corporate guarantee and the Share Charge including without limitation the warranty that the Corporate Guarantor shall be the legal and beneficial owner of the Charged Shares during the subsistence of the Share Charge. As at the date of this report, the Corporate Guarantor beneficially owns the Charged Shares, representing approximately 54.85% of the issued share capital of the Company.

DIRECTORS' REPORT

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 2020 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 2020 Year.

EMOLUMENT POLICY

The emolument policy of the Directors and senior management of the Group is set up by the remuneration committee of the Board on the basis of their merits, qualifications and competences. The emoluments of the Directors are decided by the Board on the recommendation of the remuneration committee of the Board, having regard to market competitiveness, individual performance and achievement. The Company has adopted a share option scheme as an incentive to Directors and eligible participants, details of the scheme are set out in note 41 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 2020 Year by bands is as follows:

Emoluments bands	Number of individuals
HK\$Nil to HK\$1,000,000	–
HK\$1,000,001 to HK\$1,500,000	–
HK\$1,500,001 to HK\$2,000,000	2
HK\$2,000,001 to HK\$2,500,000	1
HK\$2,500,001 to HK\$3,000,000	–
HK\$3,000,001 to HK\$3,500,000	–
HK\$5,000,001 to HK\$5,500,000	1
HK\$8,000,001 to HK\$8,500,000	1

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

DIRECTORS' REPORT

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

As at 31 December 2020, 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 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 Xiaolin ("Mr. Liu")	Interest of a controlled corporation	529,500,546 (Note b)	54.77%
	A concert party to an agreement to buy shares as described in s317(1)(b) of the SFO	128,300,000 (Note c)	13.27%
	Total	657,800,546	68.04%

Notes:

- (a) As at 31 December 2020, the total number of the issued shares of the Company was 966,851,150 ordinary shares of HK\$0.10 each of the Company.
- (b) Genius Lead is the registered and 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.
- (c) Pursuant to an agreement in respect of the sale and purchase of the Company's shares between Mr. Liu and Bright Joy Ventures Limited dated 11 September 2018, Bright Joy Ventures Limited, Mr. Yau Wing Yiu and Genius Lead further entered into a concert party agreement on 11 September 2018. As such, Mr. Liu was deemed to be interested in the shares which Genius Lead was interested in the capacity of a concert party. Further, Mr. Liu also made a loan to Bright Joy Ventures Limited to buy the relevant shares as described in s317(1)(b) of the SFO.

On 11 March 2019, the concert party agreement expired and Mr. Liu was no longer deemed to be interested in the shares beneficially held by Mr. Yau Wing Yiu. Mr. Liu remains to be interested in 128,300,000 shares as the lender of the loan to Bright Joy Ventures Limited to buy the relevant shares as described in s317(1)(b) of the SFO.

DIRECTORS' REPORT

(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%

(iii) Long position in share options granted

Name of Directors	Nature of interest	Date of Grant	Exercise period	Exercise price per share	Aggregate long position in the underlying shares	Approximate percentage (note a)
Mr. Liu	Beneficial owner	12 January 2018	12 January 2020 to 11 January 2022	HK\$1.67	520,000	0.05%
	Beneficial owner	20 August 2019	20 August 2020 to 19 August 2023	HK\$1.68	960,000	0.10%
Mr. Wang Zheng	Beneficial owner	12 January 2018	12 January 2020 to 11 January 2022	HK\$1.67	2,700,000	0.28%
	Beneficial owner	20 August 2019	20 August 2020 to 19 August 2023	HK\$1.68	600,000	0.06%
Mr. Huang Song	Beneficial owner	12 January 2018	12 January 2020 to 11 January 2022	HK\$1.67	2,700,000	0.28%
Mr. Yao Michael Yi	Beneficial owner	20 August 2019	20 August 2020 to 19 August 2023	HK\$1.68	9,680,000	1.00%
Mr. He Xun	Beneficial owner	2 September 2020	2 September 2021 to 1 September 2024	HK\$2.00	9,660,000	1.00%
Total					26,820,000	2.77%

Note:

- (a) As at 31 December 2020, the total number of the issued shares of the Company was 966,851,150 ordinary shares of HK\$0.10 each of the Company.

Save as disclosed above, as at 31 December 2020, 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.

DIRECTORS' REPORT

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

As at 31 December 2020, 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	54.77%
Genius Lead (Note b)	Beneficial owner	529,500,546	54.77%
Bright Joy Ventures Limited	Beneficial owner	128,300,000	13.27%
	A concert party to an agreement to buy shares as described in s317(1)(b) of the SFO	530,980,546 (Note c)	54.92%
Yau Wing Yiu	Beneficial owner	7,720,000	0.80%
	Interest of a controlled corporation	659,280,546 (Note d)	68.19%
Guoyuan Securities Investment (Hong Kong) Limited (Note e)	Beneficial owner	44,857,142	4.64%
	Person having a security interest in shares	529,500,546	54.77%
Guoyuan International Holdings Limited (Note e)	Interest of a controlled corporation	574,357,688	59.40%
Guoyuan Securities Co., Ltd. (Note e)	Interest of a controlled corporation	574,357,688	59.40%

Notes:

- (a) As at 31 December 2020, the total number of the issued shares of the Company was 966,851,150 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.
- (c) Pursuant to an agreement in respect of the sale and purchase of the Company's shares between Mr. Liu and Bright Joy Ventures Limited dated 11 September 2018, Bright Joy Ventures Limited, Mr. Yau Wing Yiu and Genius Lead further entered into a concert party agreement on 11 September 2018. As such, Bright Joy Ventures Limited was interested in the shares which Genius Lead and Yau Wing Yiu were interested in the capacity of a concert party. Further, Mr. Liu also made a loan to Bright Joy Ventures Limited to buy the relevant shares as described in s317(1)(b) of the SFO.

On 11 March 2019, the concert party agreement expired and Bright Joy Ventures Limited ceased to be interested in the shares beneficially held by Mr. Yau Wing Yiu. Bright Joy Ventures Limited, as borrower of loan from Mr. Liu to buy relevant shares, remains to be interested as a concert party to an agreement to buy the relevant shares as described in s317(1)(b) of the SFO in the 530,980,546 shares of the Company in which Mr. Liu is interested (including the 529,500,546 shares held by Genius Lead and the 1,480,000 shares for which Mr. Liu may subscribe under the share options granted to him).

- (d) Bright Joy Ventures Limited is wholly-owned by Mr. Yau Wing Yiu. As such, Mr. Yau Wing Yiu is deemed to be interested in the shares of the Company in which Bright Joy Ventures Limited is interested (including the 530,980,546 shares in which Bright Joy Ventures Limited is interested as a concert party to an agreement to buy the relevant shares as described in s317(1)(b) of the SFO).

DIRECTORS' REPORT

- (e) Guoyuan Securities Investment (Hong Kong) Limited is wholly-owned by Guoyuan International Holdings Limited. As such, Guoyuan International Holdings Limited is deemed to be interested in the shares of the Company held by Guoyuan Securities Investment (Hong Kong) Limited. Guoyuan International Holdings Limited is wholly-owned by Guoyuan Securities Co., Ltd.. As such, Guoyuan Securities Co., Ltd. is deemed to be interested in the shares of the Company in which Guoyuan International Holdings Limited is interested.

Save as disclosed above, as at 31 December 2020, 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.

SHARE OPTION SCHEME

Pursuant to an ordinary resolution passed by the shareholders of the Company on 29 May 2014, the Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success the Group's operation. The principal terms of the share option scheme are set out in note 41 to the consolidated financial statements. Details of movements in the Company's share options during the year ended 31 December 2020 are set out as follows:

Name of Grantees	Date of grant	Exercise price per share (HK\$)	Number of Shares over which options are exercisable					Balance as at 31 December 2020	Exercise period
			Balance as at 1 January 2020	Granted during the 2020 Year	Exercised during the 2020 Year	Lapsed during the 2020 Year	Cancelled during the 2020 Year		
Directors									
Mr. Liu	12 January 2018	1.67	780,000 (Note 1)	–	–	260,000	–	520,000	Note 6
	20 August 2019	1.68	960,000 (Note 3)	–	–	–	–	960,000	Note 8
Mr. Wang Zheng	12 January 2018	1.67	4,000,000 (Note 1)	–	–	1,300,000	–	2,700,000	Note 6
	20 August 2019	1.68	600,000 (Note 3)	–	–	–	–	600,000	Note 8
Mr. Huang Song	12 January 2018	1.67	4,000,000 (Note 1)	–	–	1,300,000	–	2,700,000	Note 6
Mr. Yao Michael Yi	20 August 2019	1.68	9,680,000 (Note 3)	–	–	–	–	9,680,000	Note 8
Mr. He Xun	2 September 2020	2.00	–	9,660,000 (Note 4)	–	–	–	9,660,000	Note 9
Sub-total			20,020,000	9,660,000	–	2,860,000	–	26,820,000	

DIRECTORS' REPORT

Name of Grantees	Date of grant	Exercise price per share (HK\$)	Number of Shares over which options are exercisable					Balance as at 31 December 2020	Exercise period
			Balance as at 1 January 2020	Granted during the 2020 Year	Exercised during the 2020 Year	Lapsed during the 2020 Year	Cancelled during the 2020 Year		
Consultants	12 January 2018	1.67	15,600,000 (Note 1)	–	–	5,200,000	–	10,400,000	Note 6
	20 August 2019	1.68	9,680,000 (Note 3)	–	–	–	–	9,680,000	Note 8
	26 November 2020	2.00 to 2.20	–	5,000,000 (note 5)	–	–	–	5,000,000	Note 10
Sub-total			25,280,000	5,000,000	–	5,200,000	–	25,080,000	
Employees	4 October 2018	1.71	3,000,000 (Note 2)	–	–	1,000,000	–	2,000,000	Note 7
	20 August 2019	1.68	4,500,000 (Note 3)	–	–	–	–	4,500,000	Note 8
Sub-total			7,500,000	–	–	1,000,000	–	6,500,000	
Total			52,800,000	14,660,000	–	9,060,000	–	58,400,000	

Notes:

- The share options were granted on 12 January 2018. The closing price of the Shares on the date of grant was HK\$1.67 per Share.
- The share options were granted on 4 October 2018. The closing price of the Shares on the date of grant was HK\$1.71 per Share.
- The share options were granted on 20 August 2019. The closing price of the Shares on the date of grant was HK\$1.35 per Share.
- The share options were granted on 2 September 2020. The closing price of the shares on the date of grant was HK\$1.53 per Share.
- The share options were granted on 26 November 2020. The closing price of the shares on the date of grant was HK\$1.43 per Share.
- The share options are exercisable to subscribe for (i) a maximum of one-third of the shares granted to each grantee in respect of the share options from 12 January 2019 to 11 January 2020; (ii) a maximum of another one-third of the shares granted to each grantee in respect of the share options from 12 January 2020 to 11 January 2021; and (iii) a maximum of the remaining one-third of the shares granted to each grantee in respect of the share options from 12 January 2021 to 11 January 2022.
- The share options are exercisable to subscribe for (i) a maximum of one-third of the Shares granted to the grantee in respect of the share option from 4 October 2019 to 3 October 2020; (ii) a maximum of another one-third of the Shares granted to the grantee in respect of the share option from 4 October 2020 to 3 October 2021; and (iii) a maximum of the remaining one-third of the Shares granted to the grantee in respect of the share option from 4 October 2021 to 3 October 2022.
- The share options are exercisable to subscribe for (i) a maximum of one-third of the Shares granted to the grantee in respect of the share option from 20 August 2020 to 19 August 2021; (ii) a maximum of another one-third of the Shares granted to the grantee in respect of the share option from 20 August 2021 to 19 August 2022; and (iii) a maximum of the remaining one-third of the Shares granted to the grantee in respect of the share option from 20 August 2022 to 19 August 2023.

DIRECTORS' REPORT

9. The share options are exercisable to subscribe for (i) 3,220,000 Shares from 2 September 2021 to 1 September 2022; (ii) 3,220,000 Shares from 2 September 2022 to 1 September 2023; and (iii) 3,220,000 Shares from 2 September 2023 to 1 September 2024.
10. The share options are exercisable to subscribe for (i) 1,665,000 shares from 26 November 2021 to 25 November 2022 at exercise price of HK\$2.00; (ii) 1,665,000 shares from 26 November 2022 to 25 November 2023 at exercise price of HK\$2.10; and (iii) 1,670,000 shares from 26 November 2023 to 25 November 2024 at exercise price of HK\$2.20.

Reasons for the grant of share options to consultants

The Group positions itself as a science and technology group in biomedical field with a view to achieving application of advanced medical technologies from around the world in the PRC and the Greater Bay Area. Given the current background and experience of the Board, the Group has been engaging biomedical professionals and consultants to strengthen its knowledge on industry development and technical background.

The consultants were, and will mainly be, consulted by the Company for marketing and introduction guidance, information and guidance on the latest bio-technology, advices on potential projects and review of investment opportunities to support the Group's business expansion and development. In view of their experience and background in the healthcare and medical industry, the Company considered that the consultants would provide significant contributions to the business development of the Company.

The grant of the share options, which shall be vested by stages, will provide incentives and rewards for the consultants to contribute to the success of the Company's operations and future development and is consistent with the purpose of the share option scheme. Further, the grant of the share options will not have any adverse impact on the cash flow of the Group and the Company can receive subscription money upon exercise of the share options. The Directors believed that the grant of the share options to the consultants is fair and reasonable and in the interests of the Company and its shareholders as a whole.

DIRECTORS' RIGHTS TO ACQUIRE SHARES AND DEBENTURES

At no time during the 2020 Year or at the end of the 2020 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 except for the share options granted to five Directors on 12 January 2018, 20 August 2019 and 2 September 2020.

DIRECTORS' REPORT

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the 2020 Year, a total of 3,880,000 ordinary shares of the Company were repurchased by the Company on the Stock Exchange. 2,955,000 repurchased shares and 925,000 repurchased shares were subsequently cancelled by the Company on 22 July 2020 and 9 February 2021 respectively. The Directors believe that the repurchases reflect the Company's confidence in its long-term business prospects and would ultimately benefit the Company and create value for the shareholders of the Company. Details of the repurchases of shares of the Company are as follows:

Date of repurchase	Number of shares	Repurchased price per share		Consideration HK\$
		Highest HK\$	Lowest HK\$	
13 May 2020	75,000	1.08	1.01	76,550
14 May 2020	230,000	1.13	1.02	247,300
15 May 2020	355,000	1.11	1.02	380,600
18 May 2020	85,000	1.13	1.05	92,300
19 May 2020	220,000	1.13	1.07	240,800
20 May 2020	120,000	1.13	1.08	133,750
21 May 2020	125,000	1.12	1.09	137,950
22 May 2020	195,000	1.11	1.08	213,700
25 May 2020	235,000	1.13	1.07	258,900
27 May 2020	350,000	1.15	1.08	392,600
28 May 2020	55,000	1.13	1.10	61,400
29 May 2020	150,000	1.15	1.10	169,950
1 June 2020	25,000	1.18	1.16	29,200
3 June 2020	45,000	1.15	1.10	51,250
4 June 2020	225,000	1.21	1.12	263,400
5 June 2020	110,000	1.23	1.19	132,150
8 June 2020	5,000	1.20	1.20	6,000
9 June 2020	185,000	1.23	1.14	215,650
10 June 2020	80,000	1.26	1.20	97,450
15 June 2020	40,000	1.28	1.19	49,250
16 June 2020	45,000	1.28	1.26	57,150
15 December 2020	50,000	1.33	1.30	65,450
16 December 2020	100,000	1.31	1.29	130,000
17 December 2020	75,000	1.32	1.29	97,500
18 December 2020	90,000	1.30	1.29	116,700
21 December 2020	60,000	1.30	1.29	77,700
22 December 2020	60,000	1.30	1.29	77,700
23 December 2020	120,000	1.32	1.28	155,900
24 December 2020	60,000	1.30	1.29	77,700
28 December 2020	60,000	1.30	1.29	77,700
29 December 2020	80,000	1.32	1.29	104,000
30 December 2020	50,000	1.30	1.30	65,000
31 December 2020	120,000	1.30	1.28	155,100
Total	3,880,000			4,507,750

Save as disclosed above, there was no purchase, sale or redemption by the Company or any of its subsidiaries, of any listed securities of the Company during the 2020 Year.

DIRECTORS' REPORT

MATERIAL ACQUISITION AND DISPOSAL OF SUBSIDIARIES AND AFFILIATED COMPANIES

Except for the disposal of subsidiaries 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 2020 Year.

RELATED PARTY AND CONNECTED TRANSACTIONS

During the 2020 Year, the Group has entered into the following transactions referred to in note 46(a) to the consolidated financial statements, each of which constituted a non-exempt continuing connected transaction for the Company subject to announcement, annual review and reporting requirements but exempt from the independent Shareholders' approval requirement under Chapter 20 of the GEM Listing Rules, particulars of which were previously disclosed in the announcements of the Company dated 30 September 2020 and 18 December 2020 and the circular of the Company dated 22 December 2020. The Company shall comply with the annual review and reporting requirements for all of the following non-exempt continuing connected transactions under Chapter 20 of the GEM Listing Rules.

Transactions with BGI

(a) Acquisition of property, plant and equipment

On 30 September 2020, Sunrise Diagnostic Centre Limited ("SDCL"), an indirect non-wholly-owned subsidiary of the Company, and BGI Health (HK) Company Limited ("BGI"), a company incorporated in Hong Kong with limited liability and the holder of 40% of the issued share capital of SDCL, entered into a sale and purchase agreement in relation to the sale and purchase of the equipment for performing COVID-19 nucleic acid testing services at a consideration of HK\$145,393,461.77.

(b) Provision of services fee for COVID-19 testing services

On 30 September 2020, SDCL and BGI entered into a master services agreement in respect of the provision of the COVID-19 test services through RT-PCR method. BGI has been providing services for COVID-19 testing services. The services fee is determined based on arm's length negotiations between SDCL and BGI with regard to various factors including but not limited to the scale, scope, type, complexity and duration of the services and the resources required. The unit price charged by BGI for providing the services is equivalent to (or better than) the unit price charged by BGI when providing similar services to independent third parties.

