Kaisa Health Group Holdings Limited
佳兆業健康集團控股有限公司

(Incorporated in Bermuda with limited liability 於百慕達註冊成立之有限公司)

(Stock Code 股份代號: 876)

Annual Report 2017 年報

CONTENTS

CORPORATE INFORMATION

As at 22 March 2018

DIRECTORS

Executive Directors

Mr. Luo Jun *(Chairman)*
Mr. Wu Xiaolin (resigned on 21 February 2017)
Mr. Wu Tianyu *(Chief Executive Officer)*

Non-executive Directors

Mr. Xu Hao
Dr. Jiang Feng (resigned on 21 February 2017)

Independent Non-executive Directors

Dr. Loke Yu alias Loke Hoi Lam
(resigned on 11 January 2017)
Mr. Wu Jixian (resigned on 23 January 2017)
Mr. Song Qun (resigned on 11 April 2017)
Dr. Liu Yanwen (appointed on 11 January 2017)
Mr. Guo Peineng
(appointed on 11 January 2017 and
resigned on 5 March 2018)
Mr. Wang Wansong (appointed on 11 April 2017)
Mr. Fok Hei Yu (appointed on 5 March 2018)
Dr. Lyu Aiping (appointed on 5 March 2018)

AUDIT COMMITTEE

Dr. Liu Yanwen *(Chairman)* (appointed on 11 January 2017)
Dr. Loke Yu alias Loke Hoi Lam *(Chairman)*
(resigned on 11 January 2017)
Mr. Wu Jixian (resigned on 23 January 2017)
Mr. Song Qun (resigned on 11 April 2017)
Mr. Guo Peineng
(appointed on 23 January 2017 and
resigned on 5 March 2018)
Mr. Wang Wansong (appointed on 11 April 2017)
Mr. Fok Hei Yu (appointed on 5 March 2018)

REMUNERATION COMMITTEE

Mr. Fok Hei Yu *(Chairman)*
(appointed on 5 March 2018)
Mr. Guo Peineng *(Chairman)*
(appointed on 23 January 2017 and
resigned on 5 March 2018)
Mr. Wu Jixian *(Chairman)* (resigned on 23 January 2017)
Mr. Wu Tianyu
Mr. Song Qun (resigned on 11 April 2017)
Mr. Wang Wansong (appointed on 11 April 2017)

NOMINATION COMMITTEE

Mr. Luo Jun *(Chairman)* (appointed on 19 January 2018)
Mr. Wu Tianyu *(Chairman)*
(ceased to act on 19 January 2018)
Mr. Wu Jixian (resigned on 23 January 2017)
Mr. Song Qun (resigned on 11 April 2017)
Mr. Guo Peineng
(appointed on 23 January 2017 and
resigned on 5 March 2018)
Mr. Wang Wansong (appointed on 11 April 2017)
Mr. Fok Hei Yu (appointed on 5 March 2018)

COMPANY SECRETARY

Mr. Lam Wai Fung, Dominic

AUTHORISED REPRESENTATIVES

Mr. Luo Jun (appointed on 19 January 2018)
Mr. Lam Wai Fung, Dominic
Mr. Wu Tianyu (ceased to act on 19 January 2018)

INDEPENDENT AUDITOR

Grant Thornton Hong Kong Limited
Certified Public Accountants

LEGAL ADVISERS

Hong Kong

Sidley Austin

Bermuda

Conyers Dill & Pearman

PRINCIPAL BANKERS

Bank of China (Hong Kong) Limited
Nanyang Commercial Bank, Limited

REGISTERED OFFICE

Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

Suite 2016A, 20/F,
Two International Finance Centre,
8 Finance Street,
Central, Hong Kong

SHARE REGISTRARS

Bermuda Principal

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

Hong Kong Branch

Tricor Tengis Limited
Level 22, Hopewell Centre
183 Queen's Road East
Hong Kong

STOCK CODE

876

COMPANY WEBSITE

www.kaisahealth.com

CHAIRMAN'S STATEMENT

Dear Shareholders,

On behalf of the board (the "Board") of directors (the "Directors") of Kaisa Health Group Holdings Limited, (the "Company"), I present the audited consolidated results of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2017. During the year, the Group achieved revenue from its continuing operations of approximately HK$226.7 million (2016: approximately HK$188.1 million), representing an increase of 20.5% as compared with last year. Profit attributable to the shareholders of the Company was approximately HK$3.9 million (2016: loss of approximately HK$15.2 million). Earnings per share was 0.10 HK cents (2016: loss per share of 0.41 HK cents adjusted for rights issue of shares in 2017). The Board did not recommend the payment of dividend for the year.

BUSINESS REVIEW

The dental prosthetics business (the "Dental Prosthetics Business") continued to have good performance since its acquisition in May 2015. Revenue and earnings contributed from the Dental Prosthetics Business continued to grow steadily. The scale of operation of the Dental Prosthetics Business continued to increase. Higher inputs to marketing and research activities were incurred and higher revenue are recorded. Moreover, there is continued keen competition for skilled labor resources which resulted in higher labor costs. The Group will continue to cooperate with technical institutes for more stable supplies of labour resources and implement automation in order to reduce the reliance to labour resources.

On the other hand, the unprofitable discontinued electronic manufacturing services business segment continues to be scaled down or being disposed of, which is in line with the strategy of the Company.

BUSINESS DEVELOPMENT STRATEGIES AND PROSPECTS

It is expected that the Dental Prosthetics Business will have huge growth potential and will increase the income stream of the Group, increase the return on equity and bring a long-term benefit to the Group. In order to maintain its leading position and preserve competitiveness in the market, during the year, the Company has further strengthened its financial resources by the implementation of rights issue. On 28 July 2017, the Company proposed to implement the rights issue (the "Rights Issue") on the basis of one (1) new shares to be issued and allotted under the Rights Issue (the "Rights Share") for every three (3) shares held on the record date at the subscription price of HK$0.40 per Rights Share. The Rights Issue has been completed on 13 November 2017 and the net proceeds raised of HK$507.16 million is expected to be used as working capital for the existing products, the potential acquisition of target companies in dental prosthetic area and other dentistry areas and the acquisition of land to construct a manufacturing plant for the Dental Prosthetics Business in the PRC.

Apart from that, the Group has a business strategy to further diversify its business so as to further enhance shareholder value. Among which, the Company is looking into potential investment opportunities to enhance the Group's investment in the Dental Prosthetics Business in view of the strong growth potential of the global dental prosthetics market. At the same time, the Company is also exploring the possibility to provide professional consultancy services to cooperating partners for the development of "health town" in the PRC with the expertise and advantageous resources the Group possesses within the healthcare sector under the current PRC national development.

Further, the Group endeavors to leverage on the experience and network of the management to capture business and investment opportunities, including but not limited to partnership and investment in fund within the health industry and investment in high-end medical equipment to prepare the Group's development in the long run.

CHAIRMAN'S STATEMENT

In summary, as the Chinese economy improves steadily and urban residents' living standards rise, plus the medical and health industry developing in full scope, huge growth potential of the oral medicine technology market is expected to be unleashed, which will bring opportunities to the Company for achieving long-term sustainable development. To maintain its market leadership and competitiveness, the Company has boosted its financial resources and will strengthen investment in research and development and innovation, to recruit outstanding professional technical talent and continue to introduce high value-added products and services to meet the escalating demand for dental prosthetics. The Company will continue to unearth synergies with existing and potential business partners of the Group building on its experienced management team and strong sales network. At the same time, while striving for sustainable organic growth, the Company will actively capture high-tech dental related business and investment opportunities, explore cooperation and investment opportunities in the health industry to the end of enhancing its scale and profitability.

APPRECIATION

On behalf of the Board, I would like to take this opportunity to thank all our valuable shareholders, respectable customers, dedicated vendors and professional bankers for their support over the year and look forward to a closer cooperation in coming years.

I would also like to personally thank our management and staff for their hard working and commitment to the Group.

Luo Jun
Chairman
Hong Kong, 22 March 2018

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL HIGHLIGHTS

During the year, the Group's revenue from its continuing operations, reached approximately HK$226.7 million (2016: approximately HK$188.1 million), representing an increase of 20.5% compared with last year. The Group's profit attributable to the shareholders of the Company for the year ended 31 December 2017 was approximately HK$3.9 million, representing a basic earnings per share of HK0.10 cents (2016: loss of approximately HK$15.2 million, representing a basic loss per share of HK0.41 cents adjusted for rights issue of shares in 2017).

FINAL DIVIDEND

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

BUSINESS REVIEW

Dental Prosthetics Business

The Group have engaged in the Dental Prosthetics Business, including the sale (both overseas and domestic) and production of dental prosthetics, including crowns and bridges, removable full and partial dentures, implants and full-cast restorations.

Revenue from this Dental Prosthetics Business is approximately HK$226.7 million for the year ended 31 December 2017, compared to a revenue of approximately HK$188.1 million for the corresponding period in 2016.

The Dental Prosthetics Business continued to have good performance since its acquisition in May 2015. Revenue and earnings contributed from the Dental Prosthetics Business continued to grow steadily. Overall speaking, the scale of operation of the Dental Prosthetics Business continued to increase. Higher inputs to marketing and sales discount stimulate higher revenue. On the other hand, gross margin has been reduced to 50.0% (2016: 54.4%) which is attributable to the increase in direct labor costs due to the continued keen competition for skilled labor resources, together with more sales discounts were given to customers. The Group will continue to cooperate with technical institutes for more stable supplies of labor resources and implement automation in order to reduce the reliance to labor resources.

Investment in research and know-hows is always a focus in our business. Research and development expense increased to HK$16.1 million during this year (2016: HK$9.8 million). It reflects the management's determination and vision to invest in the future technologies in the Dental Prosthetic Business. On the other hand, grants and subsidies of HK$8.6 million (2016: HK$0.7 million) were received from the Municipal Government for acknowledging the Group's continued effort in research and development of skills and know-hows in the dental prosthetic areas.

Electronic Manufacturing Services Business (the "EMS Business")

On 2 December 2016, the Board has resolved to discontinue the EMS Business and it was expected that the discontinuation of the EMS Business would allow the Group to reallocate its resources and effort to the Dental Prosthetics Business, which has proven to be a more profitable segment of the Group's business. In 2017, the loss attributable to owners of the Company from discontinuing EMS Business has been significantly reduced which demonstrated that the resolution to discontinue the unprofitable EMS Business is positive.

As a result of the aforementioned, revenue contributed from the EMS Business dropped significantly as a whole which decreased by 97.8% to approximately HK$2.3 million for the year ended 31 December 2017 as compared to last year (2016: HK$105.5 million).

MANAGEMENT DISCUSSION AND ANALYSIS

PROSPECT

The Group is principally engaged in the Dental Prosthetics Business, and has a business strategy to further diversify its business so as to further enhance shareholder value. Among which, the Company is looking into potential investment opportunities to enhance the Group's investment in the Dental Prosthetics Business in view of the strong growth potential of the global dental prosthetics market. At the same time, the Company is also exploring the possibility to provide professional consultancy services to cooperating partners for the development of "health town" in the PRC with the expertise and advantageous resources the Group possesses within the healthcare sector under the current PRC national development.

Further, the Group endeavors to leverage on the experience and network of the management to capture business and investment opportunities, including but not limited to partnership and investment in fund within the health industry and investment in high-end medical equipment to prepare the Group's development in the long run.

Dental Prosthetics Business

The Group is optimistic about the long-term outlook of the dental prosthetics market in the PRC, particularly in view of the rising living standard causing surge in sugar consumption by the citizens and thereby faster dental decay among the general public and the increasing awareness of cosmetics, which together are expected to induce augmenting demand for dental prosthesis. In addition, the dental prosthetics industry on a global scale has been growing positively over the past few years and such trend is likely to continue.

The Group has formulated a number of growth strategies in the Dental Prosthetics Business, including enlarging its sales network in the PRC and foreign markets like the US, expanding its production capacity in the PRC and developing high-end new denture prosthetics products with beauty attributes.

Apart from the organic growth and sales network integration and consolidation for the Dental Prosthetics Business, the Group will also actively seek investment and collaboration opportunities in high tech dental related areas so as to enhance cross selling opportunities and the returns of investment for the shareholders of the Company.

On 28 July 2017, the Company proposed to implement the rights issue (the "Rights Issue") on the basis of one (1) new shares to be issued and allotted under the Rights Issue (the "Rights Share") for every three (3) shares held on the record date at the subscription price of HK$0.40 per Rights Share. The Rights Issue has been completed on 13 November 2017 and the Group raised proceeds of approximately HK$510.16 million before expenses and the net proceeds of the Rights Issue was HK$507.16 million. For detailed allocation and use of proceeds, please refer to the section headed "Rights Issue" of the Director's Report. With the Rights Issue being successfully implemented during the year, the Group is pleased to obtain these financial resources so as to support the future growth of the Group.

EMS Business

The Board has resolved to discontinue the EMS Business on 2 December 2016 and after one year of downsizing, it is expected that the discontinuation of the EMS Business will not have any significant impact to the Group thereafter.

OPERATING RESULTS AND FINANCIAL REVIEW

Revenue

The sales for the year has been increased which is mainly due to the continuing effort to increase the scale of operation of the Dental Prosthetics Business of the Group. Other revenues has been increased is due to more grants and subsidies were received from the Municipal Government for acknowledging the Group's effort in research and development of skills and know-hows in the dental prosthetic areas.

Gross Profit and Gross Profit Margin

Gross profit for the year contributed from the continuing operations amounted to HK$113.5 million (2016: HK$102.3 million). Gross profit margin contributed from the continuing operations for the year has been decreased to 50.0% (2016: 54.4%). This is mainly attributable to more sales discounts were given to stimulate sales. Moreover, some of the material costs have been raised and also higher labor costs were noted due to keen competition for skilled labor resources as compared to the year 2016.

Selling and distribution costs

Increase in selling and distribution costs mainly represented the management's effort to increase the level of marketing activities.

Other expenses

Increase in other expenses represented the increase in research and development expense.

Goodwill

Goodwill of HK$330.8 million was generated from the acquisition of On Growth Global Development Limited and its subsidiaries in May 2015. A review on the carrying value of the goodwill has been conducted and no impairment of the Dental Prosthetics Business containing that goodwill was noted.

Convertible Bonds Receivable

The convertible bonds receivable represented the Group's EUR5 million investment in Condor International, which specialises in the sales, distribution and development of the three dimensional intraoral scanners.

Cash Position and Cash Flow

The Group has a solid cash position for the year under review, with cash and cash equivalents amounting to approximately HK$575.4 million as at 31 December 2017 (31 December 2016: HK$64.6 million). During the year, the Group have positive cash flow from operating activities.

Assets classified as held for sale and liabilities directly associated with assets classified as held for sale

At 31 December 2016, balances represented the assets and liabilities of certain subsidiaries of the Group which engaged in the EMS Business which has been subsequently disposed of on 22 February 2017.

MANAGEMENT DISCUSSION AND ANALYSIS

OPERATING RESULTS AND FINANCIAL REVIEW – continued

Capital Expenditure and Capital Commitments

During the year, the Group invested approximately HK$11.3 million (2016: approximately HK$4.3 million), mainly on production equipment. As at 31 December 2017, there was no capital expenditure commitments.

Contingent Liabilities

The Group had no significant contingent liabilities as at 31 December 2017 (31 December 2016: Nil).

Treasury Policy

The Group's sales were principally denominated in Renminbi, EUR dollars, US dollars and Hong Kong dollars while purchases were transacted mainly in US dollars, Renminbi and Hong Kong dollars.

The fluctuation of Hong Kong dollars and other currencies did not materially affect the costs and operations of the Group for the year and the Directors do not foresee significant risk in exchange rate fluctuation currently. The Group has not entered into any financial instruments for hedging purposes. However, the Group will closely monitor its overall foreign exchange exposures and interest rate exposures, and consider hedging against the exposures should the need arise.

Liquidity, Capital Structure and Financial Resources

Equity attributable to owners of the Company as at 31 December 2017 amounted to approximately HK$1,042.9 million (31 December 2016: approximately HK$504.4 million).

As at 31 December 2017, the net current assets of the Group amounted to approximately HK$624.6 million (31 December 2016: HK$104.5 million). The current and quick ratio was 12.00 and 11.94 respectively (31 December 2016: 2.44 and 2.40 respectively).

At 31 December 2017, the amount of HK$768,000 (2016: HK$712,000) represented balance due to Ms. Jiang Sisi, the spouse of Mr. Wu Tianyu). The amount is unsecured, interest-free and repayable on demand.

As at 31 December 2017 and 2016, no gearing ratio has been calculated as there is no bank borrowing or other long term debt borrowed by the Group.

During the year, the Company issued 1,275,402,343 new shares under the Rights Issue as set out under the section headed "Rights Issue" of the Director's Report and the number of issued shares of the Company has been increased to 5,101,609,374 shares as at 31 December 2017 (31 December 2016: 3,826,207,031 shares).

Taking the above figures into account as well as its strong operational cash flows arising from the Dental Prosthetics Business and the Rights Issue, the management is confident that the Group is financially strong and have adequate resources to settle its outstanding debts and to finance its daily operational expenditures.

Charge on Assets

There was no charge on assets of the Group as at 31 December 2017 and as at 31 December 2016.

OPERATING RESULTS AND FINANCIAL REVIEW – continued

Significant Investments, Material Acquisitions and Disposals of Subsidiaries, Associates and Joint Ventures, and Future Plans for Material Investments or Capital Assets

On 24 January 2017, Mega Smart Holdings Limited ("Mega Smart"), an indirect wholly-owned subsidiary of the Company, has entered into an agreement with Dragon Fortune Group Holdings Limited ("Dragon Fortune") (the "Disposal"), and pursuant to which Mega Smart has agreed to dispose of and Dragon Fortune has agreed to acquire the entire issued share capital of Modern Success Holdings Limited, an indirect wholly-owned subsidiary of the Company, and its subsidiaries (the "Disposal Group"). The consideration of the Disposal is HK$2,800,000 and the transaction has been completed on 22 February 2017. For details please refer to the announcement dated 24 January 2017.

Save as disclosed in this report, there were no significant investments held by the Company, nor were there any material acquisitions or disposals of subsidiaries, associates and joint ventures during the year ended 31 December 2017. Apart from those disclosed in the section headed "Event after the Reporting Period" of the Director's Report, there was no plan authorised by the Board for other material investments or additional capital assets as at the date of this report.

EMPLOYEES AND REMUNERATION POLICY

The Group employed 1,370 employees in total as at 31 December 2017 in Hong Kong and the PRC (31 December 2016: 1,230 in Hong Kong, Macau and the PRC). The Group implemented its remuneration policy, bonus and share option schemes based on the performance of the Group and its employees. The Group provided benefits such as social insurance and pensions to ensure competitiveness. In addition, the Group had also adopted a share option scheme as a long term incentive to the Directors and eligible employees. The emolument policy for the Directors and senior management of the Group is set up by the remuneration committee (the "Remuneration Committee") of the Board, having regard to the Group's performance, individual performance and comparable market conditions.

DIRECTORS AND SENIOR MANAGEMENT PROFILE

The biographical details of the Directors are set out as follows:

EXECUTIVE DIRECTORS

Mr. Luo Jun

Mr. Luo Jun, aged 37, was appointed as chairman of the Board and executive Director on 2 December 2016 and also served as the chairman of the nomination committee (the "Nomination Committee") of the Board. Moreover, since 19 January 2018, Mr. Luo also acts as the general manager of 振興生化股份有限公司 (Zhenxing Biopharmaceutical And Chemical Co. Ltd.*), a PRC incorporated company listed on the Shenzhen Stock Exchange (Stock Code: 000403). Prior to this, Mr. Luo worked in Kaisa Holdings Limited, a subsidiary of Kaisa Group Holdings Ltd., a controlling shareholder of the Company (Kaisa Group Holdings Ltd., together with its subsidiaries collectively referred to as "Kaisa Group"), Mr. Luo also worked in 深圳世聯行地產顧問股份有限公司 (Shenzhen Worldunion Real Estate Co., Ltd.*) and 深圳市英聯國際不動產公司 (Shenzhen Inland International Real Estate Co., Ltd.*) previously. Mr. Luo has extensive management experience in operational planning, commerce, hotel and healthcare industry. Mr. Luo obtained his Bachelor Degree in Management from Nanjing University of Finance & Economics in 2003.

As at the date of this report and save as disclosed above, Mr. Luo did not hold any directorships in any other public companies, securities of which are listed in Hong Kong or overseas in the past three years. Mr. Luo also acts as director in various subsidiaries of the Group. In addition, save as disclosed above, Mr. Luo does not have any relationship with any other Directors, senior management or substantial shareholders or controlling shareholders of the Company.

Mr. Wu Tianyu

Mr. Wu Tianyu, aged 53, was appointed as chief executive officer of the Company (the "Chief Executive Officer") and executive Director on 21 May 2015 and is a member of the Remuneration Committee. Mr. Wu is currently a director of On Growth Global Development Limited and Royal Dental Laboratory Limited and the general manager of Shenzhen Jinyouran Technology Company Limited, all of which are the subsidiaries of the Company. Mr. Wu is the spouse of Ms. Jiang Sisi, the chief operating officer of the Company. He has approximately 30 years of experience in denture profession. Mr. Wu obtained a bachelor degree in Department of Stomatology of The Fourth Military Medical University. In his early years, Mr. Wu had developed extensive experience in stomatology and reparative surgery as a clinician in a hospital in Qingdao, the PRC for more than 7 years, during which various research articles had been pronounced by Mr. Wu in various famous professional research magazines. Mr. Wu has been the key operators of the denture business of the companies for approximately 20 years, with Mr. Wu overseeing the production of the denture products and the daily operations.

As at the date of this report, Mr. Wu did not hold any directorships in other public companies the securities of which are listed on any securities market in Hong Kong or overseas in the last three years.