As disclosed in the announcement dated 30 September 2020, the annual cap for the service fee for COVID-19 testing services through RT-PCR method for the 2020 Year was HK\$250,000,000. The amount of services fee for COVID-19 testing services paid by SDCL to BGI for the 2020 Year is approximately HK\$178,015,000.

BGI holds 40% of the issued share capital of SDCL, an indirect 60%-owned subsidiary of the Company. BGI is therefore a connected person of the Company at the subsidiary level. The master services agreement and the transactions contemplated thereunder and the sale and purchase agreement and the transactions contemplated thereunder respectively constitute a continuing connected transaction and a connected transaction with a connected person at the subsidiary level under Chapter 20 of the GEM Listing Rules.

The independent non-executive Directors have conducted an annual review of the implementation of the continuing connected transactions under the master services agreement and confirmed that such transactions have been entered into in the ordinary and usual course of business of the Group, on normal commercial terms or better and the terms are fair and reasonable and in the interests of the Company and its shareholders as a whole.

DIRECTORS' REPORT

During the 2020 Year, the Company has non-compliance with Rule 20.32 and Rule 20.51 of the GEM Listing Rules, the details of which are set out in the announcement of the Company dated 18 December 2020.

To prevent similar non-compliance in the future, the Company has taken and will take the following remedial measures:

- (a) the Company has assigned the chief financial controller of the Company to supervise and monitor all the connected transactions and continuing connected transactions and ensure that there will be written agreements for all the transactions with connected persons and annual caps will be set out in the written agreement for all continuing connected transactions and full compliance with the GEM Listing Rules in respect of such transactions;
- (b) the Company will work closely with its legal advisers on compliance issues; and
- (c) SDCL has already commenced discussion with BGI for the cooperation in 2021 and supply of testing kits to prepare for the potential surge in demand for COVID-19 testing for events such as the potential fourth wave of COVID-19 infections, travel bubbles, potential compulsory testing, potential universal community testing and health code system to ensure that written agreement(s) for the cooperation can be signed in advance and the GEM Listing Rules requirements will be fully complied with.

Other than the related party transaction disclosed in note 46 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 2020 Year.

Save and except (i) the above connected transactions and the loan interest expenses paid to the ultimate controlling party of the Company referred to in note 46(a) to the consolidated financial statements (which was a fully exempt connected transaction) and (ii) the remuneration of directors referred to in note 46(b) to the consolidated financial statements (which was a fully exempt connected transaction), none of the related party transactions disclosed in note 46 to the consolidated financial statements constituted a connected transaction or continuing connected transaction (as defined in the GEM Listing Rules).

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 17 to 29 of this report.

RETIREMENT BENEFITS SCHEMES

Details of the Group's retirement benefits schemes in operation for the 2020 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 his 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.

DIRECTORS' REPORT

CONFIRMATION FROM AUDITOR OF THE COMPANY

The Board of Directors has received an unqualified letter issued by the auditor of the Company in accordance with Hong Kong Standard on Assurance Engagement 3000 (Revised) and with reference to Practice Note 740 issued by the Hong Kong Institute of Certified Public Accountants confirming that:

- (a) nothing has come to their attention that causes them to believe that the above non-exempt continuing connected transactions have not been approved by the Board;
- (b) for transactions involving the provision of goods or services by the Group, nothing has come to their attention that causes them to believe that the transactions were not, in all material respects, in accordance with the pricing policies of the Group;
- (c) nothing has come to their attention that causes them to believe that the transactions were not entered into, in all material respects, in accordance with the relevant agreements governing such transactions; and
- (d) nothing has come to their attention that causes them to believe that the disclosed continuing connected transactions have exceeded the annual cap as set by the Company.

A copy of the letter has been provided by the Company to the Stock Exchange.

SUFFICIENCY OF PUBLIC FLOAT

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

INDEMNITY PROVISIONS

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

There were no changes of auditor of the Company in the past three years.

The consolidated financial statements of the Group for the 2020 Year have been audited by RSM Hong Kong, who will retire and be eligible to offer themselves for re-appointment. A resolution will be submitted to the forthcoming annual general meeting to reappoint auditor and to fix their remuneration.

On behalf of the Board

China Biotech Services Holdings Limited

Liu Xiaolin

Co-Chairman and Executive Director

Hong Kong, 23 March 2021

INDEPENDENT AUDITOR'S REPORT



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TO THE SHAREHOLDERS OF CHINA BIOTECH SERVICES HOLDINGS 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 (the “**Company**”) and its subsidiaries (the “**Group**”) set out on pages 72 to 161 which comprise the consolidated statement of financial position as at 31 December 2020, 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 2020, 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.

INDEPENDENT AUDITOR'S REPORT

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, 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 matters we identified are:

Key Audit Matter

Impairment assessment of goodwill, intangible assets, right-of-use assets and property, plant and equipment ("**PPE**") for the provision of medical laboratory testing services and health check services segment.

Refer to notes 19, 20, 21 and 22 to the consolidated financial statements.

For the year ended 31 December 2020, the Group has not provided any impairment loss on goodwill (2019: HK\$264,000) and intangible assets (2019: HK\$28,838,000). 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, right-of-use assets and intangible assets with finite useful life are tested for impairment when indicators of potential impairment are identified.

How our audit addressed the Key Audit Matter

Our procedures included:

- assessing management's identification of cash-generating units ("**CGUs**"), the amounts of goodwill, intangible assets, PPE and right-of-use assets 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 CGUs;
- 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;

INDEPENDENT AUDITOR'S REPORT

Key Audit Matter

For goodwill, intangible assets, PPE and right-of-use assets 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.

How our audit addressed the Key Audit Matter

- 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; and
- considering the disclosure in the consolidated financial statements in respect of management's impairment assessments.

INDEPENDENT AUDITOR'S REPORT

Key Audit Matter

Impairment assessment of goodwill, intangible assets, right-of-use assets and PPE for the provision of tumor immune cell therapy, immune cell storage and health management services segment.

Refer to notes 19, 20, 21 and 22 to the consolidated financial statements.

At 31 December 2020, the Group has goodwill and intangible assets of approximately HK\$108,388,000 (2019: HK\$106,136,000) and HK\$73,374,000 (2019: HK\$80,560,000) respectively. No impairment loss has been provided during the year. The goodwill and intangible assets arose from the acquisition of Shanghai Longyao Biotech Company Limited ("Shanghai Longyao") in 2019.

Goodwill with an infinite useful life are tested for impairment annually. PPE, right-of-use assets and intangible assets with finite useful life are tested for impairment when indicators of potential impairment are identified.

For goodwill, intangible assets, PPE and right-of-use assets 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 fair value less cost to disposal calculated by 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.

How our audit addressed the Key Audit Matter

Our procedures included:

- assessing management's identification of CGUs, the amounts of goodwill, intangible assets, PPE and right-of-use assets 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 fair value less cost to disposal of the relevant CGUs;
- 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;
- 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; and
- considering the disclosure in the consolidated financial statements in respect of management's impairment assessments.

INDEPENDENT AUDITOR'S REPORT

Key Audit Matter

Impairment assessment of goodwill, intangible assets, right-of-use assets and PPE for the provision of insurance brokerage services.

Refer to notes 19, 20, 21 and 22 to the consolidated financial statements.

At 31 December 2020, the Group has goodwill and intangible assets of approximately HK\$9,207,000 and HK\$1,324,000 respectively. No impairment loss has been provided during the year. The goodwill and intangible assets arose from the acquisition of Fortstone International (Hong Kong) Limited ("**Fortstone**") in 2019.

Goodwill and intangible assets with an infinite useful life are tested for impairment annually. PPE and right-of-use assets with finite useful life are tested for impairment when indicators of potential impairment are identified.

For goodwill, intangible assets, PPE and right-of-use assets 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.

How our audit addressed the Key Audit Matter

Our procedures included:

- assessing management's identification of CGUs, the amounts of goodwill, intangible assets, PPE and right-of-use assets 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 CGUs;
- 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;
- 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; and
- considering the disclosure in the consolidated financial statements in respect of management's impairment assessments.

INDEPENDENT AUDITOR'S REPORT

Other Information

The directors are responsible for the Other Information. The Other Information comprises all of the information included in the 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 HKSAAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

INDEPENDENT AUDITOR'S REPORT

As part of an audit in accordance with HKSAAs, we exercise professional judgement 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.

INDEPENDENT AUDITOR'S REPORT

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, actions taken to eliminate threats or safeguards applied.

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, 23 March 2021

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2020

	Note	2020 HK\$'000	2019 HK\$'000
Revenue	8	655,792	59,214
Cost of sales		(316,710)	(36,841)
Gross profit		339,082	22,373
Net loss on financial assets at fair value through profit or loss		(47)	(1,252)
Other income, gains/(losses)	9	5,817	(959)
Allowance for impairment loss on financial assets, net		(1,145)	(2,996)
Selling and distribution expenses		(11,848)	(12,379)
Administrative expenses		(132,489)	(94,111)
Profit/(loss) from operations		199,370	(89,324)
Finance costs	11	(6,498)	(1,692)
Share of loss of an associate		–	(1,390)
Gain on remeasurement on pre-existing interest in an associate	42(a)	–	8,096
Gain on fair value change of contingent consideration	36	5,494	8,038
Gain on fair value change of derivative financial instrument	34	6,384	–
Loss on disposal of subsidiaries	42(c)	(1,948)	(316)
Impairment loss on goodwill	21	–	(264)
Impairment loss on intangible assets	22	–	(28,838)
Impairment loss on investments in an associate	24	–	(3,903)
Profit/(loss) before tax		202,802	(109,593)
Income tax (expense)/credit	12	(35,179)	2,110
Profit/(loss) for the year	13	167,623	(107,483)
Profit/(loss) for the year attributable to:			
Owners of the Company		30,170	(98,845)
Non-controlling interests		137,453	(8,638)
		167,623	(107,483)

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2020

	Note	2020 HK\$'000	2019 HK\$'000
Profit/(loss) for the year		167,623	(107,483)
Other comprehensive income/(loss) after tax:			
<i>Items that will not be reclassified to profit or loss:</i>			
Fair value change of financial assets at fair value through other comprehensive income (FVTOCI)		16,223	(4,883)
		16,223	(4,883)
<i>Items that may be reclassified to profit or loss:</i>			
Exchange differences on translating foreign operations		2,696	(1,371)
Release of exchange differences upon disposal of investments in subsidiaries	42(d)	–	323
Share of exchange differences of investments in associates		–	(242)
		2,696	(1,290)
Other comprehensive income/(loss) for the year, net of tax		18,919	(6,173)
Total comprehensive income/(loss) for the year		186,542	(113,656)
Total comprehensive income/(loss) for the year attributable to:			
Owners of the Company		49,376	(104,578)
Non-controlling interests		137,166	(9,078)
		186,542	(113,656)
Earnings/(loss) per share	18		
Basic and diluted (cents)		3.1	(10.3)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2020

	Note	2020 HK\$'000	2019 HK\$'000
ASSETS			
Non-current assets			
Property, plant and equipment	19	128,796	23,783
Right-of-use assets	20	18,863	13,135
Goodwill	21	117,595	115,343
Intangible assets	22	88,072	95,258
Investment in an associate	24	–	–
Financial assets at FVTOCI	25	98,845	82,622
Derivative financial assets	34	5,637	–
		457,808	330,141
Current assets			
Inventories	26	5,532	3,426
Trade and other receivables	27	41,533	19,891
Loan and interest receivables	28	13,060	15,952
Held for trading securities	29	1,270	1,317
Income tax recoverable		379	339
Bank and cash balances	30	384,539	45,518
Total current assets		446,313	86,443
TOTAL ASSETS		904,121	416,584
EQUITY AND LIABILITIES			
Share capital	31	96,685	96,981
Other reserves	33	246,646	192,211
Equity attributable to owners of the Company		343,331	289,192
Non-controlling interests		168,774	24,171
Total equity		512,105	313,363
LIABILITIES			
Non-current liabilities			
Convertible bonds	34	76,292	–
Lease liabilities	35	6,786	6,085
Contingent consideration	36	25,799	31,293
Deferred tax liabilities	37	10,825	12,084
		119,702	49,462
Current liabilities			
Trade and other payables	38	213,041	17,328
Loan from a non-controlling shareholder of a subsidiary	39	–	4,939
Lease liabilities	35	12,598	7,271
Borrowings	40	10,664	23,911
Current tax liabilities		36,011	310
Total current liabilities		272,314	53,759
TOTAL EQUITY AND LIABILITIES		904,121	416,584

Approved by the Board of Directors on 23 March 2021 and are signed on its behalf by:

Liu Xiaolin
Director

Wang Zheng
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2020

	Attributable to owners of the Company											Total equity HK\$'000
	Share capital	Share premium	Share repurchase for cancellation	Share-based payments reserve	Special reserve	Other reserves	Financial assets at FVTOCI reserve	Foreign currency translation reserve	Accumulated losses	Sub-Total	Non-controlling interests	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
			(note 33b(i))	(note 33b(ii))	(note 33b(iii))	(Note 33b(iii))	(Note 33b(iv))	(Note 33b(v))				
At 1 January 2019	93,535	443,140	-	12,258	212,948	4,163	(10,402)	650	(432,215)	324,077	(5,162)	318,915
Total comprehensive loss for the year	-	-	-	-	-	-	(4,883)	(850)	(98,845)	(104,578)	(9,078)	(113,656)
Capital injection from non-controlling interests	-	-	-	-	-	-	-	-	-	-	1,950	1,950
Acquisition of subsidiaries	-	-	-	-	-	-	-	-	-	-	36,461	36,461
Share-based payments (note 41)	-	-	-	10,535	-	-	-	-	-	10,535	-	10,535
Share subscription (note 31(b))	580	11,020	-	-	-	-	-	-	-	11,600	-	11,600
Allotment of shares for acquisition of subsidiaries (note 31(a), (c))	2,904	45,163	-	-	-	-	-	-	-	48,067	-	48,067
Repurchase and cancellation of shares (note 31(d))	(38)	(471)	-	-	-	-	-	-	-	(509)	-	(509)
Changes in equity for the year	3,446	55,712	-	10,535	-	-	(4,883)	(850)	(98,845)	(34,885)	29,333	(5,552)
At 31 December 2019	96,981	498,852	-	22,793	212,948	4,163	(15,285)	(200)	(531,060)	289,192	24,171	313,363
At 1 January 2020	96,981	498,852	-	22,793	212,948	4,163	(15,285)	(200)	(531,060)	289,192	24,171	313,363
Total comprehensive income for the year	-	-	-	-	-	-	16,223	2,983	30,170	49,376	137,166	186,542
Capital injection from non-controlling interests	-	-	-	-	-	-	-	-	-	-	6,884	6,884
Share-based payments (note 41)	-	-	-	9,113	-	-	-	-	-	9,113	-	9,113
Lapse of share options (note 41)	-	-	-	(6,277)	-	-	-	-	6,277	-	-	-
Transfer upon disposal of subsidiaries (note 42(c))	-	-	-	-	-	(1,009)	-	-	1,009	-	602	602
Changes in ownership interests in subsidiaries without loss of control	-	-	-	-	-	158	-	-	-	158	(49)	109
Repurchase and/or cancellation of shares (note 31(e), (f))	(296)	(3,012)	(1,200)	-	-	-	-	-	-	(4,508)	-	(4,508)
Changes in equity for the year	(296)	(3,012)	(1,200)	2,836	-	(851)	16,223	2,983	37,456	54,139	144,603	198,742
At 31 December 2020	96,685	495,840	(1,200)	25,629	212,948	3,312	938	2,783	(493,604)	343,331	168,774	512,105

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2020

	Note	2020 HK\$'000	2019 HK\$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit/(loss) before tax		202,802	(109,593)
Adjustments for:			
Finance costs	11	6,498	1,692
Interest income	9	(21)	(189)
Share of loss of an associate		–	1,390
Loss on disposal of subsidiaries	42(c)	1,948	316
Depreciation of property, plant and equipment	19	21,152	5,630
Depreciation of right-of-use assets	20	10,792	6,815
Gain on remeasurement on pre-existing interests in an associate	42(a)	–	(8,096)
Gain on fair value change of contingent consideration	36	(5,494)	(8,038)
Gain on fair value change of derivative financial instrument	34	(6,384)	–
Release of lease liabilities		–	(998)
Amortisation of intangible assets	22	8,392	7,756
Loss/(gain) on disposal of property, plant and equipment	9	39	(534)
Equity-settled share-based payments	41	9,113	10,535
Fair value losses on held for trading securities	29	47	1,252
Write-down for inventories		107	179
Allowance for impairment loss on financial assets, net		1,145	2,996
Impairment loss on goodwill	21	–	264
Impairment loss on intangible assets	22	–	28,838
Impairment loss on investments in associates	24	–	3,903
Written off on property, plant and equipment	9	–	1,960
Written off on right-of-use assets	20	–	989
Operating cash flows before working capital changes		250,136	(52,933)
Increase in inventories		(2,516)	(115)
(Increase)/decrease in trade and other receivables		(22,125)	15,862
(Increase)/decrease in loan and interest receivables		(100)	4,760
Increase in trade and other payables		197,381	2,151
Cash generated from/(used in) operations		422,776	(30,275)
Income taxes paid		(777)	(31)
Net cash generated from/(used in) operating activities		421,999	(30,306)

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2020

	Note	2020 HK\$'000	2019 HK\$'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Net cash inflow on disposal of subsidiaries	42(c)	129	16
Interest received		21	189
Purchase of financial assets at FVTOCI		–	(39,208)
Proceeds from disposal of property, plant and equipment		202	800
Purchases of property, plant and equipment		(126,600)	(7,351)
Capital injection in investment in an associate	42(a)	–	(46,276)
Net cash outflow on acquisition of subsidiaries	42	–	(8,407)
Net cash used in investing activities		(126,248)	(100,237)
CASH FLOWS FROM FINANCING ACTIVITIES			
Repayment of borrowings		(23,936)	(5,669)
Borrowings raised		10,280	23,968
Repayment of lease liabilities		(10,494)	(6,643)
Capital injection from a non-controlling shareholder of a subsidiary		1,936	1,950
Proceeds from share subscription		–	11,600
Proceeds on issue of convertible bonds		76,277	–
Proceeds from share allotment to a subsidiary		109	–
Repurchase of shares		(4,508)	(509)
Interest paid		(5,727)	(1,623)
Net cash generated from financing activities		43,937	23,074
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS			
		339,688	(107,469)
Effect of foreign exchange rate changes		(667)	(1,492)
CASH AND CASH EQUIVALENTS AT 1 JANUARY		45,518	154,479
CASH AND CASH EQUIVALENTS AT 31 DECEMBER		384,539	45,518
ANALYSIS OF CASH AND CASH EQUIVALENTS			
Bank and cash balances	30	384,539	45,518

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

1. GENERAL INFORMATION

China Biotech Services Holdings Limited (the “**Company**”, together with its subsidiaries, the “**Group**”) 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. 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 23 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 (“**BVI**”) 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

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

(a) Application of new and revised HKFRSs

The Group has applied the Amendments to Reference to the Conceptual Framework in HKFRS Standards and the following amendments to HKFRSs issued by the HKICPA for the first time, which are mandatorily effective for the annual period beginning on or after 1 January 2020 for the preparation of the consolidated financial statements:

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

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

Amendments to HKAS 1 and HKAS 8 Definition of Material

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

The application of the amendments had no impact on the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

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

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

The Group has not applied any new and revised HKFRSs that have been issued but are not yet effective for the financial year beginning 1 January 2020. These new and revised HKFRSs include the following which may be relevant to the Group.

	Effective for accounting periods beginning on or after
Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16 Interest Rate Benchmark Reform Phase 2	1 January 2021
Amendment to HKFRS 16, COVID-19-Related Rent Concessions	1 January 2021
Amendments to HKFRS 3 Reference to the Conceptual Framework	1 January 2022
Amendments to HKAS 16 Property, plant and equipment: proceeds before intended use	1 January 2022
Amendments to HKAS 37 Onerous contracts cost of fulfilling a contract	1 January 2022
Annual Improvements to HKFRSs 2018-2020 Cycle	1 January 2022
Amendments to HKAS 1 Classification of liabilities as current or non-current	1 January 2023

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 it has concluded that the adoption of them is unlikely to have a significant impact on the consolidated financial statements.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

4. SIGNIFICANT ACCOUNTING POLICIES – *Continued*

(a) Consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries made up to 31 December. 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.

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).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

4. SIGNIFICANT ACCOUNTING POLICIES – *Continued*

(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 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

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 which is included in the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of acquisition is recognised in consolidated profit or loss.

The Group assesses whether there is an objective evidence that the interest in an associate may be impaired. When any objective evidence exists, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with HKAS 36 as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs of disposal) with its carrying amount. Any impairment loss recognised is not allocated to any asset, including goodwill, that forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with HKAS 36 to the extent that the recoverable amount of the investment subsequently increases.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

4. SIGNIFICANT ACCOUNTING POLICIES – *Continued*

(d) 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.

(iii) **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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

4. SIGNIFICANT ACCOUNTING POLICIES – *Continued*

(d) Foreign currency translation – *Continued*

(iii) Translation on consolidation – *Continued*

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.

(e) Property, plant and equipment

Property, plant and equipment, including building, 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 3-5 years
Land and buildings	Over the shorter of the lease term or 20 years
Motor vehicles	3-10 years
Furniture, fixtures and office equipment	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, with the effect of any changes in estimate accounted for on a prospective basis.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

4. SIGNIFICANT ACCOUNTING POLICIES – *Continued*

(f) Leases

At inception of a contract, the Group assesses whether the contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the customer has both the right to direct the use of the identified asset and to obtain substantially all of the economic benefits from that use.

The Group as lessee

Where the contract contains lease component(s) and non-lease component(s), the Group has elected not to separate non-lease components and accounts for each lease component and any associated non-lease components as a single lease component for all leases.

At the lease commencement date, the Group recognises a right-of-use asset and a lease liability, except for short-term leases that have a lease term of 12 months or less and leases of low-value assets which, for the Group are primarily laptops and office furniture. When the Group enters into a lease in respect of a low-value asset, the Group decides whether to capitalise the lease on a lease-by-lease basis. The lease payments associated with those leases which are not capitalised are recognised as an expense on a systematic basis over the lease term.

Where the lease is capitalised, the lease liability is initially recognised at the present value of the lease payments payable over the lease term, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, using a relevant incremental borrowing rate. After initial recognition, the lease liability is measured at amortised cost and interest expense is calculated using the effective interest method. Variable lease payments that do not depend on an index or rate are not included in the measurement of the lease liability and hence are charged to profit or loss in the accounting period in which they are incurred.

The right-of-use asset recognised when a lease is capitalised is initially measured at cost, which comprises the initial amount of the lease liability plus any lease payments made at or before the commencement date, and any initial direct costs incurred. Where applicable, the cost of the right-of-use assets also includes an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, discounted to their present value, less any lease incentives received. The right-of-use asset is subsequently stated at cost less accumulated depreciation and impairment losses, except for the right-of-use assets that meet the definition of investment property are carried at fair value.

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

4. SIGNIFICANT ACCOUNTING POLICIES – *Continued*

(f) **Leases** – *Continued*

The Group as lessee – *Continued*

The lease liability is remeasured when there is a change in future lease payments arising from a change in an index or rate, or there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, or there is a change arising from the reassessment of whether the Group will be reasonably certain to exercise a purchase, extension or termination option. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The lease liability is also remeasured when there is a change in the scope of a lease or the consideration for a lease that is not originally provided for in the lease contract ("**lease modification**") that is not accounted for as a separate lease. In this case the lease liability is remeasured based on the revised lease payments and lease term using a revised discount rate at the effective date of the modification. The only exceptions are any rent concessions which arose as a direct consequence of the COVID 19 pandemic and which satisfied the conditions set out in paragraph 46B of HKFRS 16. In such cases, the Group took advantage of the practical expedient set out in paragraph 46A of HKFRS 16 and recognised the change in consideration as if it were not a lease modification.

(g) **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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

4. SIGNIFICANT ACCOUNTING POLICIES – *Continued*

(g) Intangible assets – *Continued*

(ii) **Intangible assets acquired separately – brand name, customer relationship, patents and non-competition agreements**

Brand name and non-competition agreements with indefinite useful lives are not amortised. The customer relationship and patents have finite useful lives and is amortised on a straight-line basis over 10 years.

(h) **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.

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

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

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss.

(j) **Financial assets**

All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace. All recognised financial assets are measured subsequently in their entirety at either amortised cost or fair value, depending on the classification of the financial assets.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

4. SIGNIFICANT ACCOUNTING POLICIES – *Continued*

(j) **Financial assets** – *Continued*

Debt investments

Debt investments held by the Group are classified into one of the following measurement categories:

- amortised cost, if the investment is held for the collection of contractual cash flows which represent solely payments of principal and interest. Interest income from the investment is calculated using the effective interest method.
- FVTOCI – recycling, if the contractual cash flows of the investment comprise solely payments of principal and interest and the investment is held within a business model whose objective is achieved by both the collection of contractual cash flows and sale. Changes in fair value are recognised in other comprehensive income, except for the recognition in profit or loss of expected credit losses, interest income (calculated using the effective interest method) and foreign exchange gains and losses. When the investment is derecognised, the amount accumulated in other comprehensive income is recycled from equity to profit or loss.
- FVTPL if the investment does not meet the criteria for being measured at amortised cost or FVTOCI (recycling). Changes in the fair value of the investment (including interest) are recognised in profit or loss.

Equity investments

An investment in equity securities is classified as FVTPL unless the equity investment is not held for trading purposes and on initial recognition of the investment the Group makes an election to designate the investment at FVTOCI (non-recycling) such that subsequent changes in fair value are recognised in other comprehensive income. Such elections are made on an instrument-by-instrument basis, but may only be made if the investment meets the definition of equity from the issuer's perspective. Where such an election is made, the amount accumulated in other comprehensive income remains in the fair value reserve (non-recycling) until the investment is disposed of. At the time of disposal, the amount accumulated in the fair value reserve (non-recycling) is transferred to retained earnings. It is not recycled through profit or loss. Dividends from an investment in equity securities, irrespective of whether classified as at FVTPL or FVTOCI, are recognised in profit or loss as other income.

(k) **Trade and other receivables**

A receivable is recognised when the Group has an unconditional right to receive consideration. A right to receive consideration is unconditional if only the passage of time is required before payment of that consideration is due. If revenue has been recognised before the Group has an unconditional right to receive consideration, the amount is presented as a contract asset.

Receivables are stated at amortised cost using the effective interest method less allowance for credit losses.

(l) **Cash and cash equivalents**

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Bank overdrafts that 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 for the purpose of the consolidated cash flow statement. Cash and cash equivalents are assessed for ECL.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

4. SIGNIFICANT ACCOUNTING POLICIES – *Continued*

(m) 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.

(n) Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred, and subsequently measured at amortised cost using the effective interest method.

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.

(o) Convertible loans

Convertible loans which entitle the holder to convert the loans into equity instruments, other than into a fixed number of equity instruments at a fixed conversion price, are regarded as combined instruments consisting of a liability and a derivative component. At the date of issue, the fair value of the derivative component is determined using an option pricing model; this amount is carried as a derivative liability that is subsequently measured at fair value through profit or loss until extinguished on conversion or redemption. The remainder of the proceeds is allocated to the liability component and is carried as a liability at amortised cost using the effective interest method until extinguished on conversion or redemption.

Transaction costs are apportioned between the liability and derivative components of the convertible loans based on the allocation of proceeds to the liability and derivative components on initial recognition. The portion related to the derivative component is expensed immediately.

(p) 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.

(q) Equity instruments

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

(r) Derivative financial instruments

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at the end of each reporting period.

An embedded derivative is a component of a hybrid contract that also includes a non-derivative host with the effect that some of the cash flows of the combined instrument vary in a way similar to a stand-alone derivative.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

4. SIGNIFICANT ACCOUNTING POLICIES – *Continued*

(s) Revenue and other income

Revenue is recognised when control over a product or service is transferred to the customer, at the amount of promised consideration to which the Group is expected to be entitled, excluding those amounts collected on behalf of third parties. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

Revenue from the sales of health related and pharmaceutical products is recognised when control of the products has transferred, being when the products are delivered to the customers, no unfulfilled obligation that could affect the customer's acceptance of the products. Delivery occurs when the products have been shipped to the specific location. A receivable is recognised when the goods are delivered as this is the point in time that the consideration is unconditional because only the passage of time is required before the payment is due.

Revenue from medical laboratory testing services and health check services is recognised at a point of time when the test services and health check services is completed.

Revenue from tumor immune cell therapy services is recognised over time when the services are provided.

Revenue from insurance brokerage services is recognised at the point when the insurance policy becomes effective in accordance with the commission terms of the underlying agreements entered into with insurance policy issuers.

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

4. SIGNIFICANT ACCOUNTING POLICIES – *Continued*

(s) Revenue and other income – *Continued*

Net gains/losses on held for trading securities and those securities held for trading, include and unrealized fair value gains/losses which are recognised in the period in which they arise.

Interest income is recognised as it accrues using the effective interest method. For financial assets measured at amortised cost that are not credit-impaired, the effective interest rate is applied to the gross carrying amount of the asset. For credit impaired financial assets, the effective interest rate is applied to the amortised cost (i.e. gross carrying amount net of loss allowance) of the asset.

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

(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.

(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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

4. SIGNIFICANT ACCOUNTING POLICIES – *Continued*

(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.

The Group issues equity-settled share-based payments to certain directors, employees and consultants.

Equity-settled share-based payments to directors and employees 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.

Equity-settled share-based payments to consultants are measured at the fair value of the services rendered or, if the fair value of the services rendered cannot be reliably measured, at the fair value of the equity instruments granted. The fair value is measured at the date the Group receives the services and is recognised as an expense.

(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. Any specific borrowing that remain outstanding after the related asset is ready for its intended use or sale is included in the general borrowing pool for calculation of capitalisation rate on general borrowings.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

4. SIGNIFICANT ACCOUNTING POLICIES – *Continued*

(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.

(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, 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

4. SIGNIFICANT ACCOUNTING POLICIES – *Continued*

(x) **Taxation** – *Continued*

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.

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

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

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

(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**

The Group recognises a loss allowance for expected credit losses ("ECL") on investments in debt instruments that are measured at amortised cost or at FVTOCI and trade receivables. The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument.

The Group always recognises lifetime ECL for trade receivables. The ECL on these financial assets are estimated using a provision matrix based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date, including time value of money where appropriate.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

4. SIGNIFICANT ACCOUNTING POLICIES – *Continued*

(z) Impairment of financial assets – *Continued*

For all other financial instruments, the Group recognises lifetime ECL when there has been a significant increase in credit risk since initial recognition. However, if the credit risk on the financial instrument has not increased significantly since initial recognition, the Group measures the loss allowance for that financial instrument at an amount equal to 12-month ECL.

Lifetime ECL represents the expected credit losses that will result from all possible default events over the expected life of a financial instrument. In contrast, 12-month ECL represents the portion of lifetime ECL that is expected to result from default events on a financial instrument that are possible within 12 months after the reporting date.

Significant increase in credit risk

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument at the reporting date with the risk of a default occurring on the financial instrument at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort. Forward-looking information considered includes the future prospects of the industries in which the Group's debtors operate, obtained from economic expert reports, financial analysts, governmental bodies, relevant think-tanks and other similar organisations, as well as consideration of various external sources of actual and forecast economic information that relate to the Group's core operations.

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

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- significant deterioration in external market indicators of credit risk for a particular financial instrument;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor;
- significant increases in credit risk on other financial instruments of the same debtor;
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

4. SIGNIFICANT ACCOUNTING POLICIES – *Continued*

(z) Impairment of financial assets – *Continued*

Significant increase in credit risk – *Continued*

Despite the foregoing, the Group assumes that the credit risk on a financial instrument has not increased significantly since initial recognition if the financial instrument is determined to have low credit risk at the reporting date. A financial instrument is determined to have low credit risk if:

- (i) the financial instrument has a low risk of default,
- (ii) the debtor has a strong capacity to meet its contractual cash flow obligations in the near term, and
- (iii) adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations.

The Group considers a financial asset to have low credit risk when the asset has external credit rating of “investment grade” in accordance with the globally understood definition or if an external rating is not available, the asset has an internal rating of “performing”. Performing means that the counterparty has a strong financial position and there is no past due amounts.

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

Definition of default

The Group considers the following as constituting an event of default for internal credit risk management purposes as historical experience indicates that receivables that meet either of the following criteria are generally not recoverable.

- when there is a breach of financial covenants by the counterparty; or
- information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full (without taking into account any collaterals held by the Group).

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

4. SIGNIFICANT ACCOUNTING POLICIES – *Continued*

(z) Impairment of financial assets – *Continued*

Credit-impaired financial assets

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

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

Write-off policy

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

Measurement and recognition of ECL

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information as described above. As for the exposure at default, for financial assets, this is represented by the assets' gross carrying amount at the reporting date; the Group's understanding of the specific future financing needs of the debtors, and other relevant forward-looking information.

For financial assets, the ECL is estimated as the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive, discounted at the original effective interest rate.

If the Group has measured the loss allowance for a financial instrument at an amount equal to lifetime ECL in the previous reporting period, but determines at the current reporting date that the conditions for lifetime ECL are no longer met, the Group measures the loss allowance at an amount equal to 12-month ECL at the current reporting date, except for assets for which simplified approach was used.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

4. SIGNIFICANT ACCOUNTING POLICIES – *Continued*

(z) Impairment of financial assets – *Continued*

Measurement and recognition of ECL – *Continued*

The Group recognises an impairment gain or loss in profit or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account, except for investments in debt instruments that are measured at FVTOCI, for which the loss allowance is recognised in other comprehensive income and accumulated in the investment revaluation reserve, and does not reduce the carrying amount of the financial asset in the statement of financial position.

(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.

(ab) 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

5. CRITICAL JUDGEMENT AND KEY ESTIMATES

Critical judgements in applying accounting policies

In the process of applying the accounting policies, the directors have made the following judgements that have the most significant effect on the amounts recognised in the consolidated financial statements (apart from those involving estimations, which are dealt with below).

(a) Consolidation of entity with less than 50% equity interest holding

Although the Group owns less than 50% of the equity interest in Sunrise Diagnostic Centre Limited ("SDCL"), Sunrise is treated as a subsidiary because the Group is able to control the relevant activities of SDCL as a result of the shareholders' agreement between the Group and the other shareholder of SDCL.

(b) Business model assessment

Classification and measurement of financial assets depends on the results of the SPPI and the business model test. The Group determines the business model at a level that reflects how groups of financial assets are managed together to achieve a particular business objective. This assessment includes judgement reflecting all relevant evidence including how the performance of the assets is evaluated and their performance measured, the risks that affect the performance of the assets and how these are managed and how the managers of the assets are compensated. The Group monitors financial assets measured at amortised cost or FVTOCI that are derecognised prior to their maturity to understand the reason for their disposal and whether the reasons are consistent with the objective of the business for which the asset was held. Monitoring is part of the Group's continuous assessment of whether the business model for which the remaining financial assets are held continues to be appropriate and if it is not appropriate whether there has been a change in business model and so a prospective change to the classification of those assets. No such changes were required during the periods presented.

(c) Significant increase in credit risk

ECL are measured as an allowance equal to 12-month ECL for stage 1 assets, or lifetime ECL for stage 2 or stage 3 assets. An asset moves to stage 2 when its credit risk has increased significantly since initial recognition. HKFRS 9 does not define what constitutes a significant increase in credit risk. In assessing whether the credit risk of an asset has significantly increased the Group takes into account qualitative and quantitative reasonable and supportable forward looking information.