In addition, save as disclosed above, Mr. Wu does not have any relationship with any directors, senior management or substantial or controlling shareholders of the Company or its subsidiaries.

** For identification purposes only*

NON-EXECUTIVE DIRECTOR

Mr. Xu Hao

Mr. Xu Hao, aged 33, was appointed as non-executive Director on 2 December 2016. Mr. Xu is currently acting as the vice president of Kaisa Group (International) Holdings Company Limited, a wholly-owned subsidiary of Kaisa Group Holdings Ltd. and also act as a licensed representative of Kaisa Asset Management Limited. Mr. Xu joined Kaisa Group in August 2015, and has been mainly responsible for Kaisa Group's offshore financing, investments and capital market related activities. Prior to joining Kaisa Group, he has worked at The Royal Bank of Scotland Group PLC, 廣州方圓地產有限公司 (Guangzhou Fineland Real Estate Group Holdings Ltd.*) and Verdant Capital Group Limited, all of which are mainly engaged in direct investment, structured finance and capital market related activities. Mr. Xu has over 10 years of experience in that industry. Mr. Xu obtained his Bachelor of Science Degree in Accounting and Finance from the London School of Economics and Political Science and his Master of Philosophy Degree in Real Estate Finance from Cambridge University.

As at the date of this report, Mr. Xu did not hold any directorships in any other public companies, securities of which are listed in Hong Kong or overseas in the past three years nor did and does he hold any other positions in the Group in the past and at present. In addition, save as disclosed above, Mr. Xu does not have any relationship with any other Directors, senior management or substantial shareholders or controlling shareholders of the Company.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Dr. Liu Yanwen

Dr. Liu Yanwen, aged 52, was appointed as independent non-executive Director and chairman of the audit committee (the "Audit Committee") of the Board on 11 January 2017. Dr. Liu obtained his Doctorate degree in Technical Economics and Management from Dalian University of Technology in 2009. He is currently the associate professor in the Faculty of Management and Economics of the Dalian University of Technology. Dr. Liu has acted as the independent non-executive director of each of 沈陽萃華金銀珠寶股份有限公司 (Shenyang Cuihua Gold and Silver Jewelry Co., Ltd.*), a PRC incorporated company listed on the Shenzhen Stock Exchange (Stock Code: 002731) since 21 January 2015, 撫順特殊鋼股份有限公司 (Fushun Special Steel Co., Ltd.*), a PRC incorporated company listed on the Shanghai Stock Exchange (Stock Code: 600399) since 27 April 2015 and 吉林化纖股份有限公司 (Jilin Hua Xian Co., Ltd.*), a PRC incorporated company listed on the Shenzhen Stock Exchange (Stock Code: 000420) since 20 May 2016.

As at the date of this report, save as disclosed above, Dr. Liu did not hold any directorships in any other public companies, securities of which are listed in Hong Kong or overseas in the past three years. Nor did and does he hold any other positions in the Group in the past and at present. In addition, Dr. Liu does not have any relationship with any other Directors, senior management or substantial shareholders or controlling shareholders of the Company.

** For identification purposes only*

DIRECTORS AND SENIOR MANAGEMENT PROFILE

INDEPENDENT NON-EXECUTIVE DIRECTORS – continued

Mr. Wang Wansong

Mr. Wang, aged 48, was appointed as independent non-executive director and member of each of the Audit Committee, the Remuneration Committee and the Nomination Committee on 11 April 2017. He obtained his bachelor degree in Biology from the Peking University. Mr. Wang is currently working as a senior researcher at the State High-Tech Industrial Innovation Center, Shenzhen (深圳市國家高技術產業創新中心). Prior to that, Mr. Wang worked in several governmental bodies in the People's Republic of China and in a commercial organisation for over 20 years. He has extensive experiences in policies formulation and implementation for high tech industrial development and construction in Shenzhen, and also in technological innovation, achievements transformation, and projects implementation and co-ordination for high tech bio-pharmaceutical industry and medical device industry. Mr. Wang is currently an independent non-executive director of Lifetech Scientific Corporation (stock code: 1302), a company listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

As at the date of this report, save as disclosed above, Mr. Wang did not hold any directorships in any other public companies, securities of which are listed in Hong Kong or overseas in the past three years. Nor did and does he hold any other positions in the Group in the past and at present. In addition, Mr. Wang does not have any relationship with any other Directors, senior management or substantial shareholders or controlling shareholders of the Company.

Mr. Fok Hei Yu

Mr. Fok, aged 47, was appointed as independent non-executive director, chairman of the Remuneration Committee, member of the Audit Committee and member of the Nomination Committee on 5 March 2018. He obtained a degree of bachelor of commerce from The Australian National University. Mr. Fok is an associate member of the Hong Kong Institute of Certified Public Accountants and Certified Practicing Accountant (Australia) and a member of the Hong Kong Institute of Directors.

Mr. Fok is a senior managing director of FTI Consulting, Inc., a business advisory firm assisting companies to protect and enhance enterprise value. Mr. Fok is currently an independent non-executive director of Shirble Department Store Holdings (China) Limited (Stock Code: 312), a company listed on the Stock Exchange.

As at the date of this report, save as disclosed above, Mr. Fok did not hold any directorships in any other public companies, securities of which are listed in Hong Kong or overseas in the past three years. Nor did and does he hold any other positions in the Group in the past and at present. In addition, Mr. Fok does not have any relationship with any other Directors, senior management or substantial shareholders or controlling shareholders of the Company.

INDEPENDENT NON-EXECUTIVE DIRECTORS – continued

Dr. Lyu Aiping

Dr. Lyu Aiping, aged 54, was appointed as independent non-executive director of the Company on 5 March 2018. Dr. Lyu is the Chair Professor and Dean of School of Chinese Medicine of Hong Kong Baptist University.

Dr. Lyu is a member of the Chinese Medicine Development Committee in Hong Kong and a member of Biology and Medicine Panel of The Research Grants Council in Hong Kong. He also currently serves as a member of the Chinese Pharmacopoeia Commission of the People's Republic of China.

Dr. Lyu had been focused on the translational research in Chinese medicine, including pharmacological and clinical evaluation on rheumatoid arthritis with traditional Chinese medicine pattern diagnosis and interventions, and development of new drugs based on Chinese medicines. Also Dr. Lyu is actively involving in the research on the standardization of Chinese medicine and strategic plan research for Chinese medicine development in China. Since 2009, Dr. Lyu has been appointed as the head of the Chinese delegation in the Technical Committee of the International Organization for Standardization on traditional Chinese medicine (ISO/TC249). Over the years, Dr. Lyu obtained more than 60 patents from his research activities and published more than 30 books and over 500 articles.

As at the date of this report, Dr. Lyu did not hold any directorships in any other public companies, securities of which are listed in Hong Kong or overseas in the past three years nor did and does he hold any other positions in the Group in the past and at present. In addition, save as disclosed above, Dr. Lyu does not have any relationship with any other Directors, senior management or substantial shareholders or controlling shareholders of the Company.

SENIOR MANAGEMENT

Ms. Jiang Sisi

Ms. Jiang Sisi, is the Chief Operating Officer of the Company. She obtained a master degree in business administration in the University of Wales. Ms. Jiang has been a key management personnel and operator of On Growth Global Development Limited (which was acquired by the Group in May 2015) for more than 5 years, with Ms. Jiang being responsible for the sales, marketing and administration. During her tenure of services with the On Growth Group, Ms. Jiang has demonstrated her strong marketing and management expertise by successfully building up various customer networks in the PRC and overseas. Ms. Jiang is currently the director of certain subsidiaries of the Company and is the spouse of Mr. Wu Tianyu, an executive Director and the Chief Executive Officer.

Mr. Lam Wai Fung, Dominic

Mr. Lam Wai Fung, Dominic, aged 44, is the Chief Financial Officer of the Company and the company secretary (the "Company Secretary") of the Company. Mr. Lam obtained a Bachelor of Arts Degree in Accountancy in the City University of Hong Kong and is a certified public accountant of the Hong Kong Institute of Certified Public Accountants, a chartered financial analyst of the CFA Institute and a certified financial risk manager of the Global Association of Risk Professionals. He is responsible for the corporate finance and accounting, internal control and investor relationship of the Group. Prior to joining the Group, Mr. Lam worked for an international accounting firm in Hong Kong for over 7 years for assurance and business advisory services and has been worked in various finance roles and secretarial roles in commercial sector including listed companies for over 10 years.

CORPORATE GOVERNANCE REPORT

The Board is pleased to present the Corporate Governance Report of the Group for the year ended 31 December 2017.

CORPORATE GOVERNANCE PRACTICES

The Board considers effective corporate governance a key component in the Group's sustained development and believes that good corporate governance practices are increasingly important for maintaining and promoting shareholder value and investor confidence. The Board sets appropriate policies and implements corporate governance practices appropriate to the conduct and growth of the Group's business.

The Company has considered and applied the principles set out in the "Corporate Governance Code" (the "CG Code") contained in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"). In the opinion of the Board, the Company has complied with the code provisions set out in the CG Code during the year ended 31 December 2017, except for code provisions A.5.1 and A.6.7. The details of the foregoing deviations are provided below.

The Company periodically reviews its corporate governance practices to ensure that they comply with the statutory and regulatory standards and align with the latest developments.

A. BOARD OF DIRECTORS

(1) Responsibilities

The overall management of the Group's business is vested in the Board, which assumes the responsibility for leadership and control of the Group and is collectively responsible for promoting the success of the Group by directing and supervising its affairs and overseeing the implementation of plans to enhance shareholder value. Every Director carries out his/her duty in good faith and in compliance with the standards of applicable laws and regulations, and takes decisions objectively in the interests of the Group and the shareholders.

All Directors have full and timely access to all relevant information as well as the advice and services of the Company Secretary, with a view to ensuring that Board procedures and all applicable rules and regulations are followed. The Independent Non-executive Directors may take independent professional advice at the Company's expense in carrying out their functions, upon making request to the Board.

(2) Board Composition

The Board comprises the following Directors during the year ended 31 December 2017 and up to the date of this report:

Executive Directors

Mr. Luo Jun *(Chairman)*
Mr. Wu Tianyu *(Chief Executive Officer)*
Mr. Wu Xiaolin *(resigned on 21 February 2017)*

A. BOARD OF DIRECTORS – continued

(2) Board Composition – continued

Non-executive Directors

Mr. Xu Hao
Dr. Jiang Feng (resigned on 21 February 2017)

Independent Non-executive Directors

Dr. Loke Yu alias Loke Hoi Lam (resigned on 11 January 2017)
Mr. Wu Jixian (resigned on 23 January 2017)
Mr. Song Qun (resigned on 11 April 2017)
Dr. Liu Yanwen (appointed on 11 January 2017)
Mr. Guo Peineng (appointed on 11 January 2017 and resigned on 5 March 2018)
Mr. Wang Wansong (appointed on 11 April 2017)
Mr. Fok Hei Yu (appointed on 5 March 2018)
Dr. Lyu Aiping (appointed on 5 March 2018)

The list of Directors (by category) is also disclosed in all corporate communications issued by the Company from time to time. The biographical details of the Directors as well as the relationships among them, if any, are set out under the section headed "Directors and Senior Management Profile" on pages 10 to 13 of this report.

The Board has maintained the necessary balance of skills and experience appropriate for the business requirements and objectives of the Group.

The Board has at all times met the requirements of the Listing Rules relating to the appointment of independent non-executive Directors representing at least one-third of the Board, with at least one of whom possessing appropriate professional qualifications, or accounting or related financial management expertise. The Company has received written annual confirmation from all of its independent non-executive Directors in respect of their independence pursuant to the requirements of the Listing Rules. The Company considers that all of them are independent in accordance with the independence guidelines set out in the Listing Rules.

The independent non-executive Directors bring a wide range of business and financial expertise, experience and independent judgement to the Board and they are invited to serve on the Board committees of the Company. Through active participation in Board meetings, taking the lead in managing issues involving potential conflict of interests and serving on Board committees, all independent non-executive Directors make various contributions to the effective direction of the Company.

CORPORATE GOVERNANCE REPORT

A. BOARD OF DIRECTORS – continued

(3) Chairman and Chief Executive Officer

The Chairman, Mr. Luo Jun, is responsible for the formulation of overall corporate direction and business development strategy of the Group. He is also responsible for ensuring that good corporate governance practices and procedures are established, implemented and enforced.

The Chief Executive Officer, Mr. Wu Tianyu, is responsible for the day-to-day management of the Group and the implementation of the approved strategies.

(4) Appointment and Re-Election of Directors

According to code provision A.4.2 of the CG Code, all Directors appointed to fill a casual vacancy should be subject to election by shareholders at the first general meeting after appointment. Every Director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years.

According to the bye-laws 86(2) of the bye-laws of the Company, the Board shall have power from time to time to appoint any person as a Director either to fill a casual vacancy or as an addition to the Board or, subject to authorisation by the members in general meeting, as an addition to the existing Board but so that the number of Directors so appointed shall not exceed the maximum number determined from time to time by the shareholders in general meeting. Any Director so appointed shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election at the meeting.

During the year and up to the date of this report, Mr. Fok Hei Yu and Dr. Lyu Aiping were appointed as independent non-executive Directors on 5 March 2018. Each of Mr. Fok Hei Yu and Dr. Lyu Aiping is subject to election by shareholders at the first annual general meeting after their appointments.

Nomination Committee

The Company has established the Nomination Committee with written terms of reference to consider for the appointment of new Director(s) of the Company and other related matters. During the year ended 31 December 2017, the Nomination Committee comprised one executive Director, Mr. Wu Tianyu (Chairman) and two independent non-executive Directors, namely Mr. Guo Peineng (on 23 January 2017, Mr. Wu Jixian resigned and Mr. Guo Peineng was appointed) and Mr. Wang Wansong (on 11 April 2017, Mr. Song Qun resigned and Mr. Wang Wansong was appointed). On 19 January 2018, Mr. Wu Tianyu ceased and Mr. Luo Jun was appointed as the chairman of the Nomination Committee. Moreover, on 5 March 2018, Mr. Guo Peineng resigned and Mr. Fok Hei Yu was appointed as member of the Nomination Committee.

A. BOARD OF DIRECTORS – continued

(4) Appointment and Re-Election of Directors – continued

Nomination Committee – continued

Code Provision A.5.1

There is a deviation from provision A.5.1 of the CG Code: Nomination Committee should be chaired by the chairman of the Board or an independent non-executive director. Mr. Wu Tianyu, CEO and executive Director, was appointed as the chairman of the Nomination Committee since 30 June 2015 and ceased to act on 19 January 2018. Mr. Luo Jun, Chairman of the Board and executive Director, was elected as the chairman of the Nomination Committee since 19 January 2018 and this deviation is no longer applicable.

The principal duties of the Nomination Committee include reviewing the Board composition, developing and formulating relevant procedures for nomination and appointment of Directors, making recommendations to the Board on the appointment and succession planning of Directors, and assessment of the independence of the independent non-executive Directors.

As set out in the Nomination Committee's Terms of Reference, the Nomination Committee carries out the process of selecting and recommending candidates for directorships by making reference to the skills, experience, professional knowledge, character, personal ethics and integrity and time commitments of such individuals as well as the Company's needs and market conditions. An external recruitment agency may be engaged to carry out the selection process when necessary.

The Nomination Committee held four meetings during the year ended 31 December 2017 and the attendance record is set out under the section headed "Directors' Attendance Records" of this report. The Nomination Committee performed the following work during the year:

(a) reviewed the structure, size and composition of the Board to ensure that it has a balance of expertise, skills and experience appropriate for the requirements of the business of the Company;

(b) determined the policy for the nomination of directors; and

(c) assessed the independence of the independent non-executive Directors.

During the year, the Company continued to monitor the board composition having regard to an objective criteria, including the needs of the Group's business and diversity.

The current Board composition was also evaluated by reference to, among other things, the age, gender, cultural and educational background and professional experience of each director, against the Company's business model and specific needs. The Company will continue to monitor and develop new objectives for implementing and achieving improved diversity of the Board as and when it considers appropriate with regard to the specific needs of the Company and the market from time to time.

CORPORATE GOVERNANCE REPORT

A. BOARD OF DIRECTORS – continued

(5) Induction and Continuing Development for Directors

Each newly appointed Director shall receive an induction on the first occasion of his/her appointment, so as to ensure that he/she has appropriate understanding of the business and operations of the Company and that he/she is fully aware of his/her responsibilities and obligations under the Listing Rules and relevant regulatory requirements.

The Directors are continuously updated with legal and regulatory developments, and the business and market changes to ensure that they have a proper understanding of the Company's business and operations and are fully aware of their duties and responsibilities under statute and common law, the Listing Rules and the Company's business and governance policies, to facilitate the discharge of their responsibilities. Professional briefings and development to directors will be arranged whenever necessary.

(6) Directors' Training

Pursuant to 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 have been given relevant guideline materials to ensure that they are apprised of the latest changes in the commercial, legal and regulatory requirements in relation to the Company's businesses, and to refresh their knowledge and skills on the roles, functions and duties of a listed company director.

A summary of training received by the Directors for the year ended 31 December 2017 according to the records provided by the Directors is as follows:-

Name of the Directors	Participated in Continuous Professional Development*
Executive Directors	
Mr. Luo Jun	✓
Mr. Wu Xiaolin (resigned on 21 February 2017)	N/A
Mr. Wu Tianyu	✓
Non-executive Directors	
Mr. Xu Hao	✓
Dr. Jiang Feng (resigned on 21 February 2017)	N/A
Independent non-executive Directors	
Dr. Loke Yu alias Loke Hoi Lam (resigned on 11 January 2017)	N/A
Mr. Wu Jixian (resigned on 23 January 2017)	N/A
Mr. Song Qun (resigned on 11 April 2017)	N/A
Dr. Liu Yanwen (appointed on 11 January 2017)	✓
Mr. Guo Peineng (appointed on 11 January 2017 and resigned on 5 March 2018)	N/A
Mr. Wang Wansong (appointed on 11 April 2017)	✓
Mr. Fok Hei Yu (appointed on 5 March 2018)	N/A
Dr. Lyu Aiping (appointed on 5 March 2018)	N/A

* by attending training/seminar/conference arranged by the Company or other external parties or reading relevant materials.

A. BOARD OF DIRECTORS – continued

(7) Board Meetings

Board Practices and Conduct of Meetings

Board meeting schedules and draft agenda of each meeting are normally made available to Directors in advance.

Notices of regular Board meetings are served to all Directors at least 14 days before the meetings. For other Board and committee meetings, reasonable notice is generally given. Board papers together with all appropriate, complete and reliable information are sent to all Directors at least three days before each Board meeting or committee meeting to keep the Directors apprised of the latest developments and financial position of the Company and to enable them to make informed decisions. The Board and each Director also have separate and independent access to the senior management whenever necessary.

The Chairman, the Chief Executive Officer and the Company Secretary normally attend regular Board meetings and when necessary, other Board and committee meetings to advise on business developments, financial and accounting matters, statutory compliance, corporate governance and other major aspects of the Company.

The Company Secretary is responsible for taking and keeping minutes of all Board meetings and committee meetings. Draft minutes are normally circulated to Directors for comment within a reasonable time after each meeting and the final version is open for Directors' inspection.

According to current Board practice, any material transaction, which involves a conflict of interests between any member of the Group and a substantial shareholder or a Director, will be considered and dealt with by the Board at a duly convened Board meeting. Pursuant to the Company's bye-laws, Directors are required to abstain from voting and not to be counted in the quorum at meetings for approving transactions in which such Directors or any of their associates have a material interest.

Directors' Attendance Records

During the year ended 31 December 2017, 16 Board meetings were held for reviewing and approving the financial and operating performance, and considering and approving the overall strategies and policies of the Company.

CORPORATE GOVERNANCE REPORT

A. BOARD OF DIRECTORS – continued

(7) Board Meetings – continued

The attendance records of each Director/Committee member at the meetings of the Board, the Nomination Committee, the Remuneration Committee and the Audit Committee during the year ended 31 December 2017 are set out below:

	Number of meetings attended/ Number of meetings held during the Directors' tenure of office			
	Board meetings	**Remuneration Committee meetings**	**Nomination Committee meetings**	**Audit Committee meetings**
Executive Directors:				
Mr. Luo Jun	13/16	N/A	N/A	N/A
Mr. Wu Tianyu	10/16	2/3	3/4	N/A
Mr. Wu Xiaolin (note (b))	1/5	N/A	N/A	N/A
Non-Executive Directors:				
Mr. Xu Hao	12/16	N/A	N/A	N/A
Dr. Jiang Feng (note (b))	0/5	N/A	N/A	N/A
Independent Non-Executive Directors:				
Dr. Liu Yanwen (note (a))	14/16	N/A	N/A	3/3
Mr. Wang Wansong (note (a))	7/10	1/1	1/1	1/2
Dr. Loke Yu alias Loke Hoi Lam (note (b))	0/1	N/A	N/A	N/A
Mr. Wu Jixian (note (b))	1/2	1/2	1/2	N/A
Mr. Song Qun (note (b))	4/6	2/3	2/4	0/1
Mr. Guo Peineng (note (c))	15/16	2/3	2/4	3/3
Mr. Fok Hei Yu (note (d))	N/A	N/A	N/A	N/A
Dr. Lyu Aiping (note (d))	N/A	N/A	N/A	N/A

Notes:

(a) These Directors were appointed during the financial year.

(b) These Directors resigned during the financial year.

(c) These Directors resigned after the financial year.

(d) These Directors were appointed after the financial year

A. BOARD OF DIRECTORS – continued

(8) Model Code for Securities Transactions

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 to the Listing Rules as its code of conduct regarding Directors' dealings in the Company's securities. Specific enquiry has been made of all the Directors and the Directors have confirmed that they have complied with the Model Code throughout the year ended 31 December 2017.

The Company has also established written guidelines on no less exacting terms than the Model Code (the "Employees Written Guidelines") for securities transactions by employees who are likely to be in possession of inside information of the Company or its securities. No incidence of non-compliance of the Employees Written Guidelines by the employees was noted by the Company during the year ended 31 December 2017.