(d) Determining the lease term

In determining the lease term at the commencement date for leases that include renewal options exercisable by the Group, the Group evaluates the likelihood of exercising the renewal options taking into account all relevant facts and circumstances that create an economic incentive for the Group to exercise the option, including favourable terms, leasehold improvements undertaken and the importance of that underlying asset to the Group's operation.

Generally, periods covered by an extension option in other properties leases have not been included in the lease liability because the Group could replace the assets without significant cost or business disruption. See note 20 for further information.

The lease term is reassessed when there is a significant event or significant change in circumstance that is within the Group's control. During the current financial year, no lease term has been reassessed.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

5. CRITICAL JUDGEMENT AND KEY ESTIMATES – *Continued*

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) 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 2020, approximately HK\$35,179,000 of income tax was charged to profit or loss based on the estimated profit (2019: HK\$2,110,000 was credited to profit or loss).

(b) Impairment of property, plant and equipment and right-of-use assets

Property, plant and equipment and right-of-use assets are stated at costs less accumulated depreciation and impairment, if any. In determining whether an asset is impaired, the Group has to exercise judgement and make estimation, particularly in assessing: (1) whether an event has occurred or any indicators that may affect the asset value; (2) whether the carrying value of an asset can be supported by the recoverable amount, in the case of value in use, the net present value of future cash flows which are estimated based upon the continued use of the asset; and (3) the appropriate key assumptions to be applied in estimating the recoverable amounts including cash flow projections and an appropriate discount rate. When it is not possible to estimate the recoverable amount of an individual asset (including right-of-use assets), the Group estimates the recoverable amount of the cash-generating unit to which the assets belongs. Changing the assumptions and estimates, including the discount rates or the growth rate in the cash flow projections, could materially affect the recoverable amount.

Further, the cash flows projections, growth rate and discount rate are subject to greater uncertainties in the current year due to uncertainty on how the COVID-19 pandemic may progress and evolve and volatility in financial markets, including potential disruptions in the Group's operation.

The carrying amount of property, plant and equipment and right-of-use assets as at 31 December 2020 were approximately HK\$128,796,000 (2019: HK\$23,783,000) and approximately HK\$18,863,000 (2019: HK\$13,135,000) respectively.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

5. CRITICAL JUDGEMENT AND KEY ESTIMATES – *Continued*

Key sources of estimation uncertainty – *Continued*

(c) **Impairment of goodwill and intangible assets**

Determining whether goodwill and intangible assets are impaired requires an estimation of the value in use of the cash-generating unit to which goodwill and intangible assets have 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. Where the actual future cash flows are less than the expected, or change in facts and circumstances which results in downward revision of future cash flows or upward revision of discount rate, a material impairment loss or further impairment loss may arise.

Furthermore, the estimated cash flows and discount rate are subject to higher degree of estimation uncertainties in the current year due to uncertainty on how the COVID-19 pandemic may progress and evolve and volatility in financial markets, including potential disruptions of the Group's insurance brokerage operations.

The carrying amount of goodwill at the end of the reporting period was approximately HK\$117,595,000 (2019: HK\$115,343,000) without provision of impairment loss (2019: HK\$264,000) during the year. Details of the impairment loss calculation are provided in note 21 to the consolidated financial statements.

The carrying amount of intangible assets at the end of the reporting period was approximately HK\$88,072,000 (2019: HK\$95,258,000) without provision of impairment loss (2019: HK\$28,838,000) during the year. Details of the impairment loss calculation are provided in note 22 to the consolidated financial statements.

(d) **Impairment of trade receivables and loan and interest receivables**

The management of the Group estimates the amount of impairment loss for ECL on trade receivables and loan and interest receivables based on the credit risk of trade receivables and loan and interest receivables. The amount of the impairment loss based on ECL model is measured as the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive, discounted at the effective interest rate determined at initial recognition. Where the future cash flows are less than expected, or being revised downward due to changes in facts and circumstances, a material impairment loss may arise.

As at 31 December 2020, the carrying amount of trade receivables and loan and interest receivables is approximately HK\$30,314,000 and HK\$13,060,000 respectively (net of allowance for impairment loss of HK\$577,000 and HK\$6,570,000 respectively) (2019: approximately HK\$11,089,000 and HK\$15,952,000 respectively (net of allowance for impairment loss of HK\$345,000 and net of allowance for impairment loss HK\$3,578,000 respectively)).

(e) **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. An amount of approximately HK\$107,000 for slow-moving inventories was made for the year ended 31 December 2020 (2019: HK\$179,000).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

5. CRITICAL JUDGEMENT AND KEY ESTIMATES – *Continued*

Key sources of estimation uncertainty – *Continued*

(f) **Fair value of derivative component**

As disclosed in note 34 to the consolidated financial statements, the fair value of the derivative component of the convertible bonds at the date of issue and the end of the reporting period were determined using binomial option pricing models. Application of option pricing models requires the Group to estimate the prominent factors affecting the fair value, including but not limited to, the expected life of the derivative component, the expected volatility of the share prices of the Company and the potential dilution in the share prices of the Company. Where the estimation of these factors is different from those previously estimated, such differences will impact the fair value gain or loss on the derivative component in the period in which such determination is made.

The carrying amount of the derivative financial assets as at 31 December 2020 was HK\$5,637,000 (2019: Nil).

(g) **Fair value measurement of financial investment**

In the absence of quoted market prices in an active market, the Group has engaged independent professional qualified valuers to estimate the fair value of the Group's financial assets at FVTPL and financial assets at FVTOCI as at 31 December 2020.

The held for trading securities as at 31 December 2020 was approximately HK\$1,270,000 (2019: HK\$1,317,000).

The financial assets at FVTOCI as at 31 December 2020 was approximately HK\$98,845,000 (2019: HK\$82,622,000).

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 minimal 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\$, United States Dollars ("US\$") 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

6. FINANCIAL RISK MANAGEMENT – *Continued*

(b) Price risk

The Group is exposed to equity price risk mainly through its investment in listed 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 listed 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 (2019: 5% higher/lower):

- Profit after tax for the year ended 31 December 2020 would increase/decrease by approximately HK\$53,000 (2019: loss after tax decrease/increase by HK\$55,000). This is mainly due to the changes in fair value of held for trading securities.

(c) Credit risk

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Group is exposed to credit risk from its operating activities (primarily trade receivables and loan and interest receivables) and from its financing activities, including deposits with banks and financial institutions, foreign exchange transactions and other financial instruments. The Group's exposure to credit risk arising from cash and cash equivalents is limited because the counterparties are banks and financial institutions with high credit-rating assigned by international credit-rating agencies, for which the Group considers to have low credit risk.

Trade receivables

Customer credit risk is managed by each business unit subject to the Group's established policy, procedures and control relating to customer credit risk management. Individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. Trade receivables are due within 90 days from the date of billing. Debtors with balances that are more than 3 months past due are requested to settle all outstanding balances before any further credit is granted. Normally, the Group does not obtain collateral from customers.

The Group measures loss allowances for trade receivables at an amount equal to lifetime ECLs, which is calculated using a provision matrix. As the Group's historical credit loss experience does not indicate significantly different loss patterns for different customer segments, the loss allowance based on past due status is not further distinguished between the Group's different customer bases.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

6. FINANCIAL RISK MANAGEMENT – Continued

(c) Credit risk – Continued

Trade receivables – Continued

The following table provides information about the Group's exposure to credit risk and ECLs for trade receivables, as at 31 December 2020:

		2020	
	Expected loss rate %	Gross carrying amount HK\$'000	Loss allowance HK\$'000
Current (not past due)	*	27,041	**
1 to 30 days past due	5.2%	536	28
31 to 60 days past due	5.2%	2,393	125
61 to 90 days past due	5.3%	281	15
More than 90 days past due	63.9%	640	409
		30,891	577

		2019	
	Expected loss rate %	Gross carrying amount HK\$'000	Loss allowance HK\$'000
Current (not past due)	*	9,936	**
1 to 30 days past due	*	338	**
31 to 60 days past due	*	321	**
61 to 90 days past due	*	199	**
More than 90 days past due	53.9%	640	345
		11,434	345

* Amount less than 0.01%

** Amount less than HK\$1,000

Expected loss rates are based on actual loss experience over the past 1 year. These rates are adjusted to reflect differences between economic conditions during the period over which the historic data has been collected, current conditions and the Group's view of economic conditions over the expected lives of the receivables.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

6. FINANCIAL RISK MANAGEMENT – *Continued*

(c) Credit risk – *Continued*

Trade receivables – *Continued*

Movement in the loss allowance account in respect of trade receivables during the year is as follows:

	2020 HK\$'000	2019 HK\$'000
At 1 January	345	823
Allowance/(reversal) of impairment losses recognised for the year	232	(478)
At 31 December	577	345

Group has concentration of credit risk as 25% (2019: 31%) and 59% (2019: 55%) 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.

Loan and interest receivables

The Group measures loss allowance under HKFRS 9 ECL model. The measure of ECL is a function of the probability of default, loss given default (i.e., the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data, collateral values, credit rating of customers and adjusted by forward-looking information.

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

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

The key inputs used for measuring ECL are:

- Probability of default (PD);
- Loss given default (LGD); and
- Exposure at default (EAD)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

6. FINANCIAL RISK MANAGEMENT – *Continued*

(c) Credit risk – *Continued*

Loan and interest receivables – *Continued*

These figures are generally derived from historical data and they are adjusted to reflect forward-looking information.

Elements of the ECL models that are considered accounting judgements and estimates include:

- The Group's estimation of probabilities of default to individual customers;
- The Group's criteria for assessing if there has been a significant increase in credit risk and so allowances for financial assets should be measured on a lifetime ECL basis and the qualitative assessment;
- Development of ECL models, including the various formulas and the choice of inputs over determination of the period over which the entity is exposed to credit risk based on the behavioural life of the credit exposures, loss given default and collateral recovery of the credit exposures; and
- Determination of associations between macroeconomic scenarios and, economic inputs, such as delinquency ratios and collateral values, and the effect on probabilities of default, exposures at default and losses given default.

It is the Group's policy to regularly review its model in the context of actual loss experience and adjust when necessary.

The Group categorises the credit quality of its loans receivable and interest receivables according to 3 different stages under the ECL model:

- Stage 1: financial assets without significant increase in credit risk since initial recognition where loss allowance is calculated based on 12-month ECL
- Stage 2: financial assets with significant increase in credit risk since initial recognition where loss allowance is calculated based on lifetime ECL
- Stage 3: credit impaired assets where loss allowance is calculated based on lifetime ECL

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

6. FINANCIAL RISK MANAGEMENT – *Continued*

(c) Credit risk – *Continued*

Loan and interest receivables – *Continued*

Significant increase in credit risk

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

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

- An actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- Significant deterioration in external market indicators of credit risk for a particular financial instrument;
- Existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- An actual or expected significant deterioration in the operating results of the debtor;
- Significant increases in credit risk on other financial instruments of the same debtor; and
- An actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

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

The Group monitors all financial assets that are subject to impairment requirements to assess whether there has been a significant increase in credit risk since initial recognition. If there has been a significant increase in credit risk, the Group will measure the loss allowance based on lifetime rather than 12-month ECL.

The Group collects performance and default information about its credit risk exposures and analyses all data collected and estimates the remaining lifetime PD of exposures and how these are expected to change over time. The factors taken into account in this process include macro-economic data such as delinquency rate.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

6. FINANCIAL RISK MANAGEMENT – *Continued*

(c) **Credit risk** – *Continued*

Loan and interest receivables – *Continued*

Significant increase in credit risk – Continued

The Group uses different criteria to determine whether credit risk has increased significantly and the Group presumes that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 30 days past due unless the Group has reasonable and supportable information that demonstrates otherwise.

The Group has controls and procedures in place to identify when the credit risk of an asset improves and the definition of significant increase in credit risk is no longer met. When this is the case the asset may move back to stage 1 from stage 2, subject to payments being up to date and the ability of the borrower to make future payments on time.

Definition of default

The Group considers the following as constituting an event of default for internal credit risk management purposes as historical experience indicates that receivables that meet either of the following criteria are generally not recoverable.

- Probable bankruptcy entered by the borrowers; or
- Information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full (without taking into account any collaterals held by the Group).

Irrespective of the above analysis, the Group considers that default has occurred when a financial asset is more than 60 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

Credit-impaired financial assets

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

6. FINANCIAL RISK MANAGEMENT – *Continued*

(c) Credit risk – *Continued*

Loan and interest receivables – *Continued*

Incorporation of forward-looking information

The Group uses forward-looking information that is available without undue cost or effort in its assessment of significant increase of credit risk as well as in its measurement of ECL.

Credit risk exposure

The Group applies the general approach to provide for ECL prescribed by HKFRS 9 on its loans receivable and interest receivables. The Group has taken into account the probability of default and loss given default with reference to the historical delinquency ratio of loans, collateral values, credit rating of customers and current and forward-looking information on macroeconomic factors.

Movement in the loss allowance for financial assets at amortised cost during the year is as follows:

	HK\$'000
At 1 January 2019	104
Allowance of impairment losses recognised for the year	3,474
At 31 December 2019 and 1 January 2020	3,578
Allowance of impairment losses recognised for the year	2,992
At 31 December 2020	6,570

Financial assets at FVTOCI

All of the Group's investments at FVTOCI are considered to have low credit risk, and the loss allowance recognised during the period was therefore limited to 12-month expected losses. Management considers 'low credit risk' for listed debit securities to be an investment grade credit rating with at least one major rating agency. Other instruments are considered to be low credit risk when they have a low of default and the issuer has a strong capacity to meet its contractual cash flow obligations in the near term.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

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 contractual undiscounted cash flows HK\$'000	Carrying amount HK\$'000
At 31 December 2020					
Trade and other payables	212,482	–	–	212,482	212,482
Borrowings	10,664	–	–	10,664	10,664
Convertible bonds	–	86,649	–	86,649	76,292
Contingent consideration	–	–	4,064	4,064	3,101
Lease liabilities	13,237	5,598	1,386	20,221	19,384
	236,383	92,247	5,450	334,080	321,923
At 31 December 2019					
Trade and other payables	17,226	–	–	17,226	17,226
Loan from a non-controlling shareholder of a subsidiary	4,948	–	–	4,948	4,939
Borrowings	23,911	–	–	23,911	23,911
Contingent consideration	–	–	6,120	6,120	5,245
Lease liabilities	7,664	6,244	–	13,908	13,356
	53,749	6,244	6,120	66,113	64,677

(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 deposit.

At 31 December 2020, if interest rates had been 100 basis points lower with all other variables held constant, consolidated profit after tax for the year would have been approximately HK\$3,083,000 (2019: loss after tax HK\$266,000 higher) lower, arising mainly as a result of lower interest income on its bank and cash balance, cash held in securities trading accounts with stock brokers. If interest rates had been 100 basis points higher, with all other variables held constant, consolidated profit after tax for the year would have been approximately HK\$3,083,000 (2019: loss after tax HK\$266,000 lower) higher, arising mainly as a result of higher interest income on its bank and cash balance, cash held in securities trading accounts with stock brokers.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

6. FINANCIAL RISK MANAGEMENT – *Continued*

(f) Categories of financial instruments at 31 December

	2020 HK\$'000	2019 HK\$'000
Financial assets:		
Financial assets at FVTPL:		
– Held for trading securities	1,270	1,317
– Derivative financial assets	5,637	–
Financial assets measured at amortised costs	437,511	77,800
Financial assets at FVTOCI:		
– Equity instrument	98,845	82,622
Financial liabilities:		
Financial liabilities at amortised cost	318,822	59,432
Contingent consideration	3,101	5,245

(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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

7. FAIR VALUE MEASUREMENTS – *Continued*

(a) Disclosures of level in fair value hierarchy at 31 December 2020:

	Fair value measurements using: Level 3 HK\$'000
Description	
Recurring fair value measurements:	
Financial assets	
Financial assets at FVTPL:	
Listed securities in Hong Kong	1,270
Financial assets at FVTOCI:	
Unlisted equity securities	98,845
Derivatives	5,637
Total	105,752
Financial liabilities	
Contingent consideration	25,799

Disclosures of level in fair value hierarchy at 31 December 2019:

	Fair value measurements using: Level 3 HK\$'000
Description	
Recurring fair value measurements:	
Financial assets	
Financial assets at FVTPL:	
Listed securities in Hong Kong	1,317
Financial assets at FVTOCI:	
Unlisted equity securities	82,622
Total	83,939
Financial liabilities	
Contingent consideration	31,293

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

7. FAIR VALUE MEASUREMENTS – Continued

(b) Reconciliation of assets measured at fair value based on level 3:

Description	Held for trading securities HK\$'000	Financial assets at FVTOCI – unlisted equity securities HK\$'000	Derivative financial assets HK\$'000	Contingent consideration HK\$'000
At 1 January 2020	1,317	82,622	–	(31,293)
Issuance of convertible bonds	–	–	(747)	–
Fair value gain recognised in other comprehensive income	–	16,223	–	–
Fair value (losses)/gain recognised in profit or loss	(47)	–	6,384	5,494
At 31 December 2020	1,270	98,845	5,637	(25,799)

Description	Held for trading securities HK\$'000	Financial assets at FVTOCI – unlisted equity securities HK\$'000	Contingent consideration HK\$'000
At 1 January 2019	2,569	48,297	–
Fair value losses recognised in other comprehensive income	–	(4,883)	–
Fair value (losses)/gain recognised in profit or loss	(1,252)	–	8,038
Purchase	–	39,208	–
Acquisition of subsidiaries	–	–	(39,331)
At 31 December 2019	1,317	82,622	(31,293)

(c) Disclosure of valuation process used by the Group and valuation techniques and inputs used in fair value measurements at 31 December 2020 and 2019:

The Group's financial manager is responsible for the fair value measurements of assets and liabilities required for financial reporting purposes, including level 3 fair value measurements. The financial manager reports directly to the Board of Directors for these fair value measurements. Discussions of valuation processes and results are held between the financial manager and the Board of Directors at least twice a year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

7. FAIR VALUE MEASUREMENTS – *Continued*

(c) Disclosure of valuation process used by the Group and valuation techniques and inputs used in fair value measurements at 31 December 2020 and 2019: – *Continued*

For level 3 fair value measurements, the Group will normally engage external valuation experts with the recognised professional qualifications and recent experience to perform the valuations.

Level 3 fair value measurements					Effect on fair value for increase of inputs	Fair value	
Description	Valuation technique	Unobservable inputs	Range			2020	2019
			2020	2019		HK\$'000	HK\$'000
Assets/(Liabilities)							
Private equity investments classified as financial assets at FVTOCI (note)	Discounted cash flows	Weighted average cost of capital	12.5%-14.4%	15%-20%	Decrease	51,593	82,622
		Growth rate	3%	3%	Increase		
		Discount for lack of marketability	20%-25%	20%-30%	Decrease		
	Backsolve from most recent transaction price	Weighted average probability	50%	N/A	Increase	47,252	N/A
Held for trading securities	Market approach	Discount for lack of marketability	20%	15%	Decrease	1,270	1,317
		Volatility	32%	35%	Increase		
Contingent consideration	Discounted cash flows	Weighted average probability	25%-35%	30%-40%	Increase	(25,799)	(31,293)
		Share price	15%	15%	Increase		
Derivative: option component of convertible bond	Binomial option pricing model	Expected volatility	53%	N/A	Increase	5,637	–
		Discount rate	2.6%	N/A	Increase		

Note: The valuation techniques changes from discount cash flow method to backsolve from most recent transaction price method in 2020.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

8. REVENUE

Disaggregation of revenue from contracts with customers by major products or services line for the year is as follows:

	2020 HK\$'000	2019 HK\$'000
Revenue from contracts with customers within the scope of HKFRS 15:		
Provision of tumor immune cell therapy services	–	125
Manufacture and sale of health related and pharmaceutical products	869	1,448
Provision of medical laboratory testing services and health check services	646,748	53,551
Money lending business	1,300	1,688
Provision of insurance brokerage services	6,875	2,402
	655,792	59,214

The Group derives revenue from the transfer of goods and services over time and at a point in time in the following major product lines and geographical regions:

For the year ended 31 December	Provision of tumor immune cell therapy services		Manufacture and sale of health related and pharmaceutical products		Provision of medical laboratory testing services and health check services		Money lending business		Provision of insurance brokerage services		Total	
	2020 HK\$'000	2019 HK\$'000	2020 HK\$'000	2019 HK\$'000	2020 HK\$'000	2019 HK\$'000	2020 HK\$'000	2019 HK\$'000	2020 HK\$'000	2019 HK\$'000	2020 HK\$'000	2019 HK\$'000
Primary geographical markets												
– Hong Kong	–	–	869	1,448	646,748	53,551	1,300	1,688	6,875	2,402	655,792	59,089
– The PRC except Hong Kong	–	125	–	–	–	–	–	–	–	–	–	125
Segment revenue	–	125	869	1,448	646,748	53,551	1,300	1,688	6,875	2,402	655,792	59,214
Timing of revenue recognition												
Products and services transferred at a point in time	–	–	869	1,448	646,748	53,551	1,300	1,688	6,875	2,402	655,792	59,089
Products and services transferred over time	–	125	–	–	–	–	–	–	–	–	–	125
Total	–	125	869	1,448	646,748	53,551	1,300	1,688	6,875	2,402	655,792	59,214

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

9. OTHER INCOME, GAINS/(LOSSES)

	2020 HK\$'000	2019 HK\$'000
Interest income	21	189
Government grants (<i>note</i>)	5,037	57
(Loss)/gain on disposal of property, plant and equipment	(39)	534
Net foreign exchange gain/(loss)	200	(20)
Loss on written off on property, plant and equipment	–	(1,960)
Others	598	241
	5,817	(959)

Note:

During the year ended 31 December 2020, the Group recognised government grants of HK\$5,037,000 in respect of COVID-19 related subsidies, of which HK\$5,017,000 relates to Employment Support Scheme provided by the Hong Kong government.

During the year ended 31 December 2020, a government funding of approximately RMB18,000 (equivalent to approximately HK\$20,000) (2019: Nil) received by subsidiaries of the Company in the PRC for COVID-19 subsidies.

During the year ended 31 December 2019, a government funding of approximately RMB50,000 (equivalent to approximately HK\$57,000) received by a subsidiary of the Company in the PRC for research and development.

10. SEGMENT INFORMATION

The Group has five operating segments as follows:

Immunotherapy	– provision of tumor immune cell therapy, immune cell storage and health management services
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
Insurance brokerage	– insurance brokerage services
Others	– money lending business

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

10. SEGMENT INFORMATION – *Continued*

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 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 loss of an associate, gain on remeasurement of pre-existing interest in an associate, gain on fair value change of contingent consideration, gain on fair value change of derivative financial instrument, loss on disposal of subsidiaries, impairment loss on investments in an associate, finance costs and income tax (expense)/credit. Segment assets do not include the unallocated bank and cash balances, interests in associates, current and deferred tax assets, financial assets at FVTOCI and derivative financial assets. Segment liabilities do not include borrowings, current and deferred tax liabilities, convertible bonds and contingent consideration. 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

10. SEGMENT INFORMATION – Continued

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

	Immunotherapy HK\$'000	Pharmaceutical products HK\$'000	Medical and health related services HK\$'000	Securities HK\$'000	Insurance brokerage HK\$'000	Others HK\$'000	Total HK\$'000
Year ended 31 December 2020							
Revenue from external customers	–	869	646,748	–	6,875	1,300	655,792
Segment (loss)/profit	(39,376)	(2,313)	287,276	(6,603)	(349)	(2,373)	236,262
Other income, gain/(losses)							5,817
Reversal of allowance for impairment loss on financial asset							2,079
Finance costs							(6,498)
Gain on fair value change of derivative financial instruments							6,384
Gain on fair value change of contingent consideration							5,494
Loss on disposal of subsidiaries							(1,948)
Unallocated corporate expenses							(44,788)
Profit before tax							202,802
Income tax expense							(35,179)
Profit for the year							167,623
As at 31 December 2020							
Segment assets	188,718	1,234	190,506	2,084	11,515	13,060	407,117
Unallocated corporate assets							497,004
Total assets							904,121
Segment liabilities	9,977	309	248,047	375	422	72	259,202
Unallocated corporate liabilities							132,814
Total liabilities							392,016

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

10. SEGMENT INFORMATION – Continued

Information about operating segment profit or loss, assets and liabilities: – Continued

	Immunotherapy HK\$'000	Pharmaceutical products HK\$'000	Medical and health related services HK\$'000	Securities HK\$'000	Insurance brokerage HK\$'000	Others HK\$'000	Total HK\$'000
Year ended 31 December 2019							
Revenue from external customers	125	1,448	53,551	–	2,402	1,688	59,214
Segment (loss)/profit	(21,507)	(2,377)	(34,641)	(8,368)	540	(2,480)	(68,833)
Other income, gain/(losses)							(959)
Finance costs							(1,692)
Share of loss of associates							(1,390)
Gain on remeasurement on pre-existing interest in an associate							8,096
Gain on fair value change of contingent consideration							8,038
Loss on disposal of subsidiaries							(316)
Impairment loss on investments in associates							(3,903)
Unallocated corporate expenses							(48,634)
Loss before tax							(109,593)
Income tax credit							2,110
Loss for the year							(107,483)
As at 31 December 2019							
Segment assets	194,962	1,834	52,464	1,582	12,348	15,952	279,142
Unallocated corporate assets							137,442
Total assets							416,584
Segment liabilities	3,473	819	16,955	281	1,638	68	23,234
Unallocated corporate liabilities							79,987
Total liabilities							103,221

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

10. SEGMENT INFORMATION – Continued

Other segment information

Other segment information for the year ended 31 December 2020:

	Immunotherapy HK\$'000	Pharmaceutical products HK\$'000	Medical and health related services HK\$'000	Securities HK\$'000	Insurance brokerage HK\$'000	Others HK\$'000	Total HK\$'000
Capital expenditures	732	–	125,848	–	–	20	126,600
Amortisation of intangible assets	8,392	–	–	–	–	–	8,392
Depreciation of property, plant and equipment	1,166	–	19,446	21	62	457	21,152
Depreciation of right-of-use assets	768	290	4,863	–	292	4,579	10,792
Loss on disposal of property, plant and equipment	39	–	–	–	–	–	39
Allowance for impairment loss on financial assets, net	–	–	232	–	–	913	1,145
Write-down of inventories	–	94	13	–	–	–	107

Other segment information for the year ended 31 December 2019:

	Immunotherapy HK\$'000	Pharmaceutical products HK\$'000	Medical and health related services HK\$'000	Securities HK\$'000	Insurance brokerage HK\$'000	Others HK\$'000	Total HK\$'000
Capital expenditures	4,764	–	2,553	34	–	–	7,351
Amortisation of intangible assets	6,532	–	1,224	–	–	–	7,756
Depreciation of property, plant and equipment	569	1	3,389	11	11	1,649	5,630
Depreciation of right-of-use assets	581	49	2,594	–	49	3,542	6,815
Write-down of property, plant and equipment	–	–	507	–	–	1,453	1,960
Gain on disposal of property, plant and equipment	–	–	(534)	–	–	–	(534)
Share of loss of associates	707	–	–	–	–	683	1,390
(Reversal of)/allowance for impairment loss on financial assets	–	–	(478)	–	–	3,474	2,996
Impairment loss recognised on goodwill	–	–	264	–	–	–	264
Impairment loss recognised on intangible assets	–	–	28,838	–	–	–	28,838
Write-down of inventories	–	137	42	–	–	–	179

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

10. SEGMENT INFORMATION – Continued

Geographical information

The Group's revenue 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	
	2020 HK\$'000	2019 HK\$'000	2020 HK\$'000	2019 HK\$'000
Hong Kong	655,792	59,089	165,827	53,714
The PRC except Hong Kong	–	125	187,499	193,805
	655,792	59,214	353,326	247,519

Revenue from major customers:

Revenue from customers contributing over 10% of the total revenue of the Group is as follows:

	2020 HK\$'000	2019 HK\$'000
Provision of medical and health related services segment		
Customer A	462,822	–
Customer B	65,557	–
Customer C	N/A ¹	12,662

¹ The corresponding revenue did not contribute over 10% of total revenue of the Group.

11. FINANCE COSTS

	2020 HK\$'000	2019 HK\$'000
Interest on lease liabilities	724	382
Interest on borrowings	978	1,241
Effective interest on convertible bonds	4,787	–
Imputed interest on loan from a non-controlling shareholder of a subsidiary	9	69
	6,498	1,692

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

12. INCOME TAX EXPENSE/(CREDIT)

Income tax has been recognised in profit or loss as follows:

	2020 HK\$'000	2019 HK\$'000
Current tax		
Hong Kong Profits Tax	36,478	336
Over-provision in prior year	(40)	(60)
	36,438	276
Deferred tax (note 37)	(1,259)	(2,386)
	35,179	(2,110)

Under the two-tiered Profits Tax regime, the first HK\$2 million of profits of the qualifying group entity established in Hong Kong will be taxed at 8.25%, and profits above that amount will be subject to the tax rate of 16.5%. The profits of the group entities not qualifying for the two-tiered Profit Tax rate regime will continue to be taxed at a rate of 16.5%.

PRC Enterprise Income Tax has been provided at a rate of 25% (2019: 25%).

A subsidiary of the Group in the PRC 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%.

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.

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

	2020 HK\$'000	2019 HK\$'000
Profit/(loss) before tax	202,802	(109,593)
Tax at the respective applicable tax rates	39,002	(11,415)
Tax effect of income that is not taxable	(1,313)	(2,647)
Tax effect of expenses that are not deductible	2,026	6,192
Tax effect of share of loss of associates	–	219
Tax effect of temporary differences not recognised	(10,999)	336
Tax effect of tax losses not recognised	6,672	5,660
Tax effect of utilisation of tax losses not previously recognised	(4)	(210)
Over-provision in prior years	(40)	(60)
Tax concession	(165)	(185)
Income tax expense/(credit)	35,179	(2,110)

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13. PROFIT/(LOSS) FOR THE YEAR

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

	2020 HK\$'000	2019 HK\$'000
Amortisation of intangible assets	8,392	7,756
Acquisition-related costs	–	3,504
Depreciation of property, plant and equipment	21,152	5,630
Depreciation of right-of-use assets	10,792	6,815
Loss/(gain) on disposal of property, plant and equipment	39	(534)
Gain on remeasurement on pre-existing interest in an associate	–	(8,096)
Gain on fair value change of derivative financial instrument	6,384	–
Operating lease charges		
– Office premises and warehouses	1,765	4,717
Staff costs including director remuneration		
– Salaries, bonuses and allowances	61,143	42,240
– Equity-settled share-based payments	4,865	4,902
– Retirement benefits scheme contributions	1,543	1,597
	67,551	48,739
Research and development cost	29,192	10,680
Auditor's remuneration		
– Audit services	1,100	980
– Non-audit services	140	1,100
	1,240	2,080
Cost of inventories sold	67,928	15,334
Write-down on inventories (included in cost of sales)	107	179
Allowance for impairment loss on financial assets, net	1,145	2,996
Impairment loss on goodwill	–	264
Impairment loss on intangible assets	–	28,838
Written off on property, plant and equipment	–	1,960

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

14. EMPLOYEE BENEFITS EXPENSE

	2020 HK\$'000	2019 HK\$'000
Employee benefits expense:		
Salaries, bonuses and allowances	61,143	42,240
Equity-settled share-based payments	4,865	4,902
Retirement benefit scheme contributions (note 16)	1,543	1,597
	67,551	48,739

Five highest paid individuals

The five highest paid individuals in the Group during the year included four (2019: three) directors whose emoluments are reflected in the analysis presented in note 15. The emoluments of the remaining one (2019: two) individual is set out below:

	2020 HK\$'000	2019 HK\$'000
Salaries and allowances	1,320	3,720
Equity-settled share-based payments	683	1,291
Retirement benefit scheme contributions	66	84
	2,069	5,095

The emoluments fell within the following band:

	Number of individuals	
	2020	2019
Nil to HK\$1,000,000	–	–
HK\$1,000,001 to HK\$1,500,000	–	–
HK\$1,500,001 to HK\$2,000,000	–	–
HK\$2,000,001 to HK\$2,500,000	1	1
HK\$2,500,001 to HK\$3,000,000	–	1
	1	2

No incentive payment for joining the Group or compensation for loss of office was paid or payable to any of the five highest paid individuals during the years ended 31 December 2020 and 2019.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

15. BENEFITS AND INTERESTS OF DIRECTORS

(a) Directors' emoluments

For the year ended 31 December 2020, the remuneration of every director is set out below:

	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	Share-based payments HK\$'000	Employer's contribution to a retirement benefit scheme HK\$'000	Total HK\$'000
Executive Directors						
Mr. Liu	2,000	5,870	300	312	18	8,500
Mr. Yao Michael Yi (note a)	2,400	504	–	2,176	–	5,080
Mr. Leung Pak Hou Anson	–	1,310	197	–	18	1,525
Mr. Wang Zheng	792	–	99	653	–	1,544
Mr. He Xun	484	–	–	615	–	1,099
Mr. Huang Song (note b)	480	–	–	518	–	998
Independent Non-executive Directors						
Mr. Yan Guoxiang	240	–	–	–	–	240
Mr. Qian Hongji	240	–	–	–	–	240
Dr. Ho Ivan Chun Kit	240	–	–	–	–	240
	6,876	7,684	596	4,274	36	19,466

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15. BENEFITS AND INTERESTS OF DIRECTORS

(a) Directors' emoluments – Continued

For the year ended 31 December 2019, the remuneration of every director is set out below:

	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	Share-based payments HK\$'000	Employer's contribution to a retirement benefit scheme HK\$'000	Total HK\$'000
Executive Directors						
Mr. Liu	3,000	2,820	–	316	18	6,154
Mr. Yao Michael Yi (note a)	1,478	294	–	920	–	2,692
Mr. Leung Pak Hou Anson	–	1,310	–	–	18	1,328
Mr. Wang Zheng	792	–	132	1,216	–	2,140
Mr. He Xun	480	–	–	–	–	480
Mr. Huang Song (note b)	480	–	–	1,159	–	1,639
Independent Non-executive Directors						
Mr. Yan Guoxiang	240	–	–	–	–	240
Mr. Qian Hongji	240	–	–	–	–	240
Dr. Ho Ivan Chun Kit	240	–	–	–	–	240
	6,950	4,424	132	3,611	36	15,153

Notes:

(a) Mr. Yao Michael Yi was appointed as an executive director and co-chairman of the Company on 20 May 2019.

(b) Mr. Huang Song resigned as a non-executive director on 16 December 2019. He was re-designated as an executive director on 16 December 2019.

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 2020 and 2019.

(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.

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16. RETIREMENT BENEFIT SCHEMES

Provident fund benefits are offered to certain fulltime employees through a registered scheme under Occupational Retirement Scheme 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. DIVIDENDS

The directors of the Company did not recommend payment of any final dividend for the year ended 31 December 2020 (2019: Nil).

18. EARNINGS/(LOSS) PER SHARE

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

	2020 HK\$'000	2019 HK\$'000
Earnings/(loss)		
Earnings/(loss) for the year for the purpose of calculating basic/diluted earnings/(loss) per share	30,170	(98,845)
	2020 '000	2019 '000
Number of shares		
Weighted average number of ordinary shares for the purpose of calculating basic/diluted earnings/(loss) per share	968,490	960,877

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

The computation of the diluted earnings per share did not assume the exercise of the Company's outstanding share options as the exercise price of those share options was higher than the average market prices of the share for the year ended 31 December 2020.

The computation of the diluted earnings per share did not assume the conversion of the Company's convertible bonds since its exercise had anti-dilute effect that would result in a decrease in earnings per share for the year ended 31 December 2020.

The effect of all potential ordinary shares is anti-dilutive for the years ended 31 December 2019 due to loss making for the year ended 31 December 2019.