COMPANY SECRETARY

The Company Secretary advised and served to all of the Directors during the year. The Company Secretary reported to the Chairman on corporate governance matters, and is responsible for ensuring that procedures of the Board were followed, and for facilitating communications among directors as well as with shareholders and management.

The Company Secretary's biography is set out in the section headed "Directors and Senior Management Profile" of this report. In compliance with Rule 3.29 of the Listing Rules, the Company Secretary has undertaken no less than 15 hours of relevant professional training during the year ended 31 December 2017.

B. DELEGATION BY THE BOARD

The Board reserves for its decisions all major matters of the Group, including but not limited to the approval and monitoring of all policy matters, overall strategies and development, internal control and risk management systems, material transactions (in particular those may involve conflict of interests), financial information, budgets, appointment of Directors and other significant financial and operational matters.

The day-to-day management, administration and operations of the Group are delegated to the senior management. The delegated functions and work tasks are periodically reviewed. The Board will give directions to the senior management as to their powers of management, and circumstances where they should report back. Approval has to be obtained from the Board prior to any decision making on significant transactions or entering into any significant commitments on behalf of the Company.

The senior management has an obligation to supply the Board and its Committees adequate, complete and reliable information in a timely manner to enable them to make informed decisions. The Board and each Director have separate and independent access to the senior management.

In addition, the Board has established three Committees, namely the Nomination Committee, the Remuneration Committee and the Audit Committee, for overseeing particular aspects of the Group's affairs. All these Committees are established with defined written terms of reference which are published on the Company's website at www.kaisahealth.com and on the Stock Exchange's website at www.hkexnews.hk.

CORPORATE GOVERNANCE REPORT

C. REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

The Company has established a formal and transparent procedure for formulating policies on remuneration of the directors and senior management of the Group. Details of the remuneration of each Director for the year ended 31 December 2017 are set out in note 8 to the consolidated financial statements.

Remuneration Committee

The Company has established a Remuneration Committee with written terms of reference to consider for the remuneration for Directors and senior management of the Company and other related matters. During the year ended 31 December 2017, the Remuneration Committee comprised one executive Director, Mr. Wu Tianyu, as a member of the Remuneration Committee, and two independent non-executive Directors, namely Mr. Guo Peineng (On 23 January 2017, Mr. Wu Jixian resigned and Mr. Guo Peineng was appointed as chairman of the Remuneration Committee) and Wang Wansong (On 11 April 2017, Mr. Song Qun resigned and Mr. Wang Wansong was appointed as a member of the Remuneration Committee).

On 5 March 2018, Mr. Guo Peineng resigned as chairman of the Remuneration Committee and Mr. Fok Hei Yu was appointed as chairman of the Remuneration Committee.

The primary functions of the Remuneration Committee include making recommendations to the Board on the remuneration policy and structure and determining the remuneration packages of Directors and senior management. It is also responsible for 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, which remuneration will be determined by reference to the performance of the individual and the Company as well as market practice and conditions.

The Human Resources Department is responsible for collection and administration of human resources data and making recommendations to the Remuneration Committee for consideration.

The Remuneration Committee held three meetings during the year ended 31 December 2017 and the attendance record is set out under the section headed “Directors’ Attendance Records” of this report. The Remuneration Committee performed the following work during the year:

(a) reviewed generally the remuneration policy (including for executive Directors) and structure of the Group;

(b) assessed the performance of the executive Directors and the senior management; and

(c) determined the remuneration packages as well as the annual bonuses of the executive Directors and the senior management.

D. ACCOUNTABILITY AND AUDIT

(1) Directors' Responsibilities for Financial Reporting

The Board is responsible for presenting a balanced, clear and understandable assessment of annual and interim reports, announcements on inside information and other disclosures required under the Listing Rules and other regulatory requirements. The Directors acknowledged their responsibility for preparing the financial statements of the Company for the year ended 31 December 2017.

The senior management provides explanation and information to the Board so as to enable the Board to make an informed assessment of the financial information and position of the Group put to the Board for approval.

There are no material uncertainties relating to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern.

(2) Internal Controls

The Board has overall responsibility for the internal control system of the Company. The Board is also responsible for maintaining an adequate internal control system, including determining the policies on corporate governance to safeguard the interests of the shareholders and the assets of the Company and, with the support of the Audit Committee, reviewing the effectiveness of such system on an annual basis.

The Board has conducted an annual review of the effectiveness of the internal control system of the Group for the year ended 31 December 2017. The senior management reviews and evaluates the control process and monitors any risk factors on a regular basis and reports to the Board and the Audit Committee on any findings and measures to address the variances and identified risks.

(3) Audit Committee

The Audit Committee was established with written terms of reference in accordance with Appendix 14 to the Listing Rules. During the year ended 31 December 2017, the Audit Committee comprised three independent non-executive Directors, namely Dr. Liu Yanwen (On 11 January 2017, Dr. Loke Yu alias Loke Hoi Lam resigned and Dr. Liu Yanwen was appointed as chairman of the Audit Committee), Mr. Guo Peineng (On 23 January 2017, Mr. Wu Jixian resigned and Mr. Guo Peineng was appointed as a member of the Audit Committee) and Mr. Wang Wansong (On 11 April 2017, Mr. Song Qun resigned and Mr. Wang Wansong was appointed as a member of the Audit Committee).

On 5 March 2018, Mr. Guo Peineng resigned as member of the Audit Committee and Mr. Fok Hei Yu was appointed as member of the Audit Committee.

The main duties of the Audit Committee include review of the financial information of the Group, review of the relationship with and the terms of appointment of the independent auditor, and review of the Group's financial reporting system, internal control system, risk management system and associated procedures.

CORPORATE GOVERNANCE REPORT

D. ACCOUNTABILITY AND AUDIT – continued

(3) Audit Committee – continued

The Audit Committee held three meetings during the year ended 31 December 2017. The attendance records are set out under the section headed "Directors' Attendance Records" of this report. The Audit Committee performed the following work during the year:

(a) reviewed the Group's annual audited financial statements with the independent auditor for the year ended 31 December 2016, and reviewed the unaudited interim financial statements for the six months ended 30 June 2017, including the accounting principles and accounting standards adopted with recommendations made to the Board for approval;

(b) reviewed the changes in accounting standards and assessed their potential impacts on the Group's financial statements;

(c) reviewed the Group's internal control system and related matters; and

(d) considered and made recommendations on the first appointment of Grant Thornton Hong Kong Limited as the independent auditor of the Group subsequent to the resignation of Deloitte Touche Tohmatsu during the year, and the terms of engagement.

(4) Independent Auditor and Auditor's Remuneration

The report from independent auditor of the Group about their responsibilities on the consolidated financial statements is set out in the "Independent Auditor's Report" on pages 45 to 50.

The remuneration paid to the Company's existing independent auditors, Grant Thornton Hong Kong Limited and the Company's previous auditors, Deloitte Touche Tohmatsu, in respect of audit services and non-audit services for the year ended 31 December 2017 is set out below:

Grant Thornton Hong Kong Limited

Services rendered	Remuneration paid/Payable
Audit services	HK$980,000
Non-audit services	–

Deloitte Touche Tohmatsu

Services rendered	Remuneration paid/Payable
Audit services	HK$200,000
Non-audit services	HK$1,130,000

E. RISK MANAGEMENT AND INTERNAL CONTROL

Code provisions C.2.1 to C.2.4 of the CG Code stated (a) the requirements of the Board to conduct a review of the effectiveness of issuer's and its subsidiaries' risk management and internal control systems; (b) the issuer should disclose a narrative statement on how they have complied with the risk management and internal control code provisions during the reporting period.

During the year, the Group engaged Moore Stephens Advisory Services Limited ("Moore Stephens"), an independent international audit firm, to conduct a risk assessment and review of internal control systems for risk management purpose. Moore Stephens has identified critical risk presenting threats to the Group, including strategic risk, operation risk, information risk and financial risk. Moore Stephens also assessed the significance and likelihood of the risk qualitatively and quantitatively and prioritized the risks. Based on the result of risk assessment, Moore Stephens has recommended an internal audit plan to the Group and the Board. The risk assessment report with the suggested internal audit plan was adopted by the Group and the Board. The Group would update the risk assessment and internal audit plan annually to reflect the current risk. The Board acknowledged that it is responsible for the risk management and internal control systems and reviewing their effectiveness. The Board confirmed that such systems are designed to manage rather than eliminate the risk of failure to achieve the Group's business objectives, and risk management and internal control systems can only provide reasonable and not absolute assurance against material misstatement or loss.

With respect to code provision C.2.5 of CG Code, the issuer should have an internal audit function. The Group engaged an independent international audit firm to conduct internal control review based on the internal audit plan to provide independent assurance to the Board and senior management on the adequacy and effectiveness of internal controls for the Group. The annual work plan of internal audit covered major activities and processes of the Group's material business and service units. The internal audit exercise adopted a risk-and-control-based audit approach. If necessary, the internal audit exercise would cover other review and investigative work as may be required. The internal audit results were submitted to the Board and senior management. Audit issues are tracked and followed up for proper implementation, with progress reported to the Board, executive and senior management periodically.

Based on the results of risk assessment and internal audit exercises, the Group is satisfied that (a) the significant risks faced by the Group that threaten the achievement of its business objectives is identified and evaluated; (b) the risk management and internal control system are considered effective and adequate during the year; and (c) there is no unresolved significant areas of concerns noted by the Board.

Moreover, with respect to the procedures and internal controls for the handling and dissemination of inside information, the Group has the following procedures and policies:

CORPORATE GOVERNANCE REPORT

E. RISK MANAGEMENT AND INTERNAL CONTROL – continued

Policies on dissemination of inside information

1. The Board is responsible for approving the policy on disclosure of inside information which aims at providing guiding principles, practices and procedures to assist employees and officers of the Group in (a) relaying inside information to the Board to enable it to make timely decisions on disclosure, if necessary; and (b) communicating with the Group's stakeholders, in ways which are in compliance with the SFO and the Listing Rules, and any revision thereof. The Board decides whether or not a transaction, development or event constitutes inside information and disclosure of which shall be made immediately, and when a trading halt is required. Chairman of the Board shall be the authorised spokesperson for the Board and the Company unless resolved otherwise by the Board.

2. Regular reports are prepared by employees for a variety of functional reasons, which help identify material information. The regular reports include:

   a. regular management reports provided by the Company's divisions/departments and operating subsidiaries to the Board, which include updates and analyses of the ongoing development and performance of the projects and initiatives being undertaken; and

   b. monthly management accounts provided to the Board upon request, which include variance analyses of the Group's financial and operational performance.

3. An employee who becomes aware of a matter, development or event that he/she considers to be material or inside information shall report it promptly in writing to his/her division/department head who will assess the sensitivity of the relevant information and, if considered appropriate, escalate and report it to the Board and/or the Company Secretary.

4. Upon being notified, the Board and/or the Company Secretary shall assess the materiality of the relevant information, determine the appropriate course of actions and, if considered appropriate, consult the Chairman who may convene a Board meeting to consider and decide whether or not the information constitutes inside information and disclosure of which shall be made immediately.

5. When considering a disclosure, the Board shall decide on the scope of information to be released and the timing of the release.

6. A record of the meeting and discussions of Board concerning the assessment of the information shall be kept.

7. Inside information and other information which is required to be disclosed pursuant to the Company's statutory disclosure obligations will be announced via the electronic publication system operated by the Stock Exchange before any press releases regarding the matter is published on the Group's website.

8. Inside information to be disclosed must be accurate and complete in all material aspects and not be misleading or deceptive. The Board must take reasonable steps to verify the accuracy and completeness of the relevant information before it is publicly disclosed.

E. RISK MANAGEMENT AND INTERNAL CONTROL – continued

Policies on dissemination of inside information – continued

9. Heads of the relevant divisions/departments that identified and handled the inside information shall provide the Board with the precise details to enable them to prepare the related announcement or press release, if necessary, and confirm the accuracy and completeness of the information before it is publicly disclosed.

Internal control and policies on handling inside information

1. All officers of the Group must take reasonable care to safeguard the confidentiality of all inside information in their possession or control. Access to inside information shall be restricted, as far as practicable, to the highest level of management and on a need-to-know basis. The responsible senior executive shall (a) maintain a list of personnel who have access to the withheld inside information; and (b) closely monitor and regularly report to the Board and/or the Company Secretary on the development or progress of the relevant matter. The Board and/or the Company Secretary shall, before the inside information is disclosed, closely monitor the activity of the Company's securities, and prepare a "holding" announcement to be released when there is growing rumour of the undisclosed information.

2. All officers of the Group who possesses unpublished inside information must:

   – refrain from discussing that information with, or divulging that information to, any persons who are not authorised by the Board to receive that information; and

   – ensure that any documents or other written material in his/her possession in relation to that information are properly and securely stored and are not disclosed to any unauthorised persons.

3. Officers of the Group must not deal in the Company's securities when they are in possession of unpublished inside information. Details of dealing restrictions imposed on Directors and relevant employees are set out in the Model Code and the Employees Written Guidelines.

4. Any external parties who may become privy to unpublished inside information shall be informed that they must not divulge such information to any unauthorised persons, other than in the normal course of business, without the Company's prior written consent. Unless an obligation of confidentiality is implicit in the relationship with an external party, such parties who have access to unpublished inside information shall (a) confirm their commitment to non-disclosure of the received information in the form of a written confidentiality agreement or in a standard clause within the contract signed with any entities within the Group; and (b) undertake not to deal in the Company's securities whilst they are in possession of the unpublished inside information until such information has been publicly disclosed.

CORPORATE GOVERNANCE REPORT

F. COMMUNICATIONS WITH SHAREHOLDERS AND INVESTORS

The Company believes that effective communication with shareholders is essential for enhancing investor relations and investors' understanding of the Group's business performance and strategies. The Group also recognises the importance of transparency and timely disclosure of corporate information, which enable shareholders and investors to make the best investment decision.

Shareholders' meetings provide an opportunity for communication between the Board and the shareholders. The Chairman of the Board as well as the Chairmen of the Nomination Committee, the Remuneration Committee and the Audit Committee or, in their absence, other members of the respective Committees normally attend shareholders' meetings of the Company to answer shareholders' questions. During the year ended 31 December 2017, the Company held three special general meetings, one on 4 October 2017 and two separate special general meetings on 22 December 2017, and the annual general meeting on 19 May 2017.

Code Provision A.6.7

There was a deviation from code provision A.6.7 of the CG Code:

Pursuant to code provision A.6.7 of the CG Code, independent non-executive Directors and non-executive Directors should attend general meetings in order to develop a balanced view of the shareholders. Due to the various business commitments, not all the independent non-executive Directors attended the special general meetings of the Company held on 4 October 2017 and 22 December 2017. The Company will finalise and inform the dates of the general meetings as soon as possible to make sure that all the independent non-executive Directors and non-executive Directors can attend the general meetings in future.

As a channel to promote effective communication, the Group maintains a website where information on the Company's announcements, business developments and operations, financial information and other information are posted. Shareholders and investors may write directly to the Company at its principal place of business in Hong Kong with any inquiries.

G. SHAREHOLDERS' RIGHTS

(1) Voting by Shareholders

To safeguard the shareholders' interests and rights, separate resolutions are proposed at shareholders' meetings on each substantial issue, including the election of individual directors. Pursuant to Rule 13.39(4) of the Listing Rules, any vote of shareholders at a general meeting must be taken by poll except where the Chairman of the meeting, in good faith, decides to allow a resolution which relates purely to a procedural or administrative matter to be voted on by a show of hands. The poll voting results will be published on the websites of the Stock Exchange and the Company after the meeting.

G. SHAREHOLDERS' RIGHTS – continued

(2) Convening of Special General Meetings and Requisition by Shareholders

Shareholders shall have the right to request the Board to convene a special general meeting. Shareholders holding in aggregate of not less than one-tenth (10%) of the paid up capital of the Company may send a written request to the Board or the Company Secretary to requisition a special general meeting for the transaction of any business specified in such requisition. The written requisition, duly signed by the shareholders concerned, must state the purpose of the meeting and must be deposited at the registered office of the Company.

The Company will take appropriate actions and make necessary arrangements and the shareholders concerned will be responsible for any expenses incurred in giving effect thereto in accordance with the requirements under Section 74 of the Companies Act 1981 of Bermuda (the "Companies Act") once a valid requisition is received.

(3) Procedures for Making Proposals at General Meetings by Shareholders

The following shareholders are entitled to put forward a proposal (which may properly be put to the meeting) for consideration at a general meeting of the Company:

(a) any members representing not less than one-twentieth (5%) of the total voting rights of the Company on the date of the requisition; or

(b) not less than 100 members holding shares in the Company.

The requisition specifying the proposal, duly signed by the shareholders concerned, together with a statement with respect to the matter referred to in the proposal must be deposited at the registered office of the Company. The Company will take appropriate action and make necessary arrangements and the shareholders concerned will be responsible for any expenses incurred in giving effect thereto in accordance with the requirements under Sections 79 and 80 of the Companies Act once valid documents are received.

As regards to proposing a person other than the retiring Director for election as a Director in a general meeting, please refer to the procedures available on the website of the Company.

Shareholders may write directly to the Company at its principal place of business in Hong Kong with any inquiries.

DIRECTORS' REPORT

The Directors are pleased to present their annual report and the audited consolidated financial statements for the year ended 31 December 2017.

CHANGE OF COMPANY NAME

Pursuant to a special resolution passed on 22 December 2017 and approved by the Registrar of Companies in Bermuda, with effect from 9 January 2018, the Company's name was changed from "Mega Medical Technology Limited" to "Kaisa Health Group Holdings Limited". The Chinese name of the Company was changed from "美加醫學科技有限公司" to "佳兆業健康集團控股有限公司".

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company. The activities of its principal subsidiaries are set out in note 34 to the consolidated financial statements.

SEGMENTAL INFORMATION

An analysis of the Group's revenue and results by principal activities for the year ended 31 December 2017 is set out in note 5 to the consolidated financial statements.

RESULTS

The results of the Group for the year ended 31 December 2017 are set out in the consolidated statement of profit or loss and other comprehensive income on pages 51 to 52.

The board of Directors does not recommend the payment of any dividend for the year ended 31 December 2017.

BUSINESS REVIEW

The business review of the Group for the year is set out in the section headed "Management Discussion and Analysis" on pages 5 to 9 of this report.

Information on the Company's corporate governance practices is set out in the Corporate Governance Report on pages 14 to 29.

The Group recognises the importance of compliance with rules and regulations and the impact of non-compliance with such rules and regulations on the business. The Group has been allocating system and staff resources to ensure ongoing compliance with rules and regulations and to maintain cordial working relationships with regulators effectively through effective communications. During the year ended 31 December 2017, the Group has complied, to the best of our knowledge, with all relevant rules and regulations that have a significant impact on the Company.

The Company strives to achieve corporate sustainability through providing quality services for our customers and collaborating with our suppliers. To enhance customer satisfaction and promote a customer oriented culture within the Company, we take 'Customer First' as one of our core values. We value the feedback from customers and proactively collaborate with our suppliers and contractors to deliver quality sustainable products and services. We have developed certain requirements in our standard tender documents. These requirements include regulatory compliance, anti-corruption and other business ethics.

FIVE YEAR FINANCIAL SUMMARY

A summary of the results and the assets and liabilities of the Group for the last five financial years is set out on pages 117 and 118 of this report.

MAJOR CUSTOMERS AND SUPPLIERS

During the year, the aggregate sales attributable to the Group's five largest customers was approximately 45.95% of the Group's total sales while the sales attributable to the Group's largest customer was approximately 13.36% of the Group's total sales.

During the year, the aggregate purchases attributable to the Group's five largest suppliers was approximately 41.61% of the Group's total purchases while the purchases attributable to the Group's largest supplier was approximately 16.47% of the Group's total purchases.

None of the directors, their associates or any shareholders (which to the knowledge of the directors, own more than 5% of the Company's issued share capital) had any beneficial interest in the share capital of the five largest customers or suppliers of the Group.

SHARE CAPITAL AND SHARE OPTION

Details of the movements in the issued share capital of the Company during the year ended 31 December 2017 are set out in note 27 to the consolidated financial statements.

Details of movements in the Company's share options during the year ended 31 December 2017 are set out in note 28 to the consolidated financial statements.

PURCHASE, REDEMPTION OF SALE OF LISTED SECURITIES

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

RETIREMENT BENEFITS SCHEME

Details of the Group's retirement benefits scheme in operation for the year ended 31 December 2017 are set out in note 3.12 to the consolidated financial statements.

DISTRIBUTABLE RESERVES OF THE COMPANY

As at 31 December 2017, there is no reserves available for distribution for the Company. The reserves of the Company only comprises of contributed surplus amounted to HK$24,930,000 which is insufficient to cover the accumulated losses of the Company of HK$162,593,000.

Under the Companies Act 1981 of Bermuda (as amended), the contributed surplus account of the Company is available for distribution. However, the Company cannot declare or pay a dividend, or make a distribution out of contributed surplus if:

(a) it is, or would after the payment be, unable to pay its liabilities as they become due; or

(b) the realisable value of its assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium accounts.

DIRECTORS' REPORT

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property, plant and equipment of the Group during the year ended 31 December 2017 are set out in note 14 to the consolidated financial statements.