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19. PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvements HK\$'000	Land and buildings HK\$'000	Motor vehicles HK\$'000	Furniture, fixtures and office equipment HK\$'000	Plant and machinery HK\$'000	Construction in progress HK\$'000	Total HK\$'000
Cost							
At 1 January 2019	9,479	15,211	615	5,769	13,395	358	44,827
Additions	542	–	–	337	6,472	–	7,351
Acquisition of subsidiaries	167	–	614	127	531	–	1,439
Written off	(757)	–	–	(68)	(1,089)	(360)	(2,274)
Disposals	–	–	–	–	(1,065)	–	(1,065)
Exchange differences	(2)	–	(40)	(16)	(238)	2	(294)
At 31 December 2019 and 1 January 2020	9,429	15,211	1,189	6,149	18,006	–	49,984
Additions	1,646	–	–	1,507	123,447	–	126,600
Disposal of subsidiaries	(363)	–	–	(1,078)	(3,676)	–	(5,117)
Written off	–	–	–	(6)	(6)	–	(12)
Disposals	–	–	(324)	–	–	–	(324)
Exchange differences	9	–	34	36	520	–	599
At 31 December 2020	10,721	15,211	899	6,608	138,291	–	171,730
Accumulated depreciation							
At 1 January 2019	6,406	1,279	154	3,911	10,123	–	21,873
Charge for the year	2,453	491	189	777	1,720	–	5,630
Written off	(252)	–	–	(62)	–	–	(314)
Disposals	–	–	–	–	(799)	–	(799)
Exchange differences	–	–	(15)	(11)	(163)	–	(189)
At 31 December 2019 and 1 January 2020	8,607	1,770	328	4,615	10,881	–	26,201
Charge for the year	724	491	210	1,135	18,592	–	21,152
Disposal of subsidiaries	(363)	–	–	(1,077)	(3,167)	–	(4,607)
Written off	–	–	–	(6)	(6)	–	(12)
Disposals	–	–	(83)	–	–	–	(83)
Exchange differences	2	–	19	17	245	–	283
At 31 December 2020	8,970	2,261	474	4,684	26,545	–	42,934
Carrying amount							
At 31 December 2020	1,751	12,950	425	1,924	111,746	–	128,796
At 31 December 2019	822	13,441	861	1,534	7,125	–	23,783

At 31 December 2020 and 2019, none of the property, plant and equipment pledged as security for the Group's borrowings.

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20. RIGHT-OF-USE ASSETS

	Leased properties HK\$'000
At 1 January 2019	6,466
Additions	12,017
Depreciation	(6,815)
Acquisition of subsidiaries	2,531
Written off	(989)
Exchange differences	(75)
At 31 December 2019 and 1 January 2020	13,135
Additions	16,662
Depreciation	(10,792)
Modification (<i>note</i>)	(196)
Exchange differences	54
At 31 December 2020	18,863

Note: The Group has reassessed the lease liabilities due to modification of lease payment and adjusted the carrying amount of right-of-use assets accordingly.

Lease liabilities of HK\$19,384,000 (2019: HK\$13,356,000) are recognised with related right-of-use assets of HK\$18,863,000 (2019: HK\$13,135,000) as at 31 December 2020. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes.

	2020 HK\$'000	2019 HK\$'000
Depreciation expenses on right-of-use assets	10,792	6,815
Interest expense on lease liabilities (included in finance cost)	724	382
Expenses relating to short-term lease (included in cost of goods sold, selling and distribution expenses and administrative expenses)	1,765	4,717

Details of total cash outflow for leases is set out in note 42(e).

For both years, the Group leases various offices, clinics, labs and warehouses for its operations. Lease contracts are entered into for fixed term of 1 year to 3 years, but may have extension and termination options as described below. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. In determining the lease term and assessing the length of the non-cancellable period, the Group applies the definition of a contract and determines the period for which the contract is enforceable.

Some leases include an option to renew the lease for an additional period after the end of the contract term. Where practicable, the Group seeks to include such extension options exercisable by the Group to provide operational flexibility. The Group assesses at lease commencement date whether it is reasonably certain to exercise the extension options. If the Group is not reasonably certain to exercise the extension options, the future lease payments during the extension periods are not included in the measurement of lease liabilities.

During the year, the Group has no leases contracts with the extension options.

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21. GOODWILL

	2020 HK\$'000	2019 HK\$'000
Cost		
At 1 January	143,797	28,454
Acquisition of subsidiaries (note 42(a), (b))	–	115,343
Exchange differences	2,252	–
At 31 December	146,049	143,797
Accumulated impairment		
At 1 January	28,454	28,190
Impairment loss recognised for the year	–	264
At 31 December	28,454	28,454
Carrying amount		
At 31 December	117,595	115,343

Goodwill acquired in a business combination is allocated, at acquisition, to the CGUs that are expected to benefit from that business combination. The carrying amount of goodwill had been allocated as follows:

	2020 HK\$'000	2019 HK\$'000
Provision of medical laboratory testing services and health related services:		
– DVF Holdco (Cayman) Limited (“DVF”) acquired in 2015 (“CGU A”)	–	–
Provision of tumor immune cell therapy, immune cell storage and health management services:		
– Shanghai Longyao acquired in 2019 (“CGU B”)	108,388	106,136
Provision of insurance brokerage services:		
– Fortstone acquired in 2019 (“CGU C”)	9,207	9,207
	117,595	115,343

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.

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21. GOODWILL – *Continued*

The management considered no impairment indicators of non-current asset attributable to CGU A. The recoverable amount of CGU A is determined based on its value in use by using discounted cash flow method. The recoverable amount of CGU A exceeds the carrying amount of CGU A. The growth rate used by the Group to prepare the cashflow forecast from CGU A is 3%, this rate does not exceed the average long-term growth rate for the relevant markets. The discount rate used to discount the forecast cash flow was 17% (2019: 19%).

As at 31 December 2019, the carrying amount of CGU A has been reduced to its recoverable amount of approximately HK\$35,007,000 which was determined based on its value in use using the discounted cash flow method, and an impairment loss of approximately HK\$264,000 on goodwill and approximately HK\$28,838,000 on intangible assets were recognised for the year ended 31 December 2019 respectively.

The recoverable amount for CGU B was determined based on fair value less cost of disposal calculated by using discounted cash flow technique, covering the most recent financial budgets approved by the directors for the next eight years with residual period using the growth rate of 3%. The rate used to discount the fair value less cost of disposal is 16.7% (2019: 15.5%), which reflects specific risks relating to CGB B. The fair value less cost of disposal of CGU B is estimated by an independent professional qualified valuer and classified as level 3 measurement.

The key assumptions for the fair value less cost of disposal calculation were those regarding the discount rate, growth rate and budgeted gross margin, which had been determined based on the development trend of the industry and budgeted revenue, which had been determined based on the management's expectation for the industry development of CGU B.

For CGU C, the recoverable amount was determined based on its value in use by using the discounted cash flow method. 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 of 3%. 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 C is 13% (2019: 16%).

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22. INTANGIBLE ASSETS

	Customer relationship HK\$'000	Brand name HK\$'000	Patents HK\$'000	Non-competition Agreement HK\$'000	Total HK\$'000
Cost					
At 1 January 2019	12,247	34,915	–	–	47,162
Acquisition of subsidiaries (note 42(a) and (b))	–	–	87,092	1,324	88,416
At 31 December 2019 and 1 January 2020	12,247	34,915	87,092	1,324	135,578
Exchange differences	–	–	1,847	–	1,847
At 31 December 2020	12,247	34,915	88,939	1,324	137,425
Accumulated amortisation and impairment losses					
At 1 January 2019	3,726	–	–	–	3,726
Amortisation for the year	1,224	–	6,532	–	7,756
Impairment loss for the year	7,297	21,541	–	–	28,838
At 31 December 2019 and 1 January 2020	12,247	21,541	6,532	–	40,320
Amortisation for the year	–	–	8,392	–	8,392
Exchange differences	–	–	641	–	641
At 31 December 2020	12,247	21,541	15,565	–	49,353
Carrying amount					
At 31 December 2020	–	13,374	73,374	1,324	88,072
At 31 December 2019	–	13,374	80,560	1,324	95,258

The average remaining amortisation period of the customer relationship and patents are 5 years (2019: 6 years) and 9 years (2019: 10 years) respectively.

For the brand name and non-competition agreement, they have no foreseeable limit to the period over which are expected to generate net cash flow for the Group. The directors considered that they have an indefinite useful life because it is expected to contribute to net cash flows indefinitely. They will not be amortised until its useful life is determined to be finite. Instead, they will be tested for impairment annually and whenever there is an indication that it may be impaired.

The Group carried out reviews of the recoverable amount of its non-current assets in 2020, CGU A, CGU B and CGU C (referred to notes 21 to the consolidated financial statements) having regard to the market conditions of the Group's products. Customer relationship and brand name are attributed to CGU A. Customer relationship and brand name of approximately HK\$12,247,000 and HK\$34,915,000 were recognised at the date of completion (referred to note 21 to the consolidated financial statements). The management considered there was not impairment indicator of the non-current assets attributable to CGU A, and no impairment loss was provided for customer relationship (2019: HK\$7,297,000) and brand name (2019: HK\$21,541,000). The recoverable amount of approximately HK\$45,420,000 (2019: HK\$35,007,000) 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 17% (2019: 19%).

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23. INVESTMENTS IN SUBSIDIARIES

Particulars of the principal subsidiaries as at 31 December 2020 are as follows:

Name	Place of incorporation and kind of legal entity	Principal country of operation	Particular of issued share capital	Percentage of ownership interest/ voting power/ profit sharing		Principal activities
				Direct	Indirect	
Angel Rise International Limited	BVI, limited liability company	Hong Kong	Ordinary shares US\$1	–	100%	Investment holding
Best Global Group Limited	BVI, limited liability company	Hong Kong	Ordinary shares US\$1	100%	–	Investment holding
Grande Fortune International Limited	BVI, limited liability company	Hong Kong	Ordinary shares US\$1	100%	–	Investment holding
Gain Yield Holdings Limited	Samoa, limited liability company	Hong Kong	Ordinary shares US\$1	100%	–	Investment holding
Master Glory Enterprises Corporation	BVI, limited liability company	Hong Kong	Ordinary shares US\$10,000	–	100%	Investment holding
Keyun Limited	BVI, limited liability company	Hong Kong	Ordinary shares US\$1	–	100%	Investment holding
Asia Molecular Diagnostics Limited	Hong Kong, limited liability company	Hong Kong	Ordinary shares HK\$1,000	–	97%	Provision of medical diagnostic services
Asia Molecular Diagnostics Laboratory Limited	Hong Kong, limited liability company	Hong Kong	Ordinary shares US\$1,000,000	–	77.6%	Provision of medical diagnostic services
China Biology Services Group Limited ("China Biology")	Hong Kong, limited liability company	Hong Kong	Ordinary shares HK\$1	–	100%	Investment holding
Ferran Finance Limited	Hong Kong, limited liability company	Hong Kong	Ordinary shares HK\$1	–	100%	Provision of money lending in Hong Kong
Fortstone	Hong Kong, limited liability company	Hong Kong	Ordinary shares HK\$1,000,000	–	51%	Provision of insurance brokerage services
Genezone International Health Management Limited	Hong Kong, limited liability company	Hong Kong	Ordinary shares HK\$100	–	90.09%	Provision of coordination of healthcare providers services

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23. INVESTMENTS IN SUBSIDIARIES – *Continued*

Name	Place of incorporation and kind of legal entity	Principal country of operation	Particular of issued share capital	Percentage of ownership interest/ voting power/ profit sharing		Principal activities
				Direct	Indirect	
Healthy International Limited	Hong Kong, limited liability company	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, limited liability company	Hong Kong	Ordinary shares HK\$198,000	–	97%	Provision of medical laboratory testing services and health check services
Precision Health Care Services Limited	Hong Kong, limited liability company	Hong Kong	Ordinary shares HK\$500,002	–	97%	Provision of health check services
Silver Wisdom Development Limited	Hong Kong, limited liability company	Hong Kong	Ordinary shares HK\$1	–	100%	Investment holding
SDCL	Hong Kong, limited liability company	Hong Kong	Ordinary shares HK\$100	–	40% (note)	Provision of medical laboratory testing services
T. F. Industries Limited	Hong Kong, limited liability company	Hong Kong	Ordinary shares HK\$1	–	97%	Property investment
Town Health Choice Limited	Hong Kong, limited liability company	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, limited liability company	Hong Kong	Ordinary shares HK\$1	–	100%	Trading of securities
Victory Medical Laboratory Limited	Hong Kong, limited liability company	Hong Kong	Ordinary shares HK\$1,000	–	97%	Provision of medical laboratory testing services and health check services
Shanghai Longyao	The PRC, limited liability company	The PRC	Registered capital RMB15,037,544	–	67%	Provision of tumor immune cell therapy, immune cell storage and health management services

Note: Although the Group owns less than 50% of the equity interest in SDCL, it is able to gain power over than 50% of the voting right by virtue of agreement with another shareholder. Consequently, the Group consolidates Sunrise.

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

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24. INVESTMENTS IN ASSOCIATES

	2020 HK\$'000	2019 HK\$'000
Unlisted investments:		
Share of net assets	—	—
Goodwill	—	3,903
Impairment loss for the year	—	(3,903)
	—	—

Details of the Group's associates at 31 December 2020 are as follows:

Name	Place of incorporation/ registration	Issued and paid up capital	Percentage of ownership interest/voting power/ profit sharing		Principal activities
			2020	2019	
New Health Elite International Limited ("New Health")	BVI	Ordinary shares US\$100	22.62%	22.62%	Investment holding of subsidiaries which are principally engaged in provision of health management and well-being services

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.

	2020 HK\$'000	2019 HK\$'000
At 31 December:		
Carrying amounts of interests	—	—
Year ended 31 December:		
Loss for the year	(4,938)	(3,932)
Other comprehensive loss	(421)	(1,069)
Total comprehensive loss	(5,359)	(5,001)

As at 31 December 2020, the bank and cash balances of the Group's associates in the PRC denominated in RMB amounted to approximately HK\$990,000 (2019: HK\$2,578,000). 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.

The Group recognised impairment loss of approximately HK\$3,903,000 for the year ended 31 December 2019 on its interests in associates. As the loss have been incurred in the past few years by New Health and has carried net liabilities at the year ended, the Directors are of the opinion that the investments is irrecoverable and accordingly made full impairment on it.

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25. FINANCIAL ASSETS AT FVTOCI

	2020 HK\$'000	2019 HK\$'000
Unlisted equity securities at fair value	98,845	82,622
Analysed as:		
Current assets	—	—
Non-current assets	98,845	82,622
	98,845	82,622

Financial assets at FVTOCI are denominated in the following currencies:

	2020 HK\$'000	2019 HK\$'000
HK\$	4,587	4,435
US\$	94,258	78,187
	98,845	82,622

26. INVENTORIES

	2020 HK\$'000	2019 HK\$'000
Raw materials	2	2
Finished goods	5,530	3,424
	5,532	3,426

27. TRADE AND OTHER RECEIVABLES

	2020 HK\$'000	2019 HK\$'000
Trade receivables	30,891	11,434
Allowance for impairment loss	(577)	(345)
	30,314	11,089
Rental and other deposits	5,383	3,317
Other receivables	3,891	2,067
Prepayments	1,621	3,561
Sales proceeds on disposal of associates	1,268	3,347
Cash held in securities trading accounts with stock brokers	479	12
Allowance for impairment loss of other receivables	(1,423)	(3,502)
	11,219	8,802
Total trade and other receivables	41,533	19,891

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27. TRADE AND OTHER RECEIVABLES – Continued

The Group generally allows an average credit period of 90 days (2019: 90 days) for its pharmaceutical products customers and its laboratory testing and health check services customers and 30 days (2019: 30 days) for its insurance brokerage 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:

	2020 HK\$'000	2019 HK\$'000
0 to 90 days	27,041	9,936
91 to 180 days	3,042	858
181 to 365 days	231	271
Over 365 days	–	24
	30,314	11,089

As at 31 December 2020, an aggregate allowance was made for estimated irrecoverable trade receivables of approximately HK\$577,000 (2019: HK\$345,000).

As of 31 December 2020, trade receivables of approximately HK\$3,273,000 (2019: HK\$1,153,000) 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:

	2020 HK\$'000	2019 HK\$'000
Less than 90 days	3,042	858
91 to 275 days	231	271
Over 275 days	–	24
	3,273	1,153

The carrying amounts of the Group's trade receivables are denominated in HK\$.

28. LOAN AND INTEREST RECEIVABLES

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:

	2020 HK\$'000	2019 HK\$'000
Loan and interest receivables	19,630	19,530
Allowance for impairment loss	(6,570)	(3,578)
	13,060	15,952
Less: non-current portion	–	–
Current portion	13,060	15,952

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28. LOAN AND INTEREST RECEIVABLES – Continued

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

All loan and interest receivables carried a fixed rate from 8% to 10% per annum, unsecured and are repayable with fixed terms agreed with the customers.

29. HELD FOR TRADING SECURITIES

	2020 HK\$'000	2019 HK\$'000
Equity securities, at fair value		
Listed in Hong Kong	1,270	1,317
Analysed as:		
Current assets	1,270	1,317
Non-current assets	–	–
	1,270	1,317

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

	2020 HK\$'000	2019 HK\$'000
Held for trading	1,270	1,317

The carrying amount of the above financial assets are mandatorily measured at fair value through profit or loss in accordance with HKFRS 9.

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.

The market for the listed securities as at 31 December 2020 and 2019 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. As at 31 December 2020 and 2019, the valuation technique included the use of Monte Carlo Simulation method by market approach.

30. BANK AND CASH BALANCES

As at 31 December 2020, the bank and cash balances of the Group denominated in RMB amounted to approximately HK\$2,158,000 (2019: HK\$16,355,000). 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.