DIRECTORS

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

Executive Directors

Mr. Luo Jun *(Chairman)*
Mr. Wu Tianyu *(Chief Executive Officer)*
Mr. Wu Xiaolin (resigned on 21 February 2017)

Non-executive Directors

Mr. Xu Hao
Dr. Jiang Feng (resigned on 21 February 2017)

Independent non-executive Directors

Dr. Loke Yu alias Loke Hoi Lam (resigned on 11 January 2017)
Mr. Wu Jixian (resigned on 23 January 2017)
Mr. Song Qun (resigned on 11 April 2017)
Dr. Liu Yanwen (appointed on 11 January 2017)
Mr. Guo Peineng (appointed on 11 January 2017 and resigned on 5 March 2018)
Mr. Wang Wansong (appointed on 11 April 2017)
Mr. Fok Hei Yu (appointed on 5 March 2018)
Dr. Lyu Aiping (appointed on 5 March 2018)

In accordance with the bye-law 87 of the bye-laws of the Company and in compliance with code provision A.4.2 of the CG Code, Mr. Wu Tianyu shall retire from office by rotation and being eligible, Mr. Wu Tianyu will offer himself for re-election at the forthcoming annual general meeting ("AGM"). In accordance with the bye-law 86(2) of the bye-laws of the Company, Mr. Fok Hei Yu and Dr. Lyu Aiping, being the newly appointed Directors, shall retire from office and, being eligible, will offer themselves for re-election at the forthcoming AGM.

DIRECTORS' SERVICE CONTRACTS

Mr. Wu Tianyu, being an executive Director, entered into service contract with the Company for an initial term of three years commencing on 21 May 2015, which can be terminated by either party giving not less than three months' notice in writing.

Each of Mr. Luo Jun and Mr. Xu Hao, being executive Director and non-executive Director, entered into service contract and letter of appointment with the Company respectively for a term of three years commencing from 2 December 2016, which can be terminated by either party giving not less than three months' notice in writing.

Dr. Liu Yanwen, being an independent non-executive Director, entered into a letter of appointment with the Company for a term of two years commencing from 11 January 2017, which can be terminated by either party giving not less than one month advance notice in writing.

Mr. Wang Wansong, being an independent non-executive Director, entered into a letter of appointment with the Company for a term of two years commencing from 11 April 2017, which can be terminated by either party giving not less than one month advance notice in writing.

Each of Dr. Lyu Aiping and Mr. Fok Hei Yu, being independent non-executive Directors, entered into a letter of appointment with the Company respectively for a term of two years commencing from 5 March 2018, which can be terminated by either party giving not less than one month advance notice in writing.

Save as disclosed above, none of the Directors has entered into a service contract and/or letter of appointment with the Company or any of its subsidiaries which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed in the share options disclosures in note 28 to the consolidated financial statements, at no time during the year was the Company, its subsidiaries or any of its associated corporations (within the meaning of Part XV of the Securities Futures Ordinance ("SFO")) a party to any arrangement to enable the Directors or their associates (as defined in the Listing Rules) to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

DIRECTORS' REPORT

DIRECTORS' AND CHIEF EXECUTIVES' INTEREST IN SHARES OR SHORT POSITION IN SHARES AND UNDERLYING SHARES AND DEBENTURES

At 31 December 2017, the interests of the Directors and the chief executives in the shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO), or as recorded in the register maintained by the Company pursuant to section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code and the SFO, were as follows:

(a) Long position in the shares of the Company

Name	Capacity/ nature of interest	Number of shares held	Approximate percentage of the issued share capital of the Company
Mr. Wu Tianyu	Beneficial owner	61,910,000	1.21%
Ms. Jiang Sisi	Interest of spouse	61,910,000 (Note 1)	1.21%

Note 1: Mr. Wu Tianyu, executive Director has personal interests in 61,910,000 shares and Ms. Jiang Sisi is the spouse of Mr. Wu Tianyu and therefore was deemed to be interested in these shares.

(b) Long position in the share options of the Company

Name	Number of Share Options held	Number of underlying shares of the Company	Exercisable price	Approximate percentage of the issued share capital of the Company
Mr. Wu Tianyu (note 1)	74,070,000 (note 2)	74,070,000	HK$0.784	1.45%
	38,000,000 (note 3)	38,000,000	HK$0.40	0.74%
	112,070,000	112,070,000		
Ms. Jiang Sisi (note 1)	74,070,000 (note 2)	74,070,000	HK$0.784	1.45%
	38,000,000 (note 3)	38,000,000	HK$0.40	0.74%
	112,070,000	112,070,000		

DIRECTORS' AND CHIEF EXECUTIVES' INTEREST IN SHARES OR SHORT POSITION IN SHARES AND UNDERLYING SHARES AND DEBENTURES – continued

(b) Long position in the share options of the Company – continued

Note 1: Ms. Jiang Sisi is the Chief Operating Officer of the Group and also the director of certain subsidiaries of the Company. She is also the spouse of Mr. Wu Tianyu. As such, Ms. Jiang Sisi and Mr. Wu Tianyu were deemed or taken to be interested in the share options of each other for the purposes of the SFO. The aggregate family interest in share options is 224,140,000 as at 31 December 2017.

Note 2: These share options were granted on 24 July 2015. 25% of the granted share options would vest on 16 June 2016 and be exercisable from 16 June 2016 to 15 June 2020. Another 25% of the granted share options would vest on 16 June 2017 and be exercisable from 16 June 2017 to 15 June 2020. A further 25% of the granted share options would vest on 16 June 2018 and be exercisable from 16 June 2018 to 15 June 2020. The remaining 25% of the granted share options would vest on 16 June 2019 and be exercisable from 16 June 2019 to 15 June 2020.

Note 3: These share options were granted on 12 September 2016. 30% of the granted share options would vest on 12 September 2017 and be exercisable from 12 September 2017 to 11 September 2022. Another 25% of the granted share options would vest on 12 September 2018 and be exercisable from 12 September 2018 to 11 September 2022. A further 20% of the granted share options would vest on 12 September 2019 and be exercisable from 12 September 2019 to 11 September 2022. A further 15% of the granted share options would vest on 12 September 2020 and be exercisable from 12 September 2020 to 11 September 2022. The remaining 10% of the granted share options would vest on 12 September 2021 and be exercisable from 12 September 2021 to 11 September 2022.

The details of share options held by the Directors and chief executives of the Company are disclosed under the section headed "Share Option Scheme" of this report.

Save as disclosed above, as at 31 December 2017, so far as is known to any Directors or chief executives of the Company, none of the Directors or chief executives 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 (a) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO) or (b) were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein or (c) were required, pursuant to the Model Code to be notified to the Company and the Stock Exchange.

DIRECTORS' REPORT

DIRECTORS' INTERESTS IN COMPETING BUSINESS

The Directors are of the view that none of the Directors has competed, or is likely to compete, either directly or indirectly, with our businesses, nor have they caused any harm to any interests owned by the Company during the year ended 31 December 2017.

INTEREST AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS IN SHARES AND UNDERLYING SHARES OF THE COMPANY

As at 31 December 2017, the following persons (other than the Directors and chief executives of the Company) had or were deemed or taken to have an interest and/or short position in the shares or the underlying shares which would fall to be disclosed under the provisions of Divisions 2 and 3 of Part XV of the SFO as recorded in the register required to be kept by the Company under section 336 of the SFO, or who was, directly or indirectly, interested in 5% or more of the issued shares of the Company.

Name	**Capacity/ Nature of interest**	**Total number of shares** (Note 1)	**Approximate % of the issued share capital in the Company**
Kaisa Group Holdings Ltd. (Note 2)	Beneficial owner	2,104,000,491 (L)	41.24%
Ying Hua Holdings Limited (Note 3)	Beneficial owner	308,000,000 (L)	6.04%
Mr. Kwok Ying Shing (Note 3)	Interest of controlled corporation	308,000,000 (L)	6.04%
Xianjian Advanced Technology Limited (Note 4)	Beneficial owner	504,000,000 (L)	9.88%
Mr. Xie Yuehui (Note 4)	Interest of controlled corporation	504,000,000 (L)	9.88%
ABG II-RYD Limited (Note 5)	Beneficial owner	270,300,000 (L)	5.30%
Ally Bridge Group Capital Partners II, L.P. (Note 5)	Interest of controlled corporation	270,300,000 (L)	5.30%
ABG Capital Partners II GP, L.P (Note 5)	Interest of controlled corporation	270,300,000 (L)	5.30%
ABG Capital Partners II GP Limited (Note 5)	Interest of controlled corporation	270,300,000 (L)	5.30%
Mr. Yu Fan (Note 5)	Interest of controlled corporation	270,300,000 (L)	5.30%

INTEREST AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS IN SHARES AND UNDERLYING SHARES OF THE COMPANY – continued

Notes:

1. The letters “L” denote long position in the shares of the Company.

2. According to the information available to the Company, Kaisa Group Holdings Ltd. is a company incorporated in Cayman Islands and is listed on the main board of the Stock Exchange (stock code: 1638).

3. According to the information available to the Company, Ying Hua Holdings Limited is a company incorporated in the BVI and is wholly owned by Mr. Kwok Ying Shing who is also an executive director and a substantial shareholder of Kaisa Group Holdings Ltd. (Note 2).

4. According to the information available to the Company, Xianjian Advanced Technology Limited is a company incorporated in the BVI and is wholly owned by Mr. Xie Yuehui.

5. According to the information available to the Company, ABG II-RYD Limited is wholly owned by Ally Bridge Group Capital Partners II, L.P.. Ally Bridge Group Capital Partners II, L.P.’s general partner is ABG Capital Partners II GP, L.P. and Ally Bridge Group Capital Partners II, L.P is also 0.54% owned by ABG Capital Partners II GP, L.P.. ABG Capital Partners II GP, L.P. is 50% owned by Mr. Yu Fan and 50% owned by ABG Capital Partners II GP Limited which is wholly owned by Mr. Yu Fan.

Save as disclosed above, as at 31 December 2017, the Directors and chief executive of the Company were not aware of any person (other than a Director or chief executive of the Company) who had any other interests or short positions in the Shares or underlying Shares of the Company which would fall to be disclosed to the Company under Divisions 2 and 3 of Part XV of the SFO.

SHARE OPTION SCHEME

The share option scheme adopted by the Company in 2003 (the “2003 Scheme”) had already expired on 31 January 2013. There was no share options outstanding under the 2003 Scheme.

A new share option scheme (the “Scheme”) was approved by an ordinary resolution passed by shareholders of the Company on 8 June 2015. The purpose of the Scheme is to recognise the contribution of the Directors, employees and consultants of the Group by granting share options to them as incentives or rewards. The major terms of the Scheme are summarised as follows:

1. Eligible participants of the Scheme include any full-time or part-time employees, consultants or potential employees, consultants, executives or officers (including executive, non-executive and independent non-executive Directors) of the Company or any of its subsidiaries and any suppliers, customers, consultants, agents and advisers who, in the sole opinion of the Board, will contribute or has contributed to the Company and/or any of its subsidiaries;

DIRECTORS' REPORT

SHARE OPTION SCHEME – continued

2. the maximum number of Shares in respect of which options under this Scheme or options under the other schemes may be granted must not in aggregate exceed 10% of the issued share capital of the Company at the date of approval of the Scheme i.e. 382,620,703 shares, representing 10% of the total issued share capital of the Company as at the date of adoption of the scheme, and such limit may be increased from time to time to 10% of the shares in issue as at the date of such shareholder's approval.

   The overall limit on the number of Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Scheme and any other share option schemes of the Company must not exceed 30% of the Shares in issue from time to time.

3. The total number of Shares to be issued upon exercise of the options granted and to be granted to each eligible person (including both exercised and outstanding options) in any 12-month period up to and including the date of grant is limited to 1% of the Shares in issue. Any further grant of options in excess of this limit is subject to separate shareholders' approval in a general meeting of the Company.

4. Any grant of share options to any connected person, such grant shall be subject to the approval by all the independent non-executive directors of the Company (and in the event that the Board offers to grant Options to an independent non-executive director of the Company, the vote of such independent non-executive director shall not be counted for the purposes of approving such grant);

5. Any grant of share options to a substantial shareholder or an independent non-executive Director of the Company, or any of their associates, which would result in the Shares issued and to be issued upon exercise of all options already granted and to be granted (including options exercised, cancelled and outstanding) to such person within the 12-month period up to the date of grant of options representing in aggregate in excess of 0.1% of the Shares in issue and having an aggregate value (based on closing price of the Company's Shares at the date of the grant) in excess of HK$5 million, is subject to prior approval by shareholders in a general meeting.

6. The offer for the grant of options (the "Offer") must be taken up within 14 days from the date of Offer, with a payment of HK$1.00 as consideration by the grantee.

7. The exercise price of the share option will be determined at the highest of (i) the average closing prices of Shares as stated in the Stock Exchange's daily quotations sheets for the five trading days immediately preceding the date of the Offer; (ii) the closing price of Shares as stated in the Stock Exchange's daily quotations sheet on the date of the Offer; and (iii) the nominal value of the Shares.

8. The period within which the Shares must be taken up under the option, which must not be more than 10 years from the date of grant of the option;

9. The Scheme will, unless otherwise cancelled or amended, remain in force for 10 years commencing on the date of approval of the Scheme and ending on 7 June 2025 (both dates inclusive);

SHARE OPTION SCHEME – continued

Movement of share options during the year ended 31 December 2017 is as follows:

Name	Balance as at 1 January 2017	Granted during the year	Exercised during the year	Forfeited during the year	Balance as at 31 December 2017	Exercisable price	Approximate percentage of the issued share capital of the Company
Mr. Wu Tianyu (note 1)	74,070,000 (note 3)	–	–	–	74,070,000	HK$0.784	1.45%
	38,000,000 (note 4)	–	–	–	38,000,000	HK$0.40	0.74%
	112,070,000	–	–	–	112,070,000		
Ms. Jiang Sisi (note 1)	74,070,000 (note 3)	–	–	–	74,070,000	HK$0.784	1.45%
	38,000,000 (note 4)	–	–	–	38,000,000	HK$0.40	0.74%
	112,070,000	–	–	–	112,070,000		
Employees and consultants	16,900,000 (note 2)	–	–	(9,100,000)	7,800,000	HK$0.784	0.15%
	38,000,000 (note 4 & 5)	–	–	–	38,000,000	HK$0.40	0.74%
	54,900,000	–	–	(9,100,000)	45,800,000		
	279,040,000	–	–	(9,100,000)	269,940,000		

Note 1: Ms. Jiang Sisi is the Chief Operating Officer of the Group and also the director of certain subsidiaries of the Company. She is also the spouse of Mr. Wu Tianyu. As such, Ms. Jiang Sisi and Mr. Wu Tianyu were deemed or taken to be interested in the share options of each other for the purposes of the SFO. The aggregate family interest in share options is 224,140,000 as at 31 December 2017.

Note 2: These share options were granted on 16 June 2015. 25% of the granted share options would vest on 16 June 2016 and be exercisable from 16 June 2016 to 15 June 2020. Another 25% of the granted share options would vest on 16 June 2017 and be exercisable from 16 June 2017 to 15 June 2020. A further 25% of the granted share options would vest on 16 June 2018 and be exercisable from 16 June 2018 to 15 June 2020. The remaining 25% of the granted share options would vest on 16 June 2019 and be exercisable from 16 June 2019 to 15 June 2020.

DIRECTORS' REPORT

SHARE OPTION SCHEME – continued

Note 3: These share options were granted on 24 July 2015. 25% of the granted share options would vest on 16 June 2016 and be exercisable from 16 June 2016 to 15 June 2020. Another 25% of the granted share options would vest on 16 June 2017 and be exercisable from 16 June 2017 to 15 June 2020. A further 25% of the granted share options would vest on 16 June 2018 and be exercisable from 16 June 2018 to 15 June 2020. The remaining 25% of the granted share options would vest on 16 June 2019 and be exercisable from 16 June 2019 to 15 June 2020.

Note 4: These share options were granted on 12 September 2016. 30% of the granted share options would vest on 12 September 2017 and be exercisable from 12 September 2017 to 11 September 2022. Another 25% of the granted share options would vest on 12 September 2018 and be exercisable from 12 September 2018 to 11 September 2022. A further 20% of the granted share options would vest on 12 September 2019 and be exercisable from 12 September 2019 to 11 September 2022. A further 15% of the granted share options would vest on 12 September 2020 and be exercisable from 12 September 2020 to 11 September 2022. The remaining 10% of the granted share options would vest on 12 September 2021 and be exercisable from 12 September 2021 to 11 September 2022.

Note 5: Included in the balance represents 8,000,000 share options granted to Ms. Wu Ansheng who is the General Manager and Sales Director of a subsidiary of the Group and a sister of Mr. Wu Tianyu.

CONNECTED TRANSACTIONS

The Group had entered into the following transactions with connected parties, as defined under the Listing Rules, during the year ended 31 December 2017 and up to the date of this report:

(i) On 24 January 2017, Mega Smart Holdings Limited ("Mega Smart"), an indirect wholly-owned subsidiary of the Company, has entered into an agreement with Dragon Fortune Group Holdings Limited ("Dragon Fortune") (the "Disposal"), and pursuant to which Mega Smart has agreed to dispose of and Dragon Fortune has agreed to acquire the entire issued share capital of Modern Success Holdings Limited, an indirect wholly-owned subsidiary of the Company, and its subsidiaries (the "Disposal Group"). The consideration of the Disposal is HK$2,800,000 and the transaction has been completed on 22 February 2017.

Dragon Fortune is a company wholly-owned by Glory Gate International Limited which is wholly-owned by Ms. Shen Jing, spouse of Mr. Wen Jialong who was the former chairman and executive director of the Company. Dragon Fortune also owns 30% equity interest and is therefore a substantial shareholder of certain direct and indirect subsidiaries in the Disposal Group. Moreover, Ms. Shen, a director of certain companies in the Disposal Group, is the ultimate beneficial owner indirectly owning 100% equity interest of Dragon Fortune which is therefore an associate of Ms. Shen. Therefore, Dragon Fortune is a connected person of the Company under Chapter 14A of the Listing Rules. Accordingly, the Disposal constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules. As all the applicable percentage ratios (other than profit ratio) with respect to the Disposal are less than 25% and the consideration is less than HK$10,000,000, the Disposal is exempt from the circular (including independent financial advice) and shareholders' approval requirements under Chapter 14A of the Listing Rules. This discloseable and connected transaction has been announced on 24 January 2017.

CONNECTED TRANSACTIONS – continued

(ii) On 28 July 2017, the Group proposed to implement the Rights Issue on the basis of one (1) new shares to be issued and allotted under the Rights Issue for every three (3) shares held on the record date at the subscription price of HK$0.40 per Rights Share. The Rights Issue has been completed on 13 November 2017. Pursuant to the Underwriting Agreement, Kaisa Group Holdings Ltd. has conditionally agreed to underwrite the Rights Shares not subscribed by the Qualifying Shareholders. Kaisa Group Holdings Ltd. is a substantial Shareholder of the Company and therefore a connected person of the Company. Accordingly, the Underwriting Agreement and the transactions contemplated thereunder constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules.

Pursuant to Rule 14A.92(2) of the Listing Rules, as the Company has made arrangements for the Qualifying Shareholders to apply for the Rights Shares in excess of their entitlements under the Rights Issue in compliance with Rule 7.21(1) of the Listing Rules, the Underwriting Agreement is exempted from the reporting, announcement, and independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

(iii) During the year ended 31 December 2017, the Group had rented a property from Kaisa Group Holdings Ltd. amounted to HK$319,000. Kaisa Group Holdings Ltd. was a substantial shareholder of the Company at the date of signing of the rental agreement and therefore is a connected person of the Company under Chapter 14A of the Listing Rules and the lease constituted an exempted connected transaction of the Company under Chapter 14A of the Listing Rules.

(iv) During the year ended 31 December 2017, the Group had incurred promotional expense to a dental clinic amounted to HK$936,000. Mr. Wu Tianyu, a Director and Chief Executive Officer of the Group, is the ultimate beneficial owner owning all equity interest of the dental clinic which is therefore an associate of Mr. Wu Tianyu. Therefore, the dental clinic is a connected person of the Company under Chapter 14A of the Listing Rules and the expense payment constituted an exempted connected transaction of the Company under Chapter 14A of the Listing Rules.

The independent non-executive Directors have reviewed the above connected transactions and have confirmed that the connected transactions have been entered into:

1. in the ordinary and usual course of business of the Group;

2. on normal commercial terms or terms no less favourable to the Group than terms available to or from independent third parties; and

3. in accordance with the relevant agreement governing the transactions on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or in existence during the year.

DIRECTORS' REPORT

DIRECTOR'S INTERESTS IN CONTRACTS

Save for the transactions disclosed in the section headed "Connected Transactions" in the Directors' report, no other contract of significance, to which the Company, its holding company or subsidiaries was a party and in which a Director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the financial year or at any time during the year.

EVENT AFTER THE REPORTING PERIOD

On 15 March 2018, the Group entered into a Note Purchase Agreement with an independent third party entity (the "Issuer"), pursuant to which the Group will subscribe for senior secured convertible promissory note (the "Note") in the principal amount of US$3,500,000 for the total consideration of US$3,500,000 (equivalent to approximately HK$27,489,000). All unpaid principal, together with any then unpaid and accrued interest and other amounts payable under the Note shall be due and payable on 15 March 2022. The Note may be converted into shares of the Issuer's common stock at a conversion price equivalent to an agreed valuation divided by the number of outstanding shares immediately prior to the IPO of the Issuer. The Note bears interest payable in cash at 1.5% per annum, payable semi-annually and deferred interest of 8% per annum, which shall be compounded and added to the principal, and payable upon the maturity date. The acquisition was funded by internal resources of the Group.

RIGHTS ISSUE

On 28 July 2017, in order to equip the Group with more financial resources, the Company proposed to implement the rights issue on the basis of one (1) new shares to be issued and allotted under the Rights Issue for every three (3) shares held on the record date at the subscription price of HK$0.40 per Rights Share. The Rights Issue has been completed on 13 November 2017 and the Group raised proceeds of approximately HK$510.16 million before expenses and the net proceeds of the Rights Issue was HK$507.16 million, which are intended to be applied towards (i) funding potential acquisition in an overseas dental technology company (the "Proposed Acquisition of the Target Company"); (ii) the acquisition of land to construct a manufacturing plant for the dental prosthetics business in the PRC (the "Proposed Acquisition of Land"); and (iii) general working capital requirements of the Group.