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31. SHARE CAPITAL

	Note	2020		2019	
		Number of shares '000	HK\$'000	Number of shares '000	HK\$'000
Authorised:					
At 31 December		2,000,000	200,000	2,000,000	200,000
Issued and fully paid:					
At 1 January		969,806	96,981	935,347	93,535
Share issued on acquisition of subsidiaries	(a)	–	–	27,509	2,751
Share subscription	(b)	–	–	5,800	580
Share issued on acquisition of a subsidiary	(c)	–	–	1,530	153
Share repurchased and cancelled	(d)	–	–	(380)	(38)
Share repurchased	(e), (f)	(3,880)	(388)	–	–
Share not yet cancelled	(f)	925	92	–	–
At 31 December		966,851	96,685	969,806	96,981

Notes:

- On 29 March 2019, the Company issued 27,509,400 consideration shares of HK\$0.1 each to the vendors of Shanghai Longyao as part of the settlement of the consideration for the acquisition of approximately 67% equity interests in Shanghai Longyao. The fair value of the shares of the Company, determined using the closing market price available at the date of the acquisition (i.e. HK\$1.68 per share), amounted to approximately HK\$46,216,000.
- The Company and the vendor of Shanghai Longyao has entered in the share subscription agreement in relation to the subscription of 5,800,000 shares at the subscription price of HK\$2 each. The subscription has completed on 29 March 2019.
- On 31 October 2019, the Company issued 1,530,000 consideration shares of HK\$0.1 each to the vendor of Fortstone as part of the settlement of the consideration for the acquisition of 51% equity interests in Fortstone. The fair value of the shares of the Company, determined using the closing market price available at the date of the acquisition (i.e. HK\$1.21 per share), amounted to approximately HK\$1,851,000.
- During August and September 2019, the Company repurchased 380,000 shares of the Company for a total consideration of approximately HK\$509,000 in the open market on the Stock exchange and cancelled on 27 September 2019 pursuant to the general mandate to buy back the shares of the Company granted by the shareholders of the Company to the Board.
- During May and June 2020, the Company repurchased 2,955,000 shares of the Company for a total consideration of approximately HK\$3,308,000 in the open market on the Stock exchange and cancelled on 22 July 2020 pursuant to the general mandate to buy back the shares of the Company granted by the shareholders of the Company to the Board.
- From 15 December 2020 to 31 December 2020, the Company repurchased 925,000 shares of the Company for a total consideration of approximately HK\$1,200,000 in the open market on the Stock exchange and subsequent cancelled on 9 February 2021 pursuant to the general mandate to buy back the shares of the Company granted by the shareholders of the Company to the Board.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

31. SHARE CAPITAL – *Continued*

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 2020, bank and cash equivalents amounted to approximately HK\$384,539,000 (2019: HK\$45,518,000), which exceed total debt of approximately HK\$277,733,000 (2019: HK\$16,668,000). Accordingly, there was no net debt at 31 December 2020 and 2019 and calculation of debt-to-equity ratio at 31 December 2020 and 2019 is not meaningful.

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 2020, 31.2% (2019: 31.4%) 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 2020 and 2019.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

(a) Statement of financial position of the Company

	2020 HK\$'000	2019 HK\$'000
Non-current assets		
Investments in subsidiaries	1,125	1,155
Property, plant and equipment	672	1,109
Right-of-use assets	1,494	3,287
Derivative financial assets	5,637	–
	8,928	5,551
Current assets		
Prepayments and other receivables	2,085	1,081
Amount due from subsidiaries	319,203	303,545
Bank and cash balances	11,923	337
	333,211	304,963
Non-current liabilities		
Convertible bonds	76,292	–
Lease liabilities	–	1,520
	76,292	1,520
Current liabilities		
Accruals and other payables	3,959	7,144
Amount due to subsidiaries	17,920	4,830
Loan from controlling shareholder	–	20,000
Lease liabilities	1,520	1,775
	23,399	33,749
Net current assets	309,812	271,214
NET ASSETS	242,448	275,245
Capital and reserves		
Share capital	96,685	96,981
Reserves	145,763	178,264
TOTAL EQUITY	242,448	275,245

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

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

(b) Reserve movement of the Company

	Share premium HK\$'000	Share repurchase for cancellation HK\$'000	Share-based payments reserve HK\$'000	Special reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
At 1 January 2019	443,140	–	12,258	212,948	(468,465)	199,881
Total comprehensive loss for the year	–	–	–	–	(87,864)	(87,864)
Share-based payments	45,163	–	–	–	–	45,163
Share subscription under placing	–	–	10,535	–	–	10,535
Less: Share issue expense	11,020	–	–	–	–	11,020
Shares repurchased and cancelled	(471)	–	–	–	–	(471)
At 31 December 2019 and 1 January 2020	498,852	–	22,793	212,948	(556,329)	178,264
Total comprehensive loss for the year	–	–	–	–	(37,402)	(37,402)
Repurchase and/or cancellation of shares	(3,012)	(1,200)	–	–	–	(4,212)
Share-based payments	–	–	9,113	–	–	9,113
Lapse of share options	–	–	(6,277)	–	6,277	–
At 31 December 2020	495,840	(1,200)	25,629	212,948	(587,454)	145,763

As at 31 December 2020, the aggregate amount of reserves of the Company available for distribution to owners of the Company was approximately HK\$145,763,000 (2019: HK\$178,264,000). 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

33. 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 and consultants 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.

(ii) *Special reserve*

Special reserve of 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 reorganisation 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) *Financial assets at FVTOCI reserve*

The financial assets at reserve comprises the cumulative net change in the fair value of financial assets as held at the end of the reporting period and is dealt with in accordance with the accounting policy in note 4(j) to the consolidated financial statements.

(v) *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(d) to the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

34. CONVERTIBLE BONDS

On 11 May 2020, the Company issued convertible bonds at the issue price of US\$10,000,000 (equivalent to approximately HK\$77,500,000) (equal to 100 per cent. of the principal amount of the convertible bonds). There was no movement in the number of these convertible bonds during the year ended 31 December 2020. The bonds are convertible at the option of the bondholders into ordinary shares at the initial conversion price of HK\$1.75 per conversion share and at the exchange rate of HK\$7.85 to US\$1.00, a maximum number of 44,857,142 conversion shares will be allotted and issued upon exercise of the conversion rights attached to the convertible bonds in full. The bonds carry interest at a rate of 8.5% per annum, which is payable half-yearly in arrears on 24 June and 24 December.

The rate of exchange to be used shall be at the rate of US\$1.00 to HK\$7.85, provided that, if the average exchange rate (the “**Adjusted Exchange Rate**”) of the Telegraphic Transfer Bank Buy and the Telegraphic Transfer Bank Sell as quoted on the website of the Hong Kong and Shanghai Banking Corporation Limited on the Business Day immediately prior to such date is at the rate of US\$1.00 to HK\$7.85001 or more, the rate of exchange to be used shall be such Adjusted Exchange Rate; provided further that if the bondholder exercises its Conversion Right, the exchange rate for the purpose of conversion will be the rate of US\$1.00 to HK\$7.85, and that the Company shall pay the bondholder in cash at the time of conversion in an amount resulting from the difference between such rate and the Adjusted Exchange Rate.

The maturity date is two years from issue date. The convertible bonds are secured by 529,500,546 ordinary shares of the Company held by Genius Lead Limited, controlling shareholder and guaranteed by Mr. Liu Xiaolin, the co-chairman and executive Director of the Company.

The proceeds received from the issue of the convertible bonds have been split between the liability and derivative components as follows:

	2020 HK\$'000
Nominal value of convertible bonds issued	77,500
Transaction cost related to liability component	(1,223)
Derivative component	(747)
Liability component at date of issue	75,530
Interest expenses	4,787
Interest paid	(4,025)
Liability component at 31 December 2020	76,292

	(Assets) HK\$'000	Liabilities HK\$'000	Total HK\$'000
Derivative component at date of issue	(5,543)	6,290	747
Fair value (gain)/loss for the year	(8,691)	2,307	(6,384)
Derivative component at 31 December 2020	(14,234)	8,597	(5,637)

The interest charged for the year is calculated by applying an effective interest rate of 10.19% to the liability component for the 7.6 months period since the bonds were issued.

The directors estimate the fair value of the liability component of the convertible bonds at 31 December 2020 to be approximately HK\$83,802,000. This fair value has been calculated by discounting the future cash flows at the market interest rate.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

34. CONVERTIBLE BONDS – Continued

The derivative financial assets and derivative financial liabilities are embedded in the convertible bonds, which is the call option and the conversion option respectively. The derivative component is measured at its fair value at the date of issue and at the end of each reporting period. The fair values are estimated using Binomial Option Pricing Model (level 3 fair value measurements). The key assumptions used are as follows:

	31 December 2020	Date of issue
Weighted average share price (HK\$)	1.30	1.11
Weighted average exercise price (HK\$)	1.75	1.75
Expected volatility	52.74%	46.66%
Expected life	1.36	2.00
Risk free rate	0.08%	0.36%
Expected dividend yield	Nil	Nil

35. LEASE LIABILITIES

	Minimum lease payments		Present value of minimum lease payments	
	2020 HK\$'000	2019 HK\$'000	2020 HK\$'000	2019 HK\$'000
Within one year	13,237	7,664	12,598	7,271
In the second to fifth years, inclusive	6,984	6,244	6,786	6,085
	20,221	13,908	19,384	13,356
Less: Future finance charges	(837)	(552)	N/A	N/A
Present value of lease obligations	19,384	13,356	19,384	13,356
Less: Amount due for settlement within 12 months (shown under current liabilities)			(12,598)	(7,271)
Amount due for settlement after 12 months			6,786	6,085

In both years, the weighted average incremental borrowing rates applied to lease liabilities range from 3.0% to 5.7%.

Minimum lease payments are denominated in HK\$ and RMB, amount of approximately HK\$18,599,000 (2019: HK\$11,450,000) and HK\$785,000 (2019: HK\$1,906,000) respectively.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

36. CONTINGENT CONSIDERATION

	Shanghai Longyao HK\$'000 (Note a)	Fortstone HK\$'000 (Note b)	Total HK\$'000
At 1 January 2019	–	–	–
Acquisition of subsidiaries (note 42(a), (b))	34,149	5,182	39,331
(Gain)/loss on fair value change	(8,101)	63	(8,038)
At 31 December 2019 and 1 January 2020	26,048	5,245	31,293
Gain on fair value change	(3,350)	(2,144)	(5,494)
At 31 December 2020	22,698	3,101	25,799
Classified as:			
Current	–	–	–
Non-current	22,698	3,101	25,799
	22,698	3,101	25,799

As of 31 December 2020, the fair value of the contingent consideration liability was remeasured, and a gain of HK\$5,494,000 (2019: HK\$8,038,000) resulted from the change in fair value of the contingent consideration liability was recognised in other income and gains in the consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2020.

Note a:

Contingent consideration is payable, which is subject to fulfillment of certain performance targets ("**First Target Achievement**") by Shanghai Longyao. The Company shall allot and issue a total of 29,100,000 new shares of the Company at an issue price of HK\$2.00. In the event that Shanghai Longyao meets certain other performance targets ("**Second Target Achievement**") after meeting the First Target Achievement, the Company shall allot and issue another 29,100,000 new shares of the Company in aggregate. In the event that Shanghai Longyao meets the Second Target Achievement without achieving the First Target Achievement, the Company shall allot and issue a total of 58,200,000 new shares of the Company to Mr. Ye Shenqin, Beike International (HK) Limited, Mr. Yang Xuanming and Mr. Wang Xin.

The initial amount recognised was HK\$34,149,000, and as at 31 December 2020, the amount recognised was HK\$22,698,000 (2019: HK\$26,048,000). The fair value which was determined using management best estimate and was within level 3 fair value measurement, which were reference to the valuation performed by an independent professional qualified valuer.

Note b:

Contingent consideration is payable in cash to the vendors of Fortstone amounted of HK\$6,120,000 ("**Tranche Consideration**"), which is subject to the accumulated net profit after tax of Fortstone amounted to HK\$9,000,000 ("**Actual Accumulated Profit**") for (a) the period from 31 October 2019 to 31 December 2019, (b) the two financial years ending 31 December 2020 and 2021 and (c) the period from 1 January 2022 to 31 October 2022 collectively. In the event that the Actual Accumulated Profit is a positive figure but less than HK\$9,000,000 for third anniversary of the completion date, the Tranche Consideration shall be adjusted to the figures calculated according to as below:

Actual Accumulated Profit multiplied by HK\$6,120,000 and divided by HK\$9,000,000.

If the Actual Accumulated Profit is a negative figure, the contingent consideration shall be zero.

The initial amount recognised was HK\$5,182,000, and as at 31 December 2020, the amount recognised was HK\$3,101,000 (2019: HK\$5,245,000). The fair value which was determined using management best estimate and was within level 3 fair value measurement, which were reference to the valuation performed by an independent professional qualified valuer. The fair value estimates are based on an assumed discount rate of 13%.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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37. DEFERRED TAX

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

	Accelerated tax depreciation HK\$'000
At 1 January 2019	1,406
Acquisition of subsidiaries	13,064
Credit to profit or loss for the year (note 12)	(2,386)
At 31 December 2019 and 1 January 2020	12,084
Credit to profit or loss for the year (note 12)	(1,259)
At 31 December 2020	10,825

At the end of the reporting period the Group has unused tax losses of approximately HK\$209,379,000 (2019: HK\$206,256,000) available for offset against future profits. No deferred tax asset has been recognised due to the unpredictability of future profit streams. For the year ended 31 December 2020, included in unrecognised tax losses are losses of approximately HK\$28,594,000, HK\$15,014,000, HK\$10,636,000, HK\$1,113,000 and HK\$11,028,000 that will expire in 2030, 2024, 2023, 2022 and 2021 respectively. Other tax losses may be carried forward indefinitely.

38. TRADE AND OTHER PAYABLES

	2020 HK\$'000	2019 HK\$'000
Trade payables	190,233	3,404
Accruals	12,477	10,853
Receipt in advance	559	102
Other payables	9,772	2,969
	213,041	17,328

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

	2020 HK\$'000	2019 HK\$'000
0 to 90 days	24,144	3,173
91 to 180 days	166,079	51
181 to 365 days	10	180
	190,233	3,404

The carrying amounts of the Group's trade payables are denominated in HK\$ and RMB, amount of approximately HK\$189,691,000 (2019: HK\$3,404,000) and HK\$542,000 (2019: Nil) respectively.

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

	2020 HK\$'000	2019 HK\$'000
Non-current portion	–	–
Current portion	–	4,939
Loan from a non-controlling shareholder	–	4,939

The Group received an interest free loan of HK\$3,298,000 and HK\$1,650,000 from a non-controlling shareholder of a subsidiary on 1 May 2016 and 1 May 2017 respectively. On 10 September 2020, the loan has been fully repaid and settled by allotment of share of Huge Profit Trading Limited ("Huge Profit"), a then subsidiary being disposed by the Company set out in note 42(c).

At 31 December 2019, using prevailing market interest rates for an equivalent loan of 2.3%, the fair value of the loan was estimated at approximately HK\$4,939,000 on initial recognition.

40. BORROWINGS

	2020 HK\$'000	2019 HK\$'000
Loan from controlling shareholder	–	20,000
Other borrowings	10,664	3,911
	10,664	23,911
The borrowings are repayable as follows:		
Within one year	10,664	23,911
Portion of borrowings that are due for repayment after one year but contain a repayment on demand clause (shown under current liabilities)	–	–
	10,664	23,911
Less: Amount due for settlement within 12 months (shown under current liabilities)	(10,664)	(23,911)
Amount due for settlement after 12 months	–	–

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

40. BORROWINGS – Continued

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

	HK\$ HK\$'000	RMB HK\$'000	USD HK\$'000	Total HK\$'000
2020				
Other borrowings	–	6,794	3,870	10,664
2019				
Loan from controlling shareholder	20,000	–	–	20,000
Other borrowings	–	3,911	–	3,911

The average interest rates at 31 December were as follows:

	2020	2019
Loan from controlling shareholder	N/A	6%
Other borrowings	8% to 10%	8%

All of the borrowings are arranged at fixed interest rates.

At 31 December 2020, borrowing of approximately HK\$3,870,000 is guaranteed by the Company and Mr. Liu. Borrowings of approximately HK\$5,959,000 is guaranteed by China Biology, a subsidiary of the Company.

At 31 December 2019, borrowings of approximately HK\$3,911,000 is guaranteed by the Company.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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41. 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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

41. SHARE-BASED PAYMENTS – *Continued*

Equity-settled share option scheme – *Continued*

Details of the specific categories of options are as follows:

Date of grant	Vesting period	Exercise period	Exercise price HK\$	Number of share options
Directors and Consultants:				
12 January 2018	12 January 2018 to 11 January 2019	12 January 2019 to 11 January 2020	1.67	8,060,000
12 January 2018	12 January 2018 to 11 January 2020	12 January 2020 to 11 January 2021	1.67	8,060,000
12 January 2018	12 January 2018 to 11 January 2021	12 January 2021 to 11 January 2022	1.67	8,260,000
20 August 2019	20 August 2019 to 19 August 2020	20 August 2020 to 19 August 2021	1.68	6,960,000
20 August 2019	20 August 2019 to 19 August 2021	20 August 2021 to 19 August 2022	1.68	6,960,000
20 August 2019	20 August 2019 to 19 August 2022	20 August 2022 to 19 August 2023	1.68	7,000,000
2 September 2020	2 September 2020 to 1 September 2021	2 September 2021 to 1 September 2022	2.00	3,220,000
2 September 2020	2 September 2020 to 1 September 2022	2 September 2022 to 1 September 2023	2.00	3,220,000
2 September 2020	2 September 2020 to 1 September 2023	2 September 2023 to 1 September 2024	2.00	3,220,000
26 November 2020	26 November 2020 to 25 November 2021	26 November 2021 to 25 November 2022	2.00	1,665,000
26 November 2020	26 November 2020 to 25 November 2022	26 November 2022 to 25 November 2023	2.10	1,665,000
26 November 2020	26 November 2020 to 25 November 2023	26 November 2023 to 25 November 2024	2.20	1,670,000
Employee:				
12 January 2018	12 January 2018 to 31 December 2020	1 January 2021 to 30 June 2021	1.67	3,000,000
4 October 2018	4 October 2018 to 3 October 2019	4 October 2019 to 3 October 2020	1.71	1,000,000
4 October 2018	4 October 2018 to 3 October 2020	4 October 2020 to 3 October 2021	1.71	1,000,000
4 October 2018	4 October 2018 to 3 October 2021	4 October 2021 to 3 October 2022	1.71	1,000,000
20 August 2019	20 August 2019 to 19 August 2020	20 August 2020 to 19 August 2021	1.68	1,490,000
20 August 2019	20 August 2019 to 19 August 2021	20 August 2021 to 19 August 2022	1.68	1,490,000
20 August 2019	20 August 2019 to 19 August 2022	20 August 2022 to 19 August 2023	1.68	1,520,000
				70,460,000

If the options remain unexercised after a period of 4 years from the date of grant, the options expire. Options are forfeited if the employee leaves the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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41. SHARE-BASED PAYMENTS – Continued

Equity-settled share option scheme – Continued

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

	2020		2019	
	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	52,800,000	1.68	30,380,000	1.67
Granted during the year	14,660,000	2.03	25,420,000	1.68
Expired during the year	(9,060,000)	1.67	–	–
Lapsed during the year	–	–	(3,000,000)	1.67
Outstanding at the end of the year	58,400,000	1.77	52,800,000	1.68
Exercisable at the end of the year	58,400,000	1.77	52,800,000	1.68

The options outstanding at the end of the year have a weighted average remaining contractual life of 2.44 years (2019: 2.85 years) and the exercise prices range from HK\$1.67 to HK\$2.20 (2019: HK\$1.67 to HK\$1.71). In 2020, options were granted on 2 September 2020 and 26 November 2020. The estimated fair values of the options granted on 2 September 2020 and 26 November 2020 are HK\$3,706,000 and HK\$1,462,000 respectively (12 January 2018: HK\$25,507,000, 4 October 2018: HK\$2,586,000, 20 August 2019: HK\$12,618,000).