On 13 March 2018, since the parties were not able to come to an agreement on certain terms of the Proposed Acquisition of the Target Company, including but not limited to, the valuation of the target company and price adjustment mechanism, the Company announced to terminate the Proposed Acquisition of the Target Company.

As disclosed in the rights issue prospectus of the Company dated 20 October 2017, in case the Proposed Acquisition of the Target Company does not proceed, the Company will first apply the proceeds to working capital for the Company's current product offerings, specifically, the 3D oral scanner and the Mega Clear Aligner (the "Existing Products"), and consider other potential acquisitions (the "Other Potential Acquisitions").

The Company is considering the Other Potential Acquisitions and are in discussions with potential acquisition targets in the dental prosthetic area and other dentistry areas, including targets in Switzerland and in Germany. Since the Other Potential Acquisitions are still in preliminary stages of discussion and in light of the fact that strong mergers and acquisitions deal activity in 2018 has led to higher valuations for attractive targets, there is no expected timetable regarding the Other Potential Acquisitions at this stage.

RIGHTS ISSUE – continued

Furthermore, the Company is still in on-going negotiations with the counterparty in relation to the Proposed Acquisition of Land. As at the date of this report, it is still uncertain as to when the definitive agreement(s) will be entered into.

Accordingly, as of the date of this report, approximately HK$3.07 million has been utilised as working capital of the Existing Products and approximately HK$504.09 million of the actual proceeds from the Rights Issue remained unutilized.

Therefore, the net proceeds from the Rights Issue has been re-allocated in the following manner:

(i) approximately HK$296 million would be applied to the Proposed Acquisition of Land;

(ii) approximately HK$154.16 million would be applied to the Other Potential Acquisitions; and

(iii) approximately HK$57 million to satisfy the working capital requirements of the Existing Products.

PERMITTED INDEMNITY PROVISIONS

The bye-laws of the Company provides that the Directors and officers of the Company shall be indemnified and secured harmless out of the assets and profits of the Company from and against all actions, costs, charges, losses, damages and expenses which they may incur or sustain by reason of any act done, concurred or omitted in the execution of their duty in their respective offices, provided that this indemnity shall not extend to any matter in respect of any fraud or dishonesty. The bye-laws of the Company also stipulates that each shareholder agrees to waive any claim or right of action he might have against any Director on account of any action taken by such Director or the failure of such Director to take any action in the performance of his duties for the Company, provided that such waiver shall not extend to any matter in respect of any fraud or dishonesty. Directors liability insurance is in place to protect the Directors and officers of the Company and its subsidiaries against potential costs and liabilities arising from claims brought against the Directors and officers.

INDEPENDENT NON-EXECUTIVE DIRECTORS' CONFIRMATION

The Company has received, from each Independent non-executive Director an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules. The Company considers all of the Independent non-executive Directors are independent.

EMOLUMENT POLICY

The emolument policy of the employees of the Group is set up by the Remuneration Committee on the basis of their merit, qualifications and competence.

The emoluments of the Directors are considered by the Remuneration Committee and recommended to the Board's approval, having regard to the Company's operating results, individual performance and comparable market statistics.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's bye-laws, or the laws of Bermuda, which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

DIRECTORS' REPORT

SUFFICIENCY OF PUBLIC FLOAT

Based on information publicly available to the Company and within the knowledge of the directors, the Company has maintained a sufficient public float throughout the year ended 31 December 2017 and as at the date of this report.

AUDIT COMMITTEE

The Company has established the Audit Committee for the purposes of reviewing and providing supervision over the Group's financial reporting process and internal controls. It also reviews the effectiveness of the audit process and risk evaluation.

The Audit Committee of the Board was established with written terms of reference in accordance with Appendix 14 to the Listing Rules. As at the date of this report, the Audit Committee comprised three independent non-executive Directors, namely Dr. Liu Yanwen (chairman), Mr. Fok Hei Yu and Mr. Wang Wansong. Dr. Loke Yu alias Loke Hoi Lam ceased to be the Chairman of the Audit Committee upon his resignation on 11 January 2017 and Mr. Wu Jixian ceased to be a member of the Audit Committee upon his resignation on 23 January 2017. Mr. Song Qun ceased to be a member of the Audit Committee upon his resignation on 11 April 2017 and Mr. Guo Peineng act as a member of the Audit Committee since his appointment on 23 January 2017 and ceased to be a member of the Audit Committee upon his resignation on 5 March 2018.

The Audit Committee met with the management on 22 March 2018 to review the accounting standards and practices adopted by the Group and to discuss matters regarding internal control and financial reporting including the review of the Group's annual results for the year ended 31 December 2017, before proposing them to the Board for approval. The Audit Committee has reviewed the unaudited final results announcement and the accompanying financial statement for the year ended 31 December 2017.

AUDITOR

Following the resignation of Messrs. Deloitte Touche Tohmatsu as auditors of the Company on 1 December 2017, Grant Thornton Hong Kong Limited was appointed as the auditor of the Company on 8 January 2018 to fill in the vacancy. Save as disclosed above, there were no other changes in auditors of the Company during the past three years. The consolidated financial statements of the Company for the year ended 31 December 2017 were audited by Grant Thornton Hong Kong Limited. A resolution will be proposed at the forthcoming AGM to re-appoint Grant Thornton Hong Kong Limited as the auditor of the Company.

On behalf of the Board

Luo Jun
Chairman
Hong Kong, 22 March 2018

INDEPENDENT AUDITOR'S REPORT

Grant Thornton
致同

To the members of Kaisa Health Group Holdings Limited 佳兆業健康集團控股有限公司
(Formerly known as Mega Medical Technology Limited 美加醫學科技有限公司)
(incorporated in Bermuda with limited liability)

Opinion

We have audited the consolidated financial statements of Kaisa Health Group Holdings Limited (Formerly known as Mega Medical Technology Limited) (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 51 to 116, which comprise the consolidated statement of financial position as at 31 December 2017, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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

Basis for Opinion

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

Key Audit Matters

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

INDEPENDENT AUDITOR'S REPORT

Key Audit Matters – continued

Key audit matter

Impairment assessment of goodwill

We identified the impairment assessment of goodwill relating to the dental prosthetics business as a key audit matter due to significant judgments and assumptions involved.

As disclosed in note 16 to the consolidated financial statements, the carrying amount of goodwill as at 31 December 2017 is HK$330,805,000. For the purpose of impairment assessment, the entire amount of goodwill has been allocated to a cash-generating unit ("CGU") of dental prosthetics business. The impairment assessment is based on the higher of fair value less costs of disposal and value in use of CGU. The value in use of the related CGU requires the Group to estimate the expected future cash flows from the CGU. If the actual future cash flows are less than expected, impairment may be required.

For the year ended 31 December 2017, the management of the Group, with the support of an independent qualified professional valuer, determined that there is no impairment in respect of the goodwill. The estimation of recoverable amount of goodwill is dependent on certain key inputs, including the discount rate and the underlying cash flows, in particular future revenue growth and expected profit margin. Details of the key inputs used in the value in use calculation are disclosed in note 16 to the consolidated financial statements.

How our audit addressed the key audit matter

Our procedures in relation to evaluating the management's impairment assessment of goodwill included:

- Understanding and evaluating the key controls for the Group's impairment assessment on goodwill;
- Evaluating the independent external valuer's competence, capabilities and objectivity;
- Engaging professional valuation expert to evaluate the appropriateness of the value in use valuation model and checking its mathematical accuracy;
- Evaluating the appropriateness and reasonableness of value in use calculation and key assumptions adopted by the management of the Group based on our knowledge of CGU's strategic plans and industry;
- Checking on sample basis, the relevance of the input data in the value in use calculation by reconciling input data to the approved budget and comparing against historical performance; and
- Engaging professional valuation expert to assess appropriateness of growth rates and discount rates adopted by management, and performing the sensitivity analysis on the growth rates and discount rates to assess the extent of impact on the value in use.

Key Audit Matters – continued

Key audit matter	How our audit addressed the key audit matter
Valuation of trade receivables	
We identified the valuation of trade receivables as a key audit matter due to the use of judgment and estimation by management in assessing the recoverability of trade receivables. In determining the provision for impairment of trade receivables, the management considers the credit history of the trade receivables including default or delay in payments, settlement records, subsequent settlements and aging analysis of trade receivables. At 31 December 2017, the carrying amount of trade receivables is HK$62,958,000 as set out in note 19 to the consolidated financial statements.	Our procedures in relation to the valuation of trade receivables included: • Obtaining an understanding of how the provision for impairment of trade receivables is estimated by the management and testing the key controls of the Group relating to the preparation of the aging analysis of trade receivables and the credit risk assessment; • Testing the aging analysis of trade receivables, on a sample basis, to the source documents including goods delivery notes and sales invoices; • Reviewing the aging analysis of trade receivables throughout the year to understand the settlement patterns by the customers; and • Assessing the reasonableness of provision for impairment of trade receivables made by the management with reference to the credit history of the trade receivables including default or delay in payments, settlement records, subsequent settlements and aging analysis of trade receivables.

INDEPENDENT AUDITOR'S REPORT

Other Information

The directors are responsible for the other information. The other information comprises all the information in the 2017 annual report of the Company, but does not include the consolidated financial statements and our auditor's report thereon.

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. 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 directors assisted by the Audit Committee are responsible for overseeing the Group's financial reporting process.

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We report our opinion solely to you, as a body, in accordance with section 90 of the Bermuda Companies Act 1981 and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

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

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

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

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

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

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

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

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

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

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

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

INDEPENDENT AUDITOR'S REPORT

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

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.

Grant Thornton Hong Kong Limited
Certified Public Accountants
Level 12
28 Hennessy Road
Wanchai
Hong Kong

22 March 2018

Chiu Wing Ning
Practising Certificate No.: P04920

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2017

	Notes	2017 HK$'000	2016 HK$'000
Continuing operation			
Turnover	5	**226,703**	188,140
Cost of sales		**(113,244)**	(85,800)
Gross profit		**113,459**	102,340
Other income, gains and losses	6	**19,399**	7,422
Selling and distribution costs		**(43,752)**	(29,747)
Administrative expenses		**(59,457)**	(60,995)
Other expenses		**(16,052)**	(9,768)
Profit before income tax	7	**13,597**	9,252
Income tax expense	10	**(8,049)**	(10,547)
Profit/(Loss) for the year from continuing operation		**5,548**	(1,295)
Discontinued operation			
Loss for the year from discontinued operation	12	**(2,843)**	(18,998)
Profit/(Loss) for the year		**2,705**	(20,293)
Other comprehensive income/(expense), including reclassification adjustments			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences arising on translation of foreign operations		**9,566**	(13,504)
Reclassification of exchange differences upon disposal of subsidiaries		**(2,343)**	2,849
Other comprehensive income/(expense) for the year		**7,223**	(10,655)
Total comprehensive income/(expense) for the year		**9,928**	(30,948)

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2017

	Notes	**2017** **HK$'000**	2016 HK$'000
Profit/(Loss) for the year attributable to owners of the Company:			
– from continuing operation		**5,548**	(1,645)
– from discontinued operation		**(1,637)**	(13,543)
		3,911	(15,188)
Profit/(Loss) for the year attributable to non-controlling interests:			
– from continuing operation		**–**	350
– from discontinued operation		**(1,206)**	(5,455)
		(1,206)	(5,105)
Profit/(Loss) for the year		**2,705**	(20,293)
Total comprehensive income/(expense) attributable to:			
Owners of the Company		**10,131**	(26,329)
Non-controlling interests		**(203)**	(4,619)
		9,928	(30,948)
		HK cents	HK cents (Restated)
Earnings/(Loss) per share	13		
From continuing and discontinued operation			
– Basic		**0.10**	(0.41)*
– Diluted		**0.10**	(0.41)*
From continuing operation			
– Basic		**0.14**	(0.04)*
– Diluted		**0.14**	(0.04)*

* Adjusted for rights issue of shares during the year ended 31 December 2017 as disclosed in note 27.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2017

	Notes	**2017** **HK$'000**	2016 HK$'000
Non-current assets			
Property, plant and equipment	14	**16,716**	8,380
Intangible assets	15	**28,453**	29,146
Goodwill	16	**330,805**	330,805
Convertible bonds receivable	17	**49,441**	40,984
		425,415	409,315
Current assets			
Inventories	18	**3,247**	2,429
Trade and other receivables	19	**72,569**	55,845
Amount due from a director	20	**30,087**	35,534
Bank balances and cash	21	**575,448**	64,597
		681,351	158,405
Assets classified as held for sale	22	**–**	18,700
		681,351	177,105
Current liabilities			
Trade and other payables	23	**54,926**	48,909
Amount due to a related party	24	**768**	712
Amount due to a non-controlling shareholder of a subsidiary	25	**–**	1,232
Taxation payable		**1,077**	6,266
		56,771	57,119
Liabilities directly associated with assets classified as held for sale	22	**–**	15,512
		56,771	72,631
Net current assets		**624,580**	104,474
Total assets less current liabilities		**1,049,995**	513,789
Non-current liabilities			
Deferred taxation	26	**7,114**	7,287
Net assets		**1,042,881**	506,502

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2017

	Notes	**2017 HK$'000**	2016 HK$'000
Capital and reserves			
Share capital	27	**6,377**	4,783
Reserves		**1,036,504**	499,619
Equity attributable to owners of the Company		**1,042,881**	504,402
Non-controlling interests		**–**	2,100
		1,042,881	506,502

The consolidated financial statements on pages 51 to 116 were approved and authorised for issue by the Board of Directors on 22 March 2018 and are signed on behalf of the Board by:

Mr. Luo Jun
Director

Mr. Wu Tianyu
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2017

	Attributable to owners of the Company									
	Share capital HK$'000	Share premium HK$'000	Special reserve HK$'000	Translation reserve HK$'000	Share option reserve HK$'000	Accumulated losses HK$'000	Amounts recognised in other comprehensive income and accumulated in equity relating to disposed group classified as asset held for sale HK$'000	Sub-total HK$'000	Non-controlling interests HK$'000	Total HK$'000
At 1 January 2016	4,783	495,069	1,545	10,648	14,821	(19,506)	–	507,360	59,796	567,156
Loss for the year	–	–	–	–	–	(15,188)	–	(15,188)	(5,105)	(20,293)
Exchange differences arising on translation of foreign operations	–	–	–	(10,886)	–	–	–	(10,886)	(2,618)	(13,504)
Reclassification of exchange differences upon disposal of subsidiaries (note 29(b)&(c))	–	–	–	(255)	–	–	–	(255)	3,104	2,849
Total comprehensive expense for the year	–	–	–	(11,141)	–	(15,188)	–	(26,329)	(4,619)	(30,948)
Dividend paid to a non-controlling shareholder of a subsidiary	–	–	–	–	–	–	–	–	(51,300)	(51,300)
Acquisition of additional interest of a subsidiary	–	–	–	–	–	(3,137)	–	(3,137)	(463)	(3,600)
Recognition of equity-settled share-based payment (note 28)	–	–	–	–	26,508	–	–	26,508	–	26,508
Disposal of subsidiaries (note 29(c))	–	–	–	–	–	–	–	–	(1,314)	(1,314)
Transfer to amounts recognised in other comprehensive income and accumulated in equity relating to disposal groups classified as held for sale	–	–	–	(2,903)	–	–	2,903	–	–	–
At 31 December 2016	4,783	495,069	1,545	(3,396)	41,329	(37,831)	2,903	504,402	2,100	506,502

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2017

	Attributable to owners of the Company									
	Share capital HK$'000	Share premium HK$'000	Special reserve HK$'000	Translation reserve HK$'000	Share option reserve HK$'000	Accumulated losses HK$'000	Amounts recognised in other comprehensive income and accumulated in equity relating to disposed group classified as asset held for sale HK$'000	Sub-total HK$'000	Non-controlling interests HK$'000	Total HK$'000
At 1 January 2017	4,783	495,069	1,545	(3,396)	41,329	(37,831)	2,903	504,402	2,100	506,502
Profit/(Loss) for the year	-	-	-	-	-	3,911	-	3,911	(1,206)	2,705
Exchange differences arising on translation of foreign operations	-	-	-	9,123	-	-	311	9,434	132	9,566
Reclassification of exchange differences upon disposal of subsidiaries (note 29(a))	-	-	-	-	-	-	(3,214)	(3,214)	871	(2,343)
Total comprehensive income/(expense) for the year	-	-	-	9,123	-	3,911	(2,903)	10,131	(203)	9,928
Issue of shares upon rights issue (note 27)	1,594	508,568	-	-	-	-	-	510,162	-	510,162
Transaction costs on rights issue	-	(2,858)	-	-	-	-	-	(2,858)	-	(2,858)
Recognition of equity-settled share-based payment (note 28)	-	-	-	-	21,044	-	-	21,044	-	21,044
Release of share option reserve upon share options forfeited	-	-	-	-	(3,000)	3,000	-	-	-	-
Disposal of subsidiaries (note 29(a))	-	-	-	-	-	-	-	-	(1,897)	(1,897)
At 31 December 2017	6,377	1,000,779	1,545	5,727	59,373	(30,920)	-	1,042,881	-	1,042,881

The special reserve arose pursuant to a group reorganisation in 1997 being the difference between the nominal amount of the share capital issued by the Company in exchange for the shares of the subsidiaries and the nominal amount of the share capital of the subsidiaries acquired, capital reduction and bonus issue by way of capitalisation of the reserve in 2005 and 2006.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2017

	Notes	2017 HK$'000	2016 HK$'000
Operating activities			
Profit/(Loss) before income tax			
– from continuing operation		**13,597**	9,252
– from discontinued operation	12	**(2,843)**	(19,005)
		10,754	(9,753)
Adjustments for:			
Amortisation of prepaid lease payments		**–**	109
Amortisation of intangible assets		**693**	693
Depreciation of property, plant and equipment		**3,786**	3,200
Loss on disposal of property, plant and equipment		**13**	10
Loss/(Gain) on disposal of subsidiaries	29	**3,374**	(12,541)
Impairment of trade receivables		**875**	–
Interest expenses		**–**	105
Interest income on bank deposit		**(26)**	(86)
Interest income on convertible bonds receivable		**(2,203)**	(186)
Income from short-term investments		**(802)**	–
Share-based payment expenses		**21,044**	26,508
Operating cash flows before movements in working capital		**37,508**	8,059
(Increase)/Decrease in inventories		**(187)**	1,772
(Increase)/Decrease in trade and other receivables		**(15,906)**	18,879
Decrease in trade and other payables		**(1,256)**	(2,000)
Net cash generated from operations		**20,159**	26,710
Hong Kong Profits Tax paid		**(9,058)**	(15,769)
Hong Kong Profits Tax refunded		**–**	465
PRC Enterprise Income Tax paid		**(5,142)**	(731)
Net cash from operating activities		**5,959**	10,675
Investing activities			
Subscription of convertible bonds receivable		**–**	(41,200)
Income from short-term investments		**802**	–
Purchase of property, plant and equipment		**(11,273)**	(4,288)
Net cash (outflow)/inflow from disposal of subsidiaries	29	**(3,080)**	71,690
Purchase of short-term investments		**(162,451)**	–
Proceeds from redemption of short-term investments		**162,451**	–
Repayment from a director		**5,792**	4,800
Interest received		**26**	86
Proceeds from disposal of property, plant and equipment		**–**	36
Net cash (used in)/from investing activities		**(7,733)**	31,124

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2017

	Notes	2017 HK$'000	2016 HK$'000
Financing activities			
Advance from a non-controlling shareholder of a subsidiary		–	1,232
Advances from related parties		–	2,400
Dividend paid to a non-controlling shareholder of a subsidiary		–	(51,300)
Acquisition of additional interest of a subsidiary		–	(3,600)
Repayment to a non-controlling shareholder of a subsidiary	21(b)	**(1,232)**	(1,449)
Repayment to a related party	21(b)	**(3,252)**	(43,030)
Repayment of bank loans		–	(1,100)
Interest paid		–	(105)
Issues of shares upon rights issue	27	**510,162**	–
Transaction costs on rights issue		**(2,858)**	–
Net cash from/(used in) financing activities		**502,820**	(96,952)
Net increase/(decrease) in cash and cash equivalents		**501,046**	(55,153)
Cash and cash equivalents at 1 January		**72,131**	130,150
Effect of foreign exchange rate changes		**2,271**	(2,866)
Cash and cash equivalents at 31 December, representing bank balances and cash		**575,448**	72,131
Analysis of the balances of cash and cash equivalents			
Bank balances and cash		**575,448**	64,597
Bank balances and cash included in a disposal group classified as held for sale		–	7,534
		575,448	72,131

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

1. GENERAL

The Company was incorporated in Bermuda as an exempted company with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The addresses of its registered office is Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda and its principal place of business is Suite 2016A, 20/F, Two International Finance Centre, 8 Finance Street, Central, Hong Kong. The ultimate holding company of the Company is Kaisa Group Holdings Ltd., which was incorporated in the Cayman Islands and its shares are listed on the Stock Exchange.

Pursuant to a special resolution passed on 22 December 2017 and approved by the Registrar of Companies in Bermuda, with effect from 9 January 2018, the Company's name was changed from "Mega Medical Technology Limited" to "Kaisa Health Group Holdings Limited". The Chinese name of the Company was changed from "美加醫學科技有限公司" to "佳兆業健康集團控股有限公司".

The Company is an investment holding company. The principal activities of its principal subsidiaries are set out in note 34.

2. ADOPTION OF NEW AND AMENDED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

Amendments to HKFRSs that are effective for annual periods beginning or after 1 January 2017

In the current year, the Group has applied for the first time the following amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), which are relevant to the Group's operations and effective for the Group's consolidated financial statements for the annual period beginning on 1 January 2017:

Amendments to HKAS 7	Disclosure Initiative
Amendments to HKAS 12	Recognition of Deferred Tax Assets for Unrealised Losses
Amendments to HKFRS 12 included in Annual Improvements to HKFRSs 2014-2016 Cycle	Disclosure of Interests in Other Entities

The adoption of the amendments to HKFRSs had no material impact on how the results and financial position for the current and prior periods have been prepared and presented.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

2. ADOPTION OF NEW AND AMENDED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") – continued

New and amended HKFRSs in issue but not yet effective

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

HKFRS 9	Financial Instruments[1]
HKFRS 15	Revenue from Contracts with Customers and the related Amendments[1]
HKFRS 16	Leases[2]
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions[1]
Amendments to HKFRS 4	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts[1]
Amendments to HKFRS 9	Prepayment Features with Negative Compensation[2]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]
Amendments to HKAS 40	Transfers of Investment Property[1]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2014-2016 Cycle[1]
HK (IFRIC) – Int 22	Foreign Currency Transactions and Advance Consideration[1]
HK (IFRIC) – Int 23	Uncertainty over Income Tax Treatments[2]

1 Effective for annual periods beginning on or after 1 January 2018
2 Effective for annual periods beginning on or after 1 January 2019
3 Effective date not yet determined

The directors anticipate that all of the pronouncements will be adopted in the Group's accounting policy for the first period beginning on or after the effective date of the pronouncement. Information on new and amended HKFRSs that are expected to have impact on the Group's accounting policies is provided below. Other new and amended HKFRSs are not expect to have a material impact on the Group's consolidated financial statements.

2. ADOPTION OF NEW AND AMENDED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") – continued

New and amended HKFRSs in issue but not yet effective – continued

HKFRS 9 "Financial Instruments"

HKFRS 9 introduces new requirements for the classification and measurement of financial assets, financial liabilities, general hedge accounting and impairment requirements for financial assets.

Key requirements of HKFRS 9 which are relevant to the Group are:

- all recognised financial assets that are within the scope of HKFRS 9 are required to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are generally measured at fair value through other comprehensive income ("FVTOCL"). All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under HKFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

- with regard to the measurement of financial liabilities designated as at fair value through profit or loss, HKFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Under HKAS 39 "Financial Instruments: Recognition and Measurement", the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss is presented in profit or loss.

- in relation to the impairment of financial assets, HKFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under HKAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

Based on the Group's financial instruments and risk management policies as at 31 December 2017, application of HKFRS 9 in the future will have an impact on the measurement of the Group's investment in an unlisted convertible bonds and it will be measured at fair value through profit or loss. In addition, the expected credit loss model will result in earlier provision of credit losses which are not yet incurred in relation to the Group's financial assets measured at amortised cost and other items that subject to the impairment provisions upon application of HKFRS 9 by the Group. However, the directors of the Company do not anticipate that the application of HKFRS 9 will have material impact on the Group's consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

2. ADOPTION OF NEW AND AMENDED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") – continued

New and amended HKFRSs in issue but not yet effective – continued

HKFRS 15 "Revenue from Contracts with Customers"

HKFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. HKFRS 15 will supersede the current revenue recognition guidance including HKAS 18 "Revenue", HKAS 11 "Construction Contracts" and the related Interpretations when it becomes effective.

The core principle of HKFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the Standard introduces a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

Under HKFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in HKFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by HKFRS 15.

In 2016, the HKICPA issued clarification to HKFRS 15 in relation to the identification of performance obligations principal versus agent considerations, as well as licensing application guidance.

The directors of the Company anticipate that the application of HKFRS 15 in the future will result in more disclosures, however, they do not anticipate that the application of HKFRS 15 will have a material impact on the timing and amounts of revenue recognised in the respective reporting periods.

2. ADOPTION OF NEW AND AMENDED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") – continued

New and amended HKFRSs in issue but not yet effective – continued

HKFRS 16 "Leases"

HKFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. HKFRS 16 will supersede HKAS 17 "Leases" and the related interpretations when it becomes effective.

HKFRS 16 distinguishes lease and service contracts on the basis of whether an identified asset is controlled by a customer. Distinctions of operating leases and finance leases are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees, except for short-term leases and leases of low value assets.

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. For the classification of cash flows, the Group currently presents operating lease payments as operating cash flows. Upon application of HKFRS 16, lease payments in relation to lease liability will be allocated into a principal and an interest portion which will be presented as financing and operating cash flows, respectively, by the Group.

In contrast to lessee accounting, HKFRS 16 substantially carries forward the lessor accounting requirements in HKAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease.

Furthermore, extensive disclosures are required by HKFRS 16.

As at 31 December 2017, the Group has non-cancellable operating lease commitments of HK$6,739,000 as disclosed in note 30. A preliminary assessment indicates that these arrangements will meet the definition of a lease. Upon application of HKFRS 16, the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases. Furthermore, the application of new requirements may result in changes in measurement, presentation and disclosure as indicated above.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules") and by the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared on the historical cost basis. Non-current assets and disposal group held for sale are stated at the lower of carrying amount and fair value less costs to sell. The measurement bases are fully described in the accounting policies below.

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

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

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

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

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

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

The principal accounting policies are set out below.

3. SIGNIFICANT ACCOUNTING POLICIES – continued

3.1 Basis of consolidation

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

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

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

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

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

3. SIGNIFICANT ACCOUNTING POLICIES – continued

3.2 Changes in the Group's ownership interests in existing subsidiaries – continued

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

3.3 Business combinations

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

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

- deferred tax assets or liabilities, and assets or liabilities related to employee benefit arrangements are recognised and measured in accordance with HKAS 12 "Income Taxes" and HKAS 19 "Employee Benefits" respectively;
- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with HKFRS 2 "Share-based Payment" at the acquisition date (see note 3.14); and
- assets (or disposal groups) that are classified as held for sale in accordance with HKFRS 5 "Non-Current Assets Held for Sale and Discontinued Operations" are measured in accordance with that standard.

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

3. SIGNIFICANT ACCOUNTING POLICIES – continued

3.3 Business combinations – continued

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

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

3.4 Goodwill

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business (see note 3.3) less accumulated impairment losses, if any.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination, which represent the lowest level at which the goodwill is monitored for internal management purposes and not larger than an operating segment.

A cash-generating unit (or groups of cash-generating units) to which goodwill has been allocated is tested for impairment annually or more frequently when there is indication that the unit may be impaired. For goodwill arising on an acquisition in a reporting period, the cash-generating unit (or groups of cash-generating units) to which goodwill has been allocated is tested for impairment before the end of that reporting period. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit on a pro-rata basis based on the carrying amount of each asset in the unit (or groups of cash-generating units).

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

3. SIGNIFICANT ACCOUNTING POLICIES – continued

3.5 Non-current assets held for sale and discontinued operations

Non-current assets held for sale

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

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

Non-current assets (and disposal groups) classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell.

Discontinued operations

A discontinued operation is a component of the Group that either has been disposed of, or is classified as held for sale. The component comprises operations and cash flows that can be clearly distinguished from the rest of the Group and represents a separate major line of business or geographical area of operations, is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operation or is a subsidiary acquired exclusively with a view to resale.

When an operation is classified as discontinued, a single amount in the consolidated statement of profit or loss and other comprehensive income comprising the total of: (i) the post-tax profit or loss of discontinued operations and (ii) the post-tax gain or loss recognised on the measurement to fair value less costs to sell or on the disposal of the assets or disposal group(s) constituting the discontinued operation.

3. SIGNIFICANT ACCOUNTING POLICIES – continued

3.6 Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates and other similar allowances.

Revenue is recognised when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the Group and when specific criteria have been met for each of the Group's activities, as described below.

Revenue from the sale of goods is recognised when the goods are delivered and titles have passed.

Service income is recognised when services are provided.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

3.7 Property, plant and equipment

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

Depreciation is recognised so as to write off the cost of assets less their residual values over their estimated useful lives, using the straight line method, at the following rates per annum:

Buildings	20 years
Moulds, plant and machinery	20%
Furniture, fixtures and equipment	20%
Leasehold improvements	Over the remaining unexpired terms of the leases or 5 years, whichever is shorter
Motor vehicles	20%

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

3. SIGNIFICANT ACCOUNTING POLICIES – continued

3.8 Intangible assets (other than goodwill) and research and development activities

Intangible assets (other than goodwill)

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

Subsequent to initial recognition, intangible assets acquired in a business combination with finite useful lives are reported at costs less accumulated amortisation and any accumulated impairment losses. Intangible assets acquired in a business combination with indefinite useful lives are carried at cost less any subsequent accumulated impairment losses (see note 3.9).

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

Research and development costs

Costs associated with research activities are expensed in profit or loss as they occur. Costs that are directly attributable to development activities are recognised as intangible assets provided they meet the following recognition requirements:

(i) demonstration of technical feasibility of the prospective product for internal use or sale;

(ii) there is intention to complete the intangible asset and use or sell it;

(iii) the Group's ability to use or sell the intangible asset is demonstrated;

(iv) the intangible asset will generate probable economic benefits through internal use or sale;

(v) sufficient technical, financial and other resources are available for completion; and

(vi) the expenditure attributable to the intangible asset can be reliably measured.

Direct costs include employee costs incurred on development activities along with an appropriate portion of relevant overheads. The costs of development of internally generated software, products or knowhow that meet the above recognition criteria are recognised as intangible assets. They are subject to the same subsequent measurement method as acquired intangible assets.

All other development costs are expensed as incurred.

3. SIGNIFICANT ACCOUNTING POLICIES – continued

3.9 Impairment on tangible and intangible assets other than goodwill

At the end of the reporting period, the Group reviews the carrying amounts of its tangible and intangible assets with finite useful lives to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

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

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

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

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

3.10 Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

3. SIGNIFICANT ACCOUNTING POLICIES – continued

3.11 Inventories

Inventories are stated at the lower of cost and net realisable value. Costs of inventories are calculated using the first-in, first-out method. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

3.12 Retirement benefit costs

The Group operates a Mandatory Provident Fund Scheme (the "MPF Scheme") for all qualifying employees in Hong Kong. The assets of the MPF Scheme are held separately from those of the Group in funds under the control of trustee. Under the rules of the MPF Scheme, the employer and its employees are each required to make contributions to the scheme at rates specified in the rules. The only obligation of the Group with respect of MPF Scheme is to make the required contributions under the scheme. The retirement benefits scheme contributions arising from the MPF scheme charged to the consolidated statement of profit or loss and other comprehensive income represent contributions payable to the funds by the Group at rates specified in the rules of the scheme.

The employees of the Company's PRC subsidiaries are members of state-managed retirement benefits scheme operated by the PRC government. The Company's PRC subsidiaries are required to contribute a certain percentage of their basic payroll to the retirement benefits scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefits scheme is to make the required contributions under the scheme.

Payments to defined contribution retirement benefit plans including state-managed retirement benefits scheme and the MPF Scheme are recognised as an expense when employees have rendered service entitling them to the contributions.

3.13 Short-term employee benefits

Short-term employee benefits are recognised at the undiscounted amount of the benefits expected to be paid as and when employees rendered the services. All short-term employee benefits are recognised as an expense unless another HKFRS requires or permits the inclusion of the benefit in the cost of an asset.

A liability is recognised for benefits accruing to employees (such as wages and salaries and annual leave) after deducting any amount already paid.

3. SIGNIFICANT ACCOUNTING POLICIES – continued

3.14 Share-based payment arrangements

Equity-settled share-based payment transactions

Share options granted to employees

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date. Details regarding the determination of the fair value of equity-settled share-based transactions are set out in note 28 to the Group's consolidation financial statements.

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of equity instruments that will eventually vest, with a corresponding increase in equity (share options reserve). At the end of each reporting period, the Group revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to the share option reserve.

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

Share options granted to consultants

Equity-settled share-based payment transactions with parties other than employees are measured at the fair value of the goods or services received, except where that fair value cannot be estimated reliably, in which case they are measured at the fair value of the equity instruments granted, measured at the date the entity obtains the goods or the counterparty renders the service. The fair values of the goods or services received are recognised as expenses, with a corresponding increase in equity (share options reserve), when the Group obtains the goods or when the counterparties render services, unless the goods or services qualify for recognition as assets.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

3. SIGNIFICANT ACCOUNTING POLICIES – continued

3.15 Taxation

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

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

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

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

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

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

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

3. SIGNIFICANT ACCOUNTING POLICIES – continued

3.15 Taxation – continued

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

3.16 Leasing

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

The Group as lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

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

3.17 Leasehold land and building

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

To the extent the allocation of the lease payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as "prepaid lease payments" in the consolidated statement of financial position and is amortised over the lease term on a straight line basis.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

3. SIGNIFICANT ACCOUNTING POLICIES – continued

3.18 Foreign currencies

The consolidated financial statements are presented in Hong Kong dollars, which is the functional currency of the Company.

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

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. Hong Kong dollars) using exchange rates prevailing at the end of the reporting period. Income and expenses items are translated at the average exchange rates for the year. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of translation reserve (attributed to non-controlling interests as appropriate).

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

3.19 Financial instruments

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

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

Financial assets

The Group's financial assets are classified into loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

3. SIGNIFICANT ACCOUNTING POLICIES – continued

3.19 Financial instruments – continued

Financial assets – continued

Effective interest method

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

Interest income is recognised on an effective interest basis for debt instruments.

Convertible bonds receivable

The convertible bonds are initially measured at transaction price, which is also the fair value resulted from arm's length market transaction. At initial recognition, the entire hybrid instrument is treated as financial instrument held for trading as the fair value of the conversion option which will be settled by unquoted instrument cannot be reliably measured. The convertible bonds are subsequently measured at cost, accrued interest less impairment as the conversion option of the hybrid instrument is sufficiently significant to preclude from obtaining a reliable estimate of the entire instrument.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables including trade and other receivables, amount due from a director and bank balances and cash are carried at amortised cost using the effective interest method, less any identified impairment.

Interest income is recognised by applying the effective interest rate, except for short-term receivables, where the recognition of interest would be immaterial.

Impairment of financial assets

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

Objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as default or delinquency in interest and principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period, observable changes in national or local economic conditions that correlate with default on receivables.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

3. SIGNIFICANT ACCOUNTING POLICIES – continued

3.19 Financial instruments – continued

Financial assets – continued

Impairment of financial assets – continued

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

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

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

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

In respect of convertible bonds receivable, impairment losses previously recognised in profit or loss are not reversed through profit or loss.

Financial liabilities and equity instruments

Debt and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

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

3. SIGNIFICANT ACCOUNTING POLICIES – continued

3.19 Financial instruments – continued

Financial liabilities and equity instruments – continued

Effective interest method

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

Interest expense is recognised on an effective interest basis.

Financial liabilities at amortised cost

Financial liabilities including trade and other payables, amount due to a related party, and amount due to a non-controlling shareholder of a subsidiary are subsequently measured at amortised cost, using the effective interest method.

Derecognition

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial assets and substantially all the risks and rewards of ownership of the asset to another party.

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

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

3.20 Share capital

Ordinary shares are classified as equity. Share capital is recognised at the amount of consideration of shares issued, after deducting any transaction costs associated with the issuing of shares (net of any related income tax benefit) to the extent they are incremental costs directly attributable to the equity transaction.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

3. SIGNIFICANT ACCOUNTING POLICIES – continued

3.21 Related parties

For the purposes of these consolidated financial statements, a party is considered to be related to the Group if:

(a) the party is a person or a close member of that person's family and if that person:

(i) has control or joint control over of the Group;

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group or of a parent of the Group.

(b) the party is an entity and if any of the following conditions applies:

(i) the entity and the Group are members of the same group.

(ii) one entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(iii) the entity and the Group are joint ventures of the same third party.

(iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.

(vi) the entity is controlled or jointly controlled by a person identified in (a).

(vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

(viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the parent of the Group.

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

3.22 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker ("CODM"). The CODM who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the executive directors of the Company that makes strategies decisions.

4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 3, the directors are required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

Key sources of estimation uncertainty

The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

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

Estimated impairment of goodwill

For the purpose of impairment testing, the entire amount of goodwill has been allocated to a cash-generating unit ("CGU") (see note 16). In carrying out the impairment assessment of goodwill, management determined the recoverable amount based on the higher of fair value less costs of disposal ("FVLCD") and value in use ("VIU") of the CGU. The value in use of the related CGU requires the Group to estimate the expected future cash flows from the CGU. If the actual future cash flows are less than expected, impairment may be required. As at 31 December 2017 and 2016, the carrying amount of goodwill is HK$330,805,000. In the opinion of the directors, no impairment of goodwill is required for the year ended 31 December 2017 and 2016.

Estimated provision for impairment of trade receivables

The Group makes provision for impairment based on an assessment of the recoverability of trade receivables. Provision for impairment is applied to trade receivables where events or changes in circumstances indicate that the balances may not be collectible. In determining whether a provision for impairment is required, the Group takes into consideration of the credit history of the trade receivables including default or delay in payments, settlement records, subsequent settlements and aging analysis of trade receivables. Where the expectation of the recoverability of trade receivables is different from the original estimate, such difference will impact the carrying value of trade receivables and provision for impairment in the period in which such estimate has changed. As at 31 December 2017, the net carrying amounts of trade receivables after provision for impairment of HK$875,000, are HK$62,958,000 (2016: HK$38,203,000).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY – continued

Key sources of estimation uncertainty – continued

Income tax

At 31 December 2017, no deferred tax asset has been recognised in relation to unused tax losses of approximately HK$37,157,000 (2016: HK$88,681,000) due to the unpredictability of future profit streams (see note 26). The realisability of the deferred tax asset mainly depends on whether sufficient future assessable profits or taxable temporary differences will be available in the future. In cases where the actual future assessable profits generated are more than expected, recognition of a deferred tax asset may arise, which would be recognised in profit or loss for the period in which such recognition takes place.

5. TURNOVER AND SEGMENT INFORMATION

Revenue represents the amount received and receivable for goods sold by the Group to outside customers, less returns, discounts and sales tax.

Pursuant to the board resolution dated 2 December 2016 and subsequent to the disposal of Modern Success Holdings Limited and its subsidiaries (collectively referred to as the "Modern Success Group"), i.e. the EMS Business during the year ended 31 December 2017, the internal organisation structure and reporting is changed such that the EMS Business, i.e. discontinued operation, is no longer separately assessed or reviewed. Instead, the information reviewed by the CODM as at the end of the reporting period analyses the performance of the continuing operation, being the manufacturing of and trading in dental prosthetics business.

The Group's operating activities are attributable to a single operating segment which focuses on the operation of manufacturing of and trading in dental prosthetics. This operating segment has been identified on the basis of internal management reports prepared in accordance with accounting policies conform to HKFRSs, that are regularly reviewed by the CODM. The CODM regularly review revenue analysis and profit for the year of the Group as a whole in order to make decisions about resource allocation. Other than these, no operating results and other discrete financial information is available for the assessment of performance. Accordingly, no separate segment information other than entity level information is presented.

5. TURNOVER AND SEGMENT INFORMATION – continued

Geographical information

The Group's operations are mainly situated in Hong Kong and the People's Republic of China (the "PRC") (excluding Hong Kong). The following table provides an analysis of the Group's turnover from continuing operation by the location of business operation and the Group's non-current assets by geographical location of assets.

	Turnover from external customers		**Non-current assets**	
	2017	2016	**2017**	2016
	HK$'000	HK$'000	**HK$'000**	HK$'000
Hong Kong	**139,963**	103,789	**–**	–
PRC	**84,171**	80,436	**16,295**	8,380
Others	**2,569**	3,915	**421**	–
	226,703	188,140	**16,716**	8,380

Note: Non-current assets exclude financial instruments, intangible assets and goodwill.

Information about major customers

The Group's customer base includes two (2016: two) customers with each of whom transactions have exceeded 10% of the Group's total revenue. Revenue from sales to these customers amounted to approximately HK$30,283,000 and HK$25,832,000 (2016: HK$26,945,000 and HK$25,632,000) respectively.