These fair values were calculated using the Binomial option pricing model. The inputs into the model are as follows:

	12 January 2018	4 October 2018	20 August 2019	2 September 2020	26 November 2020
Weighted average share price (HK\$)	1.67	1.71	1.68	1.53	1.43
Weighted average exercise price (HK\$)	1.67	1.71	1.68	2.00	2.10
Expected volatility	84.72%-92.79%	70.28%-83.06%	51.60%-74.76%	38.77%-60.78%	40.52%-54.91%
Expected life	4 years	4 years	4 years	4 years	4 years
Risk free rate	1.78%-2.06%	2.74%-2.95%	1.59%-1.79%	0.26%-0.28%	0.12%-0.24%
Expected dividend yield	Nil	Nil	Nil	Nil	Nil

Expected volatility was determined by calculating the historical volatility of the Company's share price over the previous four years. The expected life used in the model has been adjusted, based on the Group's best estimate, for the effects of non transferability, exercise restrictions and behavioural considerations.

Share options granted to consultants were incentives for helping the Group expand its business network, acquire and explore new business projects and opportunities. The fair value of such benefit could not be estimated reliably and as a result, the fair value is measured by reference to the fair value of share options granted.

The Group recognised the total expense of approximately HK\$9,113,000 for the year ended 31 December 2020 (2019: HK\$10,535,000) in relation to the share options granted by the Company.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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42. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

(a) Acquisition of Shanghai Longyao

On 29 January 2019, the Group has made a capital contribution of RMB40,000,000 (equivalent to HK\$46,276,000) to Shanghai Longyao, of which RMB3,162,470 (represents approximately 21.03% of the equity interests of Shanghai Longyao) will be credited as share capital and Shanghai Longyao became an associate of the Group.

On 29 March 2019, the Group further acquired approximately 45.97% of the equity interests of Shanghai Longyao for a total consideration of approximately HK\$124,369,000. On the same date, Shanghai Longyao become a subsidiary of the Group upon holding of a total of approximately 67% equity interest.

The Company, through China Biology, directly or indirectly held approximately 67% equity interests in Shanghai Longyao. Shanghai Longyao was engaged in the provision of tumor immune cell therapy, immune cell storage and health management services in the PRC during the year. The acquisitions are for the purpose of specialises in the research and development of CAR-T and related cancer treatment products and is expected to benefit greatly from the positive developments of immunotherapy.

The Group accordingly remeasured the fair value of its pre-existing interest of 21.03% in Shanghai Longyao on 29 March 2019 and recognised a gain on remeasurement of approximately HK\$8,096,000 of the Group's pre-existing interest in Shanghai Longyao to 29 March 2019's fair value.

Details of the carrying value and fair value of the Group's pre-existing interest in Shanghai Longyao at 29 March 2019 are summarised as follows:

	HK\$'000
Carrying value of pre-existing interest in Shanghai Longyao	45,570
Less: Fair value of pre-existing interest in Shanghai Longyao	(53,666)
Gain on remeasurement on pre-existing interest in an associate	8,096

The Group recognised a gain of approximately HK\$8,096,000 as a result of measuring at fair value on its 21.03% equity interests in Shanghai Longyao held before the business combination. The gain is included in other income.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

42. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS – Continued

(a) Acquisition of Shanghai Longyao – Continued

The fair value of the identifiable acquired and liabilities recognised as at the date of acquisition are as follows:

Net assets acquired:	HK\$'000
Property, plant and equipment	1,269
Right-of-use assets	1,728
Intangible assets	87,092
Inventory	2
Trade and other receivables	1,340
Bank and cash balances	38,454
Trade and other payables	(1,904)
Amount due a shareholder	(22,785)
Other borrowings	(5,836)
Deferred tax liabilities	(13,064)
Lease liabilities	(1,769)
Total identifiable net assets at fair value	84,527
Assignment of debts	22,785
Non-controlling interests	(35,413)
	71,899
Fair value of pre-existing interest	(53,666)
	18,233
Goodwill (note 21)	106,136
	124,369
Satisfied by:	
Cash	44,004
Consideration shares (note 31(a))	46,216
Contingent consideration (note 36)	34,149
	124,369
Net cash outflow arising on acquisition:	
Cash consideration paid	(44,004)
Cash and cash equivalents acquired	38,454
	(5,550)

The goodwill arising on the acquisition of Shanghai Longyao is attributable to the anticipated profitability of the distribution of the Group's products in the new markets and the anticipated future operating synergies from the combination.

Acquisition-related costs of HK\$1,066,000 have been charged to administrative expenses in the consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2019.

The fair value of the 27,509,400 ordinary shares of the Company issued as part of the consideration paid was determined on the basis of the closing market price of the Company's ordinary shares on the acquisition date (note 31(a)).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

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

(a) Acquisition of Shanghai Longyao – *Continued*

Shanghai Longyao contributed revenue approximately HK\$125,000 and loss of approximately HK\$21,507,000 to the Group's revenue for the year for the period between the date of acquisition and 31 December 2019.

If the acquisition had been completed on 1 January 2019, total Group revenue for the year would have been HK\$61,074,000, and loss for the year would have been HK\$127,263,000. The proforma information is for illustrative purposes only and is not necessarily an indication of the revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2019, nor is intended to be a projection of future results.

(b) Acquisition of Fortstone

On 31 October 2019, the Group acquired 51% of the issued share capital of Fortstone for a total consideration of approximately HK\$10,297,000. Fortstone was engaged in the provision of insurance brokerage services during the year. The acquisitions are for the purpose of expand its business operation and anticipated future operating synergies from the combination together with the medical laboratory testing services and health check services segment.

The fair value of the identifiable acquired and liabilities recognised as at the date of acquisition are as follows:

Net assets acquired:	HK\$'000
Property, plant and equipment	170
Right-of-use assets	803
Intangible assets	1,324
Trade and other receivables	1,560
Bank and cash balances	407
Trade and other payables	(1,167)
Current tax liabilities	(137)
Lease liabilities	(822)
	<hr/> 2,138
Non-controlling interests	(1,048)
Goodwill (<i>note 21</i>)	9,207
	<hr/> 10,297
Satisfied by:	
Cash	3,060
Capital injection	204
Consideration shares (<i>note 31(c)</i>)	1,851
Contingent consideration (<i>note 36</i>)	5,182
	<hr/> 10,297
Net cash outflow arising on acquisition:	
Cash consideration paid	(3,264)
Cash and cash equivalents acquired	407
	<hr/> (2,857)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

42. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS – Continued

(b) Acquisition of Fortstone – Continued

Acquisition-related costs of HK\$1,022,000 have been charged to administrative expenses in the consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2019.

The fair value of the 1,530,000 ordinary shares of the Company issued as part of the consideration paid was determined on the basis of the closing market price of the Company's ordinary shares on the acquisition date (note 31(c)).

The goodwill arising on the acquisition of Fortstone is attributable to the anticipated profitability of the distribution of the Group's products in the new markets and the anticipated future operating synergies from the combination.

Fortstone contributed revenue approximately HK\$2,402,000 and profit of approximately HK\$540,000 to the Group for the year for the period between the date of acquisition and 31 December 2019.

If the acquisition had been completed on 1 January 2019, total Group revenue for the year would have been HK\$83,613,000, and loss for the year would have been HK\$104,608,000. The proforma information is for illustrative purposes only and is not necessarily an indication of the revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2019, nor is intended to be a projection of future results.

(c) Disposal of Huge Profit Group

On 14 September 2020, the Company, as vendor, entered into a sale and purchase agreement with an independent third party, as purchaser, to dispose of the 78% equity interests in Huge Profit Trading Limited and its subsidiary (collectively, the "Huge Profit Group") at a cash consideration of HK\$500,000. The completion of the disposal of the Huge Profit Group took place on the same date.

Net assets at the date of disposal were as follows:

	HK\$'000
Property, plant and equipment	510
Inventories	303
Trade and other receivables	2,330
Bank and cash balances	371
Trade and other payables	(1,668)
Net assets disposed of	1,846
Release of non-controlling interest	602
Loss on disposal of the Huge Profit Group	(1,948)
Total consideration satisfied by cash	500
Net cash inflow arising on disposal:	
Cash consideration received	500
Cash and cash equivalents disposed of	(371)
	129

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

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

(d) Disposal of Dragon Leap Group

On 16 August 2019, Dynasty Well Limited, a wholly-owned subsidiary of the Company, as vendor, entered into a sale and purchase agreement with an independent third party, as purchaser, to dispose of the entire equity interests in Dragon Leap Enterprises Limited and its subsidiaries (collectively, the “**Dragon Leap Group**”) at a cash consideration of HK\$50,000. The completion of the disposal of the Dragon Leap Group took place on the same date.

Net assets at the date of disposal were as follows:

	HK\$'000
Trade and other receivables	455
Bank and cash balances	34
Trade and other payables	(446)
Net assets disposed of	43
Release of foreign currency translation reserve	323
Loss on disposal of the Dragon Leap Group	(316)
Total consideration satisfied by cash	50
Net cash inflow arising on disposal:	
Cash consideration received	50
Cash and cash equivalents disposed of	(34)
	16

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

42. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS – Continued

(e) 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 2020 HK\$'000	Entering into new leases HK\$'000	Cash flows HK\$'000	Interest expenses HK\$'000	Lease modification HK\$'000	Exchange difference HK\$'000	Non-cash transaction HK\$'000 (note 42(g))	31 December 2020 HK\$'000
Borrowings (note 40)	23,911	-	(14,905)	1,249	-	409	-	10,664
Loan from non-controlling shareholder of a subsidiary (note 39)	4,939	-	-	9	-	-	(4,948)	-
Lease liabilities (note 35)	13,356	16,662	(11,218)	724	(196)	56	-	19,384
	42,206	16,662	(26,123)	1,982	(196)	465	(4,948)	30,048

	1 January 2019 HK\$'000	Impact on initial application of HKFRS 16 HK\$'000	Entering into new leases HK\$'000	Cash flows HK\$'000	Interest expenses HK\$'000	Exchange difference HK\$'000	Acquisition of subsidiaries HK\$'000	31 December 2019 HK\$'000
Borrowings (note 40)	-	-	-	17,058	1,241	(224)	5,836	23,911
Loan from non-controlling shareholder of a subsidiary (note 39)	4,870	-	-	-	69	-	-	4,939
Lease liabilities (note 35)	-	6,466	12,017	(8,023)	382	(77)	2,591	13,356
	4,870	6,466	12,017	9,035	1,692	(301)	8,427	42,206

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

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

(f) Total cash outflow for leases

Amounts included in the cash flow statements for leases comprise the following:

	2020 HK\$'000	2019 HK\$'000
Within operating cash flows	1,765	4,717
Within financing cash flows	10,494	6,643
	12,259	11,360

These amounts relate to the following:

	2020 HK\$'000	2019 HK\$'000
Lease rental paid	12,983	11,742

(g) Major non-cash transactions

A capital injection from a non-controlling shareholder of a subsidiary, amount of approximately HK\$4,948,000 were offset by the loan from a non-controlling shareholder of a subsidiary.

43. CONTINGENT LIABILITIES

As at 31 December 2020, the Group did not have any significant contingent liabilities (2019: Nil).

44. CAPITAL COMMITMENTS

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

	2020 HK\$'000	2019 HK\$'000
Capital contribution to: WFOE in Guangdong province, PRC	4,781	7,481

On 19 January 2018, the Group has established a wholly foreign-owned enterprise ("WFOE") in Guangdong Province, the PRC, pursuant to the cooperation agreement dated 6 November 2017 entered into with 中國(廣東)自由貿易試驗區深圳前海蛇口片區管理委員會 (in English, China (Guangdong) Pilot Free Trade Zone Qianhai & Shekou Area of Shenzhen Management Committee) in related to cooperation for provision of biotech services. The registered capital of the WFOE is RMB10,000,000 and the Group has paid the registered capital of RMB5,947,000 (2019: RMB3,498,000). The remaining capital commitment was RMB4,053,000 (equivalent to approximately HK\$4,781,000) (2019: RMB6,502,000 (equivalent to approximately HK\$7,481,000)).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

45. LEASE COMMITMENTS

The Group as lessee

The Group regularly entered into short-term leases for its office, staff quarter and car park. As at 31 December 2020, the portfolio of short-term leases is similar to the portfolio of short-term leases to which the short-term lease expense disclosed in note 20, and the outstanding lease commitments relating to short-term leases for office is approximately HK\$124,000 (2019: HK\$1,179,000).

46. RELATED PARTY TRANSACTIONS

- (a) In addition to those related party transactions and balances disclosed elsewhere in the consolidated financial statements, the Group had the following transaction with its related party during the year:

	2020 HK\$'000	2019 HK\$'000
Loan interest expenses paid to the ultimate controlling party of the Company	436	579
Service fee charged by a non-controlling shareholder of a subsidiary	178,015	—
Purchase of property, plant and equipment from a non-controlling shareholder of a subsidiary	145,393	—

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

	2020 HK\$'000	2019 HK\$'000
Short-term benefits	17,276	15,226
Equity-settled share-based payments	4,865	4,902
Retirement benefits scheme contributions	111	120
	22,252	20,248

FIVE YEAR FINANCIAL SUMMARY

Results

	For the ended 31 December				
	2016	2017	2018	2019	2020
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover	109,828	105,135	70,304	59,214	655,792
Cost of sales	(71,918)	(74,933)	(42,220)	(36,841)	(316,710)
Gross profit	37,910	30,202	28,084	22,373	339,082
Net loss on financial assets at fair value through profit or loss	(25,679)	(32,671)	(397)	(1,252)	(47)
Other income, gains/(losses)	36,064	667	2,430	(959)	5,817
Allowance for impairment loss on financial assets, net	(5,106)	(2,732)	(3,724)	(2,996)	(1,145)
Selling and distribution expenses	(24,742)	(16,807)	(16,966)	(12,379)	(11,848)
Administrative expenses	(48,950)	(51,944)	(78,988)	(94,111)	(132,489)
(Loss)/profit from operations	(30,503)	(73,285)	(69,561)	(89,324)	199,370
Finance costs	(2,583)	(2,189)	(3,472)	(1,692)	(6,498)
(Loss)/gain on disposal of subsidiaries	(217)	2,473	4,249	(316)	(1,948)
Loss on disposal of assets held for sale	–	(493)	–	–	–
Gain on disposal of associates	–	8,066	–	–	–
Gain on remeasurement on pre-existing interest in an associate	–	–	–	8,096	–
Gain on fair value change of contingent consideration	–	–	–	8,038	5,494
Gain on fair value change of derivative financial instrument	–	–	–	–	6,384
Share of profits/(loss) of associates	8,648	6,642	(460)	(1,390)	–
Share of loss of a joint venture	(4,043)	–	–	–	–
Impairment loss on available-for-sale financial assets	(3,195)	(4,049)	–	–	–
Impairment loss on goodwill	(27,669)	(1,478)	–	(264)	–
Impairment loss on intangible assets	–	(11,085)	–	(28,838)	–
Impairment loss on investments in associates	–	–	–	(3,903)	–
(Loss)/profit before tax	(59,562)	(75,398)	(69,244)	(109,593)	202,802
Income tax (expense)/credit	(530)	(1,132)	(189)	2,110	(35,179)
(Loss)/profit for the year	(60,092)	(76,530)	(69,433)	(107,483)	167,623
(Loss)/profit for the year attributable to:					
Owners of the Company	(50,151)	(63,022)	(64,250)	(98,845)	30,170
Non-controlling interests	(9,941)	(13,508)	(5,183)	(8,638)	137,453
(Loss)/profit for the year	(60,092)	(76,530)	(69,433)	(107,483)	167,623

FIVE YEAR FINANCIAL SUMMARY

Assets and liabilities

	As at 31 December				2020 HK\$'000
	2016 HK\$'000	2017 HK\$'000	2018 HK\$'000	2019 HK\$'000	
Total assets	322,956	303,400	337,761	416,584	904,121
Total liabilities	(47,739)	(52,092)	(18,846)	(103,221)	(392,016)
Total equity	275,217	251,308	318,915	313,363	512,105
Non-controlling interests	(9,707)	3,366	5,162	(24,171)	(168,774)
Equity attributable to owners of the Company	265,510	254,674	324,077	289,192	343,331