6. OTHER INCOME, GAINS AND LOSSES

	2017	2016
	HK$'000	HK$'000
Continuing operation		
Interest income on bank deposits	**26**	86
Income from short-term investments	**802**	–
Interest income on convertible bonds receivable	**2,203**	186
Loss on disposal of property, plant and equipment	**(13)**	(10)
Government subsidy (note)	**8,601**	683
Consultancy income	**6,451**	5,200
Net exchange gain	**1,267**	1,277
Others	**62**	–
	19,399	7,422

Note: The Group has received or receivable subsidy from a provincial government in the PRC for its research and development activities. There were no unfulfilled conditions and other contingencies attaching to government subsidy that has been recognised.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

7. PROFIT BEFORE INCOME TAX FROM CONTINUING OPERATION

	2017 HK$'000	2016 HK$'000
Profit before income tax has been arrived at after (crediting)/charging:		
Directors' remuneration		
– fees	**973**	932
– other emoluments	**4,563**	5,587
– equity-settled share option expenses	**8,713**	11,382
– contributions to defined contribution retirement schemes	**20**	9
	14,269	17,910
Other staff costs		
– staff salaries and allowances	**95,813**	56,880
– equity-settled share option expenses	**12,331**	13,236
– contributions to defined contribution retirement schemes	**4,292**	1,957
	112,436	72,073
Total staff costs	**126,705**	89,983
Auditor's remuneration		
– Current year	**1,180**	2,100
– Under-provision in prior year	**–**	195
	1,180	2,295
Amortisation of intangible assets (included in cost of sales)	**693**	693
Cost of inventories recognised as expense	**112,551**	85,107
Depreciation of property, plant and equipment	**3,786**	2,847
Impairment of trade receivables	**875**	–
Net exchange gain (included in other gains and losses)	**(1,267)**	(1,277)
Operating lease rentals in respect of rented premises	**5,031**	3,038
Research and development expenses (included in other expenses)	**16,052**	9,768

8. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS

Directors' and chief executive's remuneration for the year, disclosed pursuant to the applicable Listing Rules and Companies Ordinance, is as follows:

	Fees HK$'000	Basic salaries and allowances HK$'000	Performance related incentive bonus HK$'000	Equity-settled share option expenses HK$'000	Retirement benefits scheme contributions HK$'000	Total HK$'000
2017						
Executive directors						
Mr. Luo Jun	–	600	–	–	20	620
Mr. Wu Tianyu	–	2,400	1,500	8,713	–	12,613
Mr. Wu Xiaolin (note a)	–	63	–	–	–	63
Non-executive directors						
Dr. Jiang Feng (note a)	26	–	–	–	–	26
Mr. Xu Hao	400	–	–	–	–	400
Independent non-executive directors						
Dr. Loke Yu alias Loke Hoi Lam (note b)	5	–	–	–	–	5
Mr. Wu Jixian (note c)	11	–	–	–	–	11
Dr. Liu Yanwen (note d)	175	–	–	–	–	175
Mr. Wang Wansong (note e)	130	–	–	–	–	130
Mr. Song Qun (note f)	51	–	–	–	–	51
Mr. Guo Peineng (note g)	175	–	–	–	–	175
	973	3,063	1,500	8,713	20	14,269

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

8. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS – continued

	Fees HK$'000	Basic salaries and allowances HK$'000	Performance related incentive bonus HK$'000	Equity-settled share option expenses HK$'000	Retirement benefits scheme contributions HK$'000	Total HK$'000
2016						
Executive directors						
Mr. Wu Xiaolin	–	432	–	–	–	432
Mr. Wu Tianyu	–	1,607	3,500	11,382	–	16,489
Mr. Luo Jun (note h)	–	48	–	–	–	48
Non-executive directors						
Mr. Lam Kwok Cheong (note j)	180	–	–	–	9	189
Dr. Jiang Feng	180	–	–	–	–	180
Mr. Xu Hao (note i)	32	–	–	–	–	32
Independent non-executive directors						
Dr. Loke Yu alias Loke Hoi Lam	180	–	–	–	–	180
Mr. Wu Jixian	180	–	–	–	–	180
Mr. Song Qun	180	–	–	–	–	180
	932	2,087	3,500	11,382	9	17,910

Notes:

(a) Resigned on 21 February 2017.
(b) Resigned on 11 January 2017.
(c) Resigned on 23 January 2017.
(d) Appointed as independent non-executive director with effect from 11 January 2017.
(e) Appointed as independent non-executive director with effect from 11 April 2017.
(f) Resigned on 11 April 2017.
(g) Appointed as independent non-executive director with effect from 11 January 2017 and resigned on 5 March 2018.
(h) Appointed as executive director and chairman of the board with effect from 2 December 2016.
(i) Appointed as non-executive director with effect from 2 December 2016.
(j) Resigned on 1 July 2016.

The performance related incentive bonus payment is determined with reference to the operating results and individual performance for each year by the board of directors of the Company.

8. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS – continued

The executive directors' emoluments shown above were for their services in connection with the management of the affairs of the Company and the Group. The non-executive directors' emoluments shown above were for their services as directors of the Company or its subsidiaries. The independent non-executive directors' emoluments shown above were for their services as directors of the Company.

There was no arrangement under which a director or the chief executive waived or agreed to waive any remuneration during the year. In addition, there was no inducement paid for directors to join the Group and no compensation for the loss of office as a director in connection with the management of the affairs of any member of the Group.

During the year, no share options were granted to the directors under the share option scheme of the Company. Details of the share option scheme are set out in note 28 to the Group's consolidated financial statements.

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid individuals of the Group during the year included one (2016: two) director, details of whose remunerations are set out in note 8. The details of the remaining four (2016: three) highest paid employees who are not a director or chief executive of the Company are as follows:

	2017	2016
	HK$'000	HK$'000
		(Restated)
Continuing operation		
Staff salaries and allowances	**6,001**	5,959
Equity-settled share option expenses	**10,017**	11,583
Contributions to defined contribution retirement schemes	**36**	29
	16,054	17,571

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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9. FIVE HIGHEST PAID EMPLOYEES – continued

The emoluments were within the following bands:

	2017	2016
	HK$'000	HK$'000 (Restated)
Continuing operation		
Nil to HK$1,000,000	**1**	1
HK$1,000,001 to HK$2,000,000	**1**	1
HK$2,000,001 to HK$3,000,000	**1**	–
HK$11,000,001 to HK$12,000,000	**1**	–
HK$15,000,001 to HK$16,000,000	**–**	1
	4	3

There was no arrangement under which non-director or non-chief executive highest paid employees waived or agreed to waive any remuneration during the year. In addition, there was no inducement paid for non-director or non-chief executive highest paid employees to join the Group and no compensation for the loss of office in connection with the management of the affairs of any member of the Group.

10. INCOME TAX EXPENSE

	2017	2016
	HK$'000	HK$'000
Continuing operation		
Current tax:		
Hong Kong Profits Tax	**5,324**	6,761
PRC Enterprise Income Tax	**3,088**	3,971
	8,412	10,732
Under/(Over)-provision in prior years:		
Hong Kong Profits Tax	**(203)**	(12)
PRC Enterprise Income Tax	**13**	–
	(190)	(12)
Deferred tax credit (note 26)	**(173)**	(173)
	8,049	10,547

10. INCOME TAX EXPENSE – continued

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for both years.

The provision for PRC Enterprise Income Tax ("EIT") is based on the estimated taxable income for PRC taxation purpose at the rate of taxation applicable for the year.

Under the Law of the People's Republic of China on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25%. A subsidiary of the Group was accredited as a "High and New Technology Enterprise" in the PRC with effect from 2 November 2015, and was registered with the local tax authority to be eligible to a concessionary tax rate of 15% for three years.

According to a policy promulgated by the State Tax Bureau of the PRC, effective from 2008 onwards, enterprises engage in research and development activities are entitled to claim 150% of the research and development expenses incurred in a year as tax deductible expenses in determining taxable profits for that year ("Super Deduction"). A subsidiary of the Group is eligible to such Super Deduction in ascertaining its tax assessable profit for the year ended 31 December 2017.

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

	2017	2016
	HK$'000	HK$'000
Profit before income tax (from continuing operation)	**13,597**	9,252
Tax charge at applicable tax rate at 25%	**3,399**	2,313
Tax effect of income not taxable for tax purpose	**(581)**	(163)
Tax effect of expenses not deductible for tax purpose	**12,066**	10,120
Tax effect of Super Deduction on research and development expenses	**(2,006)**	(1,221)
Tax effect on concessionary tax rate	**(2,028)**	(2,093)
Tax effect of tax losses not recognised	**265**	5,155
Tax effect of temporary difference not recognised	**(111)**	–
Effect of different tax rates of subsidiaries operating in Hong Kong	**(2,743)**	(3,483)
Over-provision in prior years	**(190)**	(12)
Others	**(22)**	(69)
Tax charge for the year (from continuing operation)	**8,049**	10,547

11. DIVIDENDS

No dividends were paid, declared or proposed for the years ended 31 December 2017 and 2016, nor has any dividend been proposed since the end of the reporting periods.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

12. DISCONTINUED OPERATION

Pursuant to the board resolution dated 2 December 2016, the directors of the Company decided to discontinue the EMS Business. In addition, on 24 January 2017, Mega Smart Holdings Limited ("Mega Smart"), an indirect wholly owned subsidiary of the Company, entered into an agreement with a non-controlling shareholder of a subsidiary, Dragon Fortune Group Holdings Limited (formerly known as Jialong Investment Co., Limited) ("Dragon Fortune"), pursuant to which Dragon Fortune has agreed to acquire and Mega Smart has agreed to dispose of the entire issued share capital of Modern Success Group, at a consideration of HK$2,800,000. The disposal was completed on 22 February 2017.

As detailed in note 5, the results of the EMS Business (comprise of the results of Modern Success Group up till the completion date of its disposal, and those subsidiaries that have abandoned and ceased the business operation) are accounted for as a discontinued operation in the consolidated statement of profit or loss and other comprehensive income for the years ended 31 December 2017 and 2016.

The loss for the year from the discontinued operation is analysed as follows:

	2017 **HK$'000**	2016 HK$'000
Turnover	**2,308**	105,508
Cost of sales	**(2,010)**	(103,275)
Gross profit	**298**	2,233
Other income	**6,951**	581
Selling and distribution costs	**(10)**	(8,785)
Administrative expenses	**(6,708)**	(25,470)
Finance costs	**–**	(105)
(Loss)/Gain on disposal of subsidiaries	**(3,374)**	12,541
Loss before income tax	**(2,843)**	(19,005)
Income tax credit	**–**	7
Loss for the year from discontinued operation	**(2,843)**	(18,998)

During the year, the discontinued operation paid cash flows of HK$6,086,000 (2016: paid cash flows of HK$78,988,000) in respect of the Group's operating activities, paid cash flows of HK$3,080,000 (2016: contributed cash flows of HK$77,831,000) in respect of investing activities and paid cash flows of HK$1,109,000 (2016: paid cash flows of HK$51,579,000) in respect of financing activities.

Loss for the year from discontinued operation has been arrived at after charging:

	2017 **HK$'000**	2016 HK$'000
Auditor's remuneration	**–**	540

12. DISCONTINUED OPERATION – continued

Directors' and chief executive's remuneration, disclosed pursuant to the applicable Listing Rules and Companies Ordinance for the year ended 31 December 2017 is HK$Nil. Details for the year ended 31 December 2016 were as follows:

	Fees HK$'000	Basic salaries and allowances HK$'000	Performance related incentive bonus HK$'000	Equity settled share option expenses HK$'000	Retirement benefits scheme contributions HK$'000	Total HK$'000
2016						
Non-executive director						
Mr. Chow Tak Hung (note)	–	536	–	–	–	536

Note: Resigned on 18 March 2016.

13. EARNINGS/(LOSS) PER SHARE

From continuing operation

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

	2017 HK$'000	2016 HK$'000
Profit/(Loss) figures are calculated as follows:		
Profit/(Loss) for the year attributable to owners of the Company	**3,911**	(15,188)
Loss for the year from discontinued operation attributable to owners of the Company	**1,637**	13,543
Profit/(Loss) for the purpose of basic earnings/(loss) per share from continuing operation	**5,548**	(1,645)

Number of shares	**2017**	2016 (Restated)
Weighted average number of ordinary shares for the purpose of basic and diluted earnings/(loss) per share	**3,953,531,060***	3,736,630,278*

* Adjusted for rights issue of shares during the year ended 31 December 2017 as disclosed in note 27.

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13. EARNINGS/(LOSS) PER SHARE – continued

From continuing and discontinued operation

The calculation of the basic earnings/(loss) per share from continuing and discontinued operation attributable to owners of the Company is based on the following data:

	2017	2016
	HK$'000	HK$'000
Profit/(Loss) for the year attributable to owners of the Company for the purpose of basic and diluted earnings/(loss) per share	**3,911**	(15,188)

The diluted earnings per share for the year ended 31 December 2017 does not assume the exercise of the Company's share options because the exercise price of those share options was higher than the average market price for shares (2016: the exercise of the share options were anti-dilutive).

The denominators used are the same as those detailed above for both basic and diluted earnings/(loss) per share.

From discontinued operation

Basic loss per share for the discontinued operation is 0.04 HK cents per share (2016: 0.36 HK cents per share, adjusted for rights issue of share during the year ended 31 December 2017), based on the loss for the year from the discontinued operation attributable to owners of the Company of HK$1,637,000 (2016: HK$13,543,000) and the denominators detailed above for basic loss per share.

The computation of diluted loss per share for the discontinued operation for the year ended 31 December 2017 does not assume the exercise of the Company's share options because the exercise price of those share options was higher than the average market price for shares (2016: the exercise of the share options were anti-dilutive).

14. PROPERTY, PLANT AND EQUIPMENT

	Buildings HK$'000	Moulds, plant and machinery HK$'000	Furniture, fixture and equipment HK$'000	Leasehold improvements HK$'000	Motor vehicles HK$'000	Total HK$'000
Cost						
At 1 January 2016	31,245	8,466	3,596	9,541	485	53,333
Currency realignment	–	(618)	(116)	(4)	(10)	(748)
Additions	–	3,662	626	–	–	4,288
Disposal of subsidiaries	(31,245)	–	(1,999)	–	–	(33,244)
Disposals/write-off	–	(175)	(72)	(9,106)	–	(9,353)
Transfer to assets classified as held for sales	–	(1,807)	(61)	–	(131)	(1,999)
At 31 December 2016 and 1 January 2017	–	9,528	1,974	431	344	12,277
Currency realignment	–	1,066	195	4	–	1,265
Additions	–	9,549	1,036	–	688	11,273
Disposals/write-off	–	(645)	–	–	–	(645)
At 31 December 2017	–	19,498	3,205	435	1,032	24,170
Depreciation/Impairment						
At 1 January 2016	31,245	1,276	2,464	9,223	12	44,220
Currency realignment	–	(90)	(34)	(9)	(1)	(134)
Provided for the year	–	2,303	624	144	129	3,200
Elimination on disposals	–	(157)	(44)	(9,106)	–	(9,307)
Disposal of subsidiaries	(31,245)	–	(1,999)	–	–	(33,244)
Transfer to assets classified as held for sale	–	(754)	(58)	–	(26)	(838)
At 31 December 2016 and 1 January 2017	–	2,578	953	252	114	3,897
Currency realignment	–	282	96	25	–	403
Provided for the year	–	2,867	618	135	166	3,786
Disposals/write-off	–	(632)	–	–	–	(632)
At 31 December 2017	–	5,095	1,667	412	280	7,454
Carrying values						
At 31 December 2017	**–**	**14,403**	**1,538**	**23**	**752**	**16,716**
At 31 December 2016	–	6,950	1,021	179	230	8,380

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15. INTANGIBLE ASSETS

	Trademarks and patent HK$'000
Cost	
At 1 January 2016, 31 December 2016, 1 January 2017 and 31 December 2017	32,149
Amortisation	
At 1 January 2016	2,310
Provided for the year	693
At 31 December 2016 and 1 January 2017	3,003
Provided for the year	693
At 31 December 2017	3,696
Carrying values	
At 31 December 2017	**28,453**
At 31 December 2016	29,146

The expected useful lives of the patent are 8.7 years. In the opinion of the directors, the trademarks are renewable for every 10 years at minimal costs. As a result, the trademarks are considered as having an indefinite useful life because it is expected to contribute to net cash flows indefinitely. At the end of reporting period, the directors determined the recoverable amount of trademarks based on the royalty rate method by capitalising future royalty income which a market participant would be willing to pay to use the trademarks for the remaining terms. At 31 December 2017 and 2016, the directors determined that there is no impairment of the trademarks.

16. GOODWILL

	HK$'000
Cost	
At 1 January 2016, 31 December 2016, 1 January 2017 and 31 December 2017	330,805

For the purpose of impairment assessment, the entire goodwill has been allocated to the CGU of dental prosthetics business which was acquired during the year ended 31 December 2015. At 31 December 2017 and 2016, the directors conducted a review of the carrying value of the CGU containing the goodwill and determined that there is no impairment of the CGU containing the goodwill.

16. GOODWILL – continued

The recoverable amount of the CGU has been determined based on a value in use calculation. The calculation uses cash flow projections based on financial budgets approved by the management for the year ending 31 December 2018 and the following four years based on average growth rate of 38.1% (2016: 10.1%) per annum. Cash flows beyond the five-year (2016: five-year) period are extrapolated using 3% (2016: 3%) growth rate. A discount rate of 19.5% (2016: 19.0%) is used for this CGU and derived using risk-free rate, the market return and CGU specific factors. The key assumptions are annual growth rates, estimated future selling prices and direct costs which are estimated based on past practices and expectations of future changes in the market. The directors believe that any reasonably possible change in any of these assumptions would not cause the aggregate carrying amount of CGU to exceed the aggregate recoverable amount of CGU.

17. CONVERTIBLE BONDS RECEIVABLE

On 19 October 2016, the Group's indirect wholly-owned subsidiary, United Noble Development Limited ("United Noble"), entered into a conditional agreement with Condor International NV ("Condor International"), a private company incorporated in Belgium, to subscribe 257,663 unlisted 5% coupon convertible bonds (the "Convertible Bonds") issued by Condor International, at an aggregate principal amount of EUR5,000,000 maturing on the third anniversary of the date of issue (the "Maturity Date"). The subscription of the Convertible Bonds was subsequently completed on 29 November 2016.

The Convertible Bonds entitle the holder to convert the whole or part of the principal amount at any time between 30th days after the date of issue of the Convertible Bonds and 7th business days immediately preceding the Maturity Date of the Convertible Bonds into 257,663 ordinary shares of the issuer at a conversion price of EUR19.41 per share together with all interest accrued thereon up to and including the date of redemption and may be adjusted upon occurrence of adjustment events, which includes consolidation, sub-division or re-classification of shares, capitalisation of profits or reserves, capital distributions, and offer of new shares of the issuer. The Convertible Bonds carries interest of 5% per annum and would be payable at the Maturity Date. The Convertible Bonds are denominated in Euro.

Condor International shall be entitled to serve a written notice on the holders of the Convertible Bonds requiring them to convert all (but not part only) of the Convertible Bonds ("Conversion Shares") if (i) an initial public offering of Condor International takes place, or (ii) the issue of shares by Condor International for cash consideration at a price per Share corresponding to a pre-money valuation of Condor International of not less than EUR75,000,000 and with gross proceeds to Condor International equals or exceeds EUR7,500,000 (the "Qualified Issue") and the investors under the Qualified Issue agree to grant an irrevocable and unconditional right to United Noble to purchase up to 50% of the Conversion Shares from United Noble at a cash consideration per Conversion Share equivalent to the subscription price under the Qualified Issue. Details of the Convertible Bonds were set out in the Company's announcements dated 19 October 2016 and 29 November 2016.

The Convertible Bonds were initially measured at transaction price, which was also the fair value resulted from arm's length market transaction. The Convertible Bonds were stated at cost, accrued interest less impairment as the management of the Company considered that the conversion option of the hybrid instrument is sufficiently significant to preclude the Group from obtaining a reliable estimate of the entire instrument.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

17. CONVERTIBLE BONDS RECEIVABLE – continued

Details of movement is set out below:

	HK$'000
At 1 January 2016	–
At date of subscription	41,200
Exchange realignment	(402)
Interest income	186
At 31 December 2016 and 1 January 2017	40,984
Exchange realignment	6,254
Interest income	2,203
At 31 December 2017	**49,441**

18. INVENTORIES

	2017	2016
	HK$'000	HK$'000
Raw materials	**3,247**	2,400
Finished goods	**–**	29
	3,247	2,429

19. TRADE AND OTHER RECEIVABLES

	2017	2016
	HK$'000	HK$'000
Trade receivables	**63,833**	38,203
Less: provision for impairment of trade receivables	**(875)**	–
	62,958	38,203
Other receivables, prepayments and deposits	**9,611**	17,642
	72,569	55,845

19. TRADE AND OTHER RECEIVABLES – continued

The following is an aged analysis of trade receivables, presented based on invoice date (also approximates to revenue recognition date) at the end of the reporting period:

	2017	2016
	HK$'000	HK$'000
0 – 90 days	**55,876**	32,940
91 – 180 days	**5,002**	5,263
181 – 365 days	**1,493**	–
Over 1 year	**587**	–
	62,958	38,203

Payment terms with customers are mainly on credit. Invoices are normally payable within 30 to 90 days after issuance, except for certain well-established customers, where the terms are extended to 120 days.

The movement in the provision for impairment of trade receivables is as follows:

	2017	2016
	HK$'000	HK$'000
Balance at the beginning of the year	**–**	–
Impairment loss recognised	**875**	–
Balance at the end of the year	**875**	–

At each reporting date, the Group reviews receivables for evidence of impairment on both an individual and collective basis. As at 31 December 2017, the Group has determined trade receivables of HK$875,000 as individually impaired (2016: HK$Nil). Based on this assessment, impairment loss of HK$875,000 has been recognised (2016: HK$Nil). The impaired trade receivables are due from customers experiencing financial difficulties that were in default or delinquency of payments.

The Group's management closely monitors the credit quality of trade receivables and considers the trade receivables that are neither past due nor impaired to be of a good credit quality based on the good payment history of the related debtors from historical experience. Based on the settlement patterns of the customers of the Group, trade receivables which are past due but not impaired are generally collectible. Included in the Group's trade receivable balance are debtors with aggregate carrying amount of HK$14,112,000 (2016: HK$7,299,000) which are past due at the end of the reporting period for which the Group has not provided for impairment loss as the directors assessed that the balances will be recovered based on their past settlement patterns. The Group does not hold any collateral over these balances at the end of the reporting period. The average age of trade receivables is 101 days (2016: 74 days).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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19. TRADE AND OTHER RECEIVABLES – continued

Aging of trade receivables which are past due but not impaired:

	2017	2016
	HK$'000	HK$'000
Overdue by		
1 – 30 days	**7,894**	4,262
31 – 90 days	**4,392**	3,037
91 – 180 days	**1,556**	–
Over 180 days	**270**	–
	14,112	7,299

No interest is charged on overdue trade receivables.

At 31 December 2017, trade and other receivables denominated in currencies other than the functional currencies of the relevant group entities amounted to approximately HK$13,924,000 (2016: HK$8,642,000) which are denominated in United States dollar.

20. AMOUNT DUE FROM A DIRECTOR

The amount is unsecured, interest-free and repayable on demand.

The amount is due from a director, Mr. Wu Tianyu ("Mr. Wu", the executive director and chief executive officer of the Company), and the maximum amount outstanding during the year ended 31 December 2017 is HK$35,534,000 (2016: HK$40,772,000).

21. BANK BALANCES AND CASH

(a) Cash and cash equivalents comprise:

Bank balances carry interest at market rates which ranges from 0.001% to 0.35% (2016: 0.001% to 0.4%) per annum.

Included in bank balances and cash are the following amounts denominated in currencies other than the functional currencies of the relevant group entities:

	2017	2016
	HK$'000	HK$'000
United States dollar	**11,924**	20,678
Renminbi	**79**	113
Euro	**3,061**	2,151

21. BANK BALANCES AND CASH – continued

(b) Reconciliation of liabilities arising from financing activities

The table below shows details changes in the Group's liabilities from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are liabilities 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.

	Amount due to a related party classified as held for sale (note 22) HK$'000	Amount due to a related party (note 24) HK$'000	Amount due to a non-controlling shareholder of a subsidiary (note 25) HK$'000	Total HK$'000
At 1 January 2017	3,252	712	1,232	5,196
Changes from financing cash flows:				
Repayment to a related party	(3,252)	–	–	(3,252)
Repayment to a non-controlling shareholder of a subsidiary	–	–	(1,232)	(1,232)
Currency realignment	–	56	–	56
At 31 December 2017	**–**	**768**	**–**	**768**

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22. ASSETS/(LIABILITIES) CLASSIFIED AS HELD FOR SALE

As at 31 December 2016, the directors determined the disposal of Modern Success Group was highly probable to be completed within the next twelve months. As a result, the relevant assets and liabilities of Modern Success Group were classified to assets classified as held for sale and liabilities directly associated with assets classified as held for sale respectively as at 31 December 2016. The disposal was completed on 22 February 2017 and further details are disclosed in note 29(a).

The major classes of assets and liabilities of the Modern Success Group at 31 December 2016 were as follows:

	HK$'000
Property, plant and equipment	1,161
Inventories	3,067
Trade and other receivables	6,938
Bank balances and cash	7,534
Assets classified as held for sale	18,700
Trade and other payables	(11,766)
Amount due to a related party	(3,252)
Amount due to a non-controlling shareholder of a subsidiary	(494)
Liabilities directly associated with assets classified as held for sale	(15,512)

	HK$'000
Amounts recognised in other comprehensive income and accumulated in equity relating to disposal group classified as held for sale	2,903

23. TRADE AND OTHER PAYABLES

	2017 **HK$'000**	2016 HK$'000
Trade payables	**9,792**	4,968
Other payables	**15,211**	15,292
Accrued charges	**29,923**	28,649
	54,926	48,909

23. TRADE AND OTHER PAYABLES – continued

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

	2017 HK$'000	2016 HK$'000
0 - 90 days	**9,369**	4,770
91-180 days	**256**	198
Over 180 days	**167**	–
	9,792	4,968

The average credit period on purchases of goods is 90 days (2016: 90 days).

24. AMOUNT DUE TO A RELATED PARTY

At 31 December 2017, the amount of HK$768,000 (2016: HK$712,000) represents balance due to Ms. Jiang Sisi ("Ms. Jiang", the spouse of Mr. Wu (defined in note 20)). The amount is unsecured, interest-free and repayable on demand.

25. AMOUNT DUE TO A NON-CONTROLLING SHAREHOLDER OF A SUBSIDIARY

The amount is unsecured, interest-free and repayable on demand.

26. DEFERRED TAXATION

The following are the major deferred tax liabilities recognised and movements thereon during the current and prior reporting periods:

	Fair value adjustments on intangible assets acquired in business combinations HK$'000
At 1 January 2016	7,460
Credit to profit or loss for the year	(173)
At 31 December 2016 and 1 January 2017	7,287
Credit to profit or loss for the year	(173)
At 31 December 2017	**7,114**

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26. DEFERRED TAXATION – continued

At 31 December 2017, the Group had unused tax losses of HK$37,157,000 (2016: HK$88,681,000) available for offset against future profits. No deferred tax asset has been recognised in respect of such losses due to the unpredictability of future profit streams. Included in unrecognised tax losses are losses of HK$890,000 that will expire in 2022 (2016: HK$284,000 and HK$752,000 that will expire in 2020 and 2021). Other losses may be carried forward indefinitely.

27. SHARE CAPITAL

	Number of shares	**Share capital**
		HK$'000
Ordinary shares of HK$0.00125 each:		
Authorised:		
At 1 January 2016, 31 December 2016 ,1 January 2017 and 31 December 2017	160,000,000,000	200,000
Issued and fully paid:		
At 1 January 2016, 31 December 2016 and 1 January 2017	3,826,207,031	4,783
Issue of shares upon rights issue (note)	1,275,402,343	1,594
At 31 December 2017	**5,101,609,374**	**6,377**

Note: On 13 November 2017, the Company issued and allotted 1,275,402,343 ordinary shares of HK$0.00125 each to qualifying shareholders pursuant to the rights issue on the basis of one rights share for every three existing shares held by the qualifying shareholders on 15 September 2017 at the subscription price of HK$0.40 per rights share for a total gross cash consideration of approximately HK$510.16 million. The related issue expenses of approximately HK$2,858,000 that were directly attributable to the issue of new shares were deducted against the share premium account.

28. SHARE OPTIONS

Pursuant to an ordinary resolution passed in the Company's special general meeting on 8 June 2015, the Company approved and adopted a share option scheme (the "Scheme") for a period of 10 years commencing from 8 June 2015 as incentive or reward for the grantees for their contribution or potential contribution to the Group.

Under the Scheme, the Company may grant options to eligible participant which includes any full-time or part-time employees, consultants, potential employees, executives or officers (including executive, non-executive and independent non-executive directors) of the Company or any of its subsidiaries and any suppliers, customers, consultants, agents and advisers who, in the sole opinion of the board of directors, will contribute or has contributed to the Company and/or any of its subsidiaries.

28. SHARE OPTIONS – continued

Share options granted to a director, chief executive or substantial shareholder of the Company, or to any of their associates, are subject to approval by the independent non-executive directors of the Company. In addition, any share options granted to a substantial shareholder or any independent non-executive director of the Company, or to any of their associates, which would result in the shares issued and to be issued upon exercise of all share options already granted and to be granted (including share options exercised, cancelled and outstanding) to such person in any one year up to and including the date of such grant (i) representing in aggregate value over 0.1% of the shares of the Company in issue on that date; and (ii) having an aggregate value, based on the closing price of the shares on the date of each grant, in excess of HK$5 million, are subject to shareholders' approval in a general meeting.

The exercisable period of the options granted are determined by the board of directors of the Company at its absolute discretion. The share options will expire no later than ten years from the date of grant. At the time of grant of the share options, the Company may specify a minimum period for which an option must be held before it can be exercised. The acceptance date should not be later than 14 days after the date of offer. A nominal consideration of HK$1 is payable on acceptance of the grant of options. The subscription price of the option shares is not less than the higher of (i) the closing price of the shares on the date of grant; (ii) the average closing prices of the shares on the five trading days immediately preceding the date of grant; and (iii) the nominal value of the shares. The maximum number of shares in respect of which options may be granted under the Scheme may not exceed, in aggregate, nominal amount of 10% of the issued share capital of the Company at the date of approval of the Scheme. The Scheme limit may be increased from time to time to 10% of the shares in issue as at the date of such shareholders' approval. However, the total maximum number of shares which may be issued upon exercise of all outstanding share options must not exceed 30% of the issued share capital from time to time. The number of shares in respect of which options may be granted to each eligible participants in any one year is not permitted to exceed 1% of the shares of the Company in issue from time to time.

At 31 December 2017, the number of shares in respect of which options had been granted and remained outstanding under the Scheme is 269,940,000 (2016: 279,040,000), representing 5.3% (2016: 7.3%) of the shares of the Company in issue at that date.

No share options are granted during the year ended 31 December 2017. During the year ended 31 December 2016, options were granted on 12 September 2016 and the estimated fair values of the options granted on that date were HK$23,109,000.

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28. SHARE OPTIONS – continued

The fair values of share options were calculated using binomial option pricing model based on following data:

Grant date	16 June 2015	24 July 2015	12 September 2016
Share price at grant date	HK$0.780	HK$0.690	HK$0.350
Exercise price	HK$0.784	HK$0.784	HK$0.400
Expected volatility	73.49%	80.31%	76.75%
Expected life	5 years	5 years	6 years
Risk-free rate	1.296%	1.230%	0.713%
Expected dividend yield	5.17%	4.62%	0.00%
Early exercise multiples			
– Director and its associate	N/A	2.8x	2.8x
– Employees or consultants	2.2x	N/A	2.2x

The variables and assumptions used in computing the fair value of the share options were based on the directors' best estimate. The value of an option varies with different variables of certain subjective assumptions.

Details of specific categories of options are as follows:

Option type	Date of grant	Vesting period	Exercisable period	Exercise price
2015A	16.6.2015	16.6.2015 – 15.6.2019	16.6.2016 – 15.6.2020	HK$0.784
2015B	24.7.2015 (note)	16.6.2015 – 15.6.2019	16.6.2016 – 15.6.2020	HK$0.784
2016	12.9.2016	12.9.2016 – 11.9.2021	12.9.2017 – 11.9.2022	HK$0.400

Note: Share options subject to approval of independent shareholders was proposed and granted by board of directors on 16 June 2015. The approval was subsequently obtained on 24 July 2015 which was the date of grant as defined in accordance with HKFRS 2.

A summary of the movements of the number of share options under the Scheme during the years is as follows:

Type of participant	Option Type	Outstanding at 1.1.2016	Grant during the year	Outstanding at 31.12.2016 and 1.1.2017	Forfeited during the year	Outstanding at 31.12.2017
Mr. Wu	2015B	74,070,000	–	74,070,000	–	**74,070,000**
Ms. Jiang	2015B	74,070,000	–	74,070,000	–	**74,070,000**
Mr. Wu	2016	–	38,000,000	38,000,000	–	**38,000,000**
Ms. Jiang	2016	–	38,000,000	38,000,000	–	**38,000,000**
Ms. Wu Ansheng (note)	2016	–	8,000,000	8,000,000	–	**8,000,000**
Employees	2015A	4,900,000	–	4,900,000	(1,100,000)	**3,800,000**
Employees	2016	–	30,000,000	30,000,000	–	**30,000,000**
Consultants	2015A	12,000,000	–	12,000,000	(8,000,000)	**4,000,000**
		165,040,000	114,000,000	279,040,000	(9,100,000)	**269,940,000**
Exercisable at the end of year		–		50,260,000		**112,170,000**
Weighted average exercise price		0.784	0.4	0.627	0.784	**0.622**

Note: Ms. Wu Ansheng is the General Manager and Sales Director of a subsidiary of the Group and a sister of Mr. Wu.

28. SHARE OPTIONS – continued

In the opinion of the directors, the fair value of the services received from consultants cannot be estimated reliably, the equity-settled share-based payment transactions with consultants are measured at the fair value of the equity instruments granted.

During the year ended 31 December 2017, the Group recognised a share-based payment expense of HK$21,044,000 (2016: HK$26,508,000) in the consolidated statement of profit or loss and other comprehensive inome.

29. DISPOSAL OF SUBSIDIARIES

(a) Disposal of Modern Success Group

As detailed in note 22, during the year ended 31 December 2017, the Group completed the disposal of its entire equity interest in Modern Success Group, which principally engaged in the EMS Business, to Dragon Fortune for a cash consideration of HK$2,800,000. The net assets of the Modern Success Group at the date of disposal were as follows:

	HK$'000
Analysis of assets and liabilities of Modern Success Group at the date of disposal were as follows:	
Property, plant and equipment	**836**
Inventories	**2,727**
Trade and other receivables	**8,460**
Bank balances and cash	**5,880**
Trade and other payables	**(6,756)**
Amount due to ultimate holding company	**(3,136)**
Amount due to non-controlling shareholder of a subsidiary	**(733)**
Net assets disposed of	**7,278**
Loss on disposal of subsidiaries:	
Consideration received	**2,800**
Net assets disposed of	**(7,278)**
Waiver of amount due to ultimate holding company	**(3,136)**
Non-controlling interests	**1,897**
Cumulative exchange reserve reclassified from equity to profit or loss upon disposal	**2,343**
Loss on disposal	**(3,374)**
Net cash outflow arising on disposal:	
Cash consideration received	**2,800**
Bank balances and cash disposed of	**(5,880)**
	(3,080)

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For the year ended 31 December 2017

29. DISPOSAL OF SUBSIDIARIES – continued

(b) Disposal of Decent Choice Limited and its subsidiaries (collectively referred to as the "Decent Choice Group")

During the year ended 31 December 2016, the Group completed the disposal of its entire equity interest in Decent Choice Group, which principally engaged in property holding within the EMS Business, to an independent third party, for a cash consideration of RMB158,000,000 (approximately HK$190,638,000). The net assets of the Decent Choice Group at the date of disposal were as follows:

	HK$'000
Analysis of assets and liabilities of Decent Choice Group at the date of disposal were as follows:	
Investment properties	172,725
Bank balances and cash	27
Other payables	(2,129)
Amount due to immediate holding company	(7,432)
Net assets disposed of	163,191
Gain on disposal of subsidiaries:	
Consideration received	190,638
Expenses incurred on disposal of subsidiaries	(3,934)
Net assets disposed of	(163,191)
Waiver of amount due to immediate holding company	(7,432)
Cumulative exchange reserve reclassified from equity to profit or loss upon disposal	(10,347)
Gain on disposal	5,734
Net cash inflow arising on disposal:	
Cash consideration received	190,638
Less: deposit received included in other payables as at 31 December 2015	(122,808)
Bank balances and cash disposed of	(27)
	67,803

29. DISPOSAL OF SUBSIDIARIES – continued

(c) Disposal of Morning Star Industrial Company Limited and its subsidiaries (collectively referred to as the "MSIC Group")

In June 2016, the Group disposed of its entire equity interest in MSIC Group, which principally engaged in property holding within the EMS Business, to an independent third party, for a cash consideration of HK$4,368,000.

	HK$'000
Analysis of assets and liabilities of MSIC Group at the date of disposal were as follows:	
Prepaid lease payments	7,685
Other receivables and prepayments	1,220
Bank balances and cash	481
Other payables	(2,998)
Taxation payable	(15)
Net assets disposed of	6,373
Gain on disposal of subsidiaries:	
Consideration received	4,368
Net assets disposed of	(6,373)
Non-controlling interests	1,314
Cumulative exchange reserve reclassified from equity to profit or loss upon disposal	7,498
Gain on disposal	6,807
Net cash inflow arising on disposal:	
Cash consideration received	4,368
Bank balances and cash disposed of	(481)
	3,887

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For the year ended 31 December 2017

30. OPERATING LEASE COMMITMENTS

At the end of the reporting period, the Group was committed to make the following future minimum lease payments in respect of office premises rented under non-cancellable operating leases which fall due as follows:

	2017	2016
	HK$'000	HK$'000
Within one year	**4,115**	3,048
In second to fifth year inclusive	**2,624**	4,156
	6,739	7,204

Leases are negotiated and rentals are fixed for an average term of 3 years (2016: 3 years).

31. CAPITAL RISK MANAGEMENT

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

The capital structure of the Group consists of net debt and equity attributable to owners of the Company, comprising issued share capital, reserves and accumulated losses.

The management of the Group reviews the capital structure regularly. As part of this review, the directors consider the cost of capital and the risks associated with each class of capital. Based on recommendations of the directors, the Group will balance its overall capital structure through the payment of dividends, new share issues and share buy-back as well as debt raising.

32. FINANCIAL INSTRUMENTS

32.1 Categories of financial instruments

	2017	2016
	HK$'000	HK$'000
		(Restated)
Financial assets		
Loans and receivables:		
Trade and other receivables	**65,542**	46,839
Amount due from a director	**30,087**	35,534
Cash and bank balances	**575,448**	64,597
	671,077	146,970
Convertible bonds receivable	**49,441**	40,984
	720,518	187,954
Financial liabilities		
Financial liabilities measured at amortised cost:		
Trade and other payables	**40,639**	34,995
Amount due to a related party	**768**	712
Amount due to a non-controlling shareholder of a subsidiary	**–**	1,232
	41,407	36,939

32.2 Financial risk management objectives and policies

The Group's major financial instruments include trade and other receivables, convertible bonds receivable, amount due from a director, bank balances and cash, trade and other payables, amount due to a related party and amount due to a non-controlling shareholder of a subsidiary. Details of the financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (foreign currency risk and interest rate risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

32. FINANCIAL INSTRUMENTS – continued

32.2 Financial risk management objectives and policies – continued

Market risk

Interest rate risk

At 31 December 2017 and 2016, the Group is exposed to fair value interest rate risk in relation to fixed-rate bank deposits and fixed-rate convertible bonds receivable. It is the Group's policy to keep its loans at fixed rates of interest so as to minimise its exposures on interest rate movements.

The Group is also exposed to cash flow interest rate risk relating to the Group's variable-rate bank deposits. In management's opinion, the sensitivity analysis is unrepresentative as the cash flow interest rate risk is not significant to the consolidated financial statements.

The Group currently does not have an interest rate hedging policy. However, the management monitors interest rate exposure and will consider hedging significant interest rate exposure should the need arise.

Foreign currency risk

Several subsidiaries of the Company have foreign currency bank balances and trade receivables that are denominated in currencies other than the functional currencies of the relevant group entities which expose the Group to foreign currency risk. The Group currently does not have a foreign currency hedge policy. In order to mitigate the foreign currency risk, management closely monitors such risks and will consider hedging significant foreign currency exposure should the need arise.

The carrying amounts of the Group's foreign currency denominated monetary assets at the end of the reporting period are disclosed in respective notes. At 31 December 2017 and 2016, the Group is mainly exposed to exchange rate fluctuations of United States dollar ("USD") and Euro ("EUR"). As Hong Kong dollar is pegged to USD, hence, the Group's foreign currency exposure against USD is not significant. The Group is mainly exposed to the effects of fluctuation in EUR.

Foreign currency denominated monetary assets, translated into Hong Kong dollars at the closing rates, are as follows:

	2017 EUR HK$'000	2016 EUR HK$'000
Trade and other receivables	**4,251**	2,513
Convertible bonds receivable	**49,441**	40,984
Cash and cash equivalents	**3,061**	2,151
	56,753	45,648

32. FINANCIAL INSTRUMENTS – continued

32.2 Financial risk management objectives and policies – continued

The following table illustrates the sensitivity of the Group's profit/(loss) after income tax for the year and equity in regards to an appreciation in the group entities functional currencies against EUR. The sensitivity rate is the rates used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the possible change in foreign exchange rates.

	Sensitivity rate	**Increase in profit/Decrease in loss**	**Increase in equity**
	%	HK$'000	HK$'000
2017			
EUR	**5%**	**2,369**	**2,369**
2016			
EUR	5%	1,906	1,906

The same % depreciation in the group entities' functional currencies against the respective foreign currencies would have the same magnitude on the Group's profit for the year and equity but of opposite effect.

Credit risk

At 31 December 2017 and 2016, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties arises from the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position.

The Group's credit risk is primarily attributable to its trade receivables. At 31 December 2017, the Group has concentration of credit risk on certain trade receivables as 17% (2016: 14%) and 36% (2016: 34%) of the total trade receivables was due from the Group's largest customer and the five largest customers, respectively. In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at the end of the reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors consider that the Group's credit risk is significantly reduced.

The credit risk of the Group's convertible bonds receivable arises from default of the counterparty with a maximum exposure equal to the carrying amounts of this financial instrument.

The Group has concentration of credit risk in respect of amount due from a director. However, the management considers the risk associated with amount due from a director is minimal.

The credit risk on bank balances is limited as such amounts are deposited in banks with good reputation and with high credit ratings assigned by international credit-rating agencies.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

32. FINANCIAL INSTRUMENTS – continued

32.2 Financial risk management objectives and policies – continued

Liquidity risk

In the management of liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The management monitors the utilisation of bank loans and ensures compliance with loan covenants.

As at 31 December 2017 and 2016, the Group does not have any unutilised bank loan facilities.

The following table details the Group's remaining contractual maturity for its financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay.

	On demand or less than 1 year HK$'000	**Total undiscounted cash flows** HK$'000	**Total carrying amount** HK$'000
As at 31 December 2017			
Non-derivative financial liabilities			
Trade and other payables	**40,639**	**40,639**	**40,639**
Amount due to a related party	**768**	**768**	**768**
	41,407	**41,407**	**41,407**
	(Restated)	(Restated)	(Restated)
As at 31 December 2016			
Non-derivative financial liabilities			
Trade and other payables	34,995	34,995	34,995
Amount due to a related party	712	712	712
Amount due to a non-controlling shareholder of a subsidiary	1,232	1,232	1,232
	36,939	36,939	36,939

32. FINANCIAL INSTRUMENTS – continued

32.3 Fair value

The fair values of financial assets and liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

The directors consider that the carrying amounts of all financial assets and financial liabilities recorded at amortised cost at the respective end of the reporting periods approximate their corresponding fair values.

33. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY

	2017	2016
	HK$'000	HK$'000
Non-current assets		
Investments in subsidiaries	**389,702**	389,818
Amounts due from subsidiaries	**–**	37,991
	389,702	427,809
Current assets		
Prepayments	**797**	568
Amounts due from subsidiaries	**55,315**	10,682
Bank balances and cash	**488,367**	5,663
	544,479	16,913
Current liabilities		
Other payable and accrued charges	**5,315**	8,403
Amounts due to subsidiaries	**–**	116
	5,315	8,519
Net current assets	**539,164**	8,394
Total assets less current liabilities/Net assets	**928,866**	436,203
Capital and reserves		
Share capital	**6,377**	4,783
Reserves	**922,489**	431,420
	928,866	436,203

On behalf of the Board by:

Mr. Luo Jun
Director

Mr. Wu Tianyu
Director

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

33. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY – continued

Movement in the Company's reserves

	Share premium HK$'000	Share option reserve HK$'000	Contributed surplus (note) HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1 January 2016	495,069	14,821	24,930	(20,011)	514,809
Loss for the year	–	–	–	(109,897)	(109,897)
Recognition of equity-settled share-based payment	–	26,508	–	–	26,508
At 31 December 2016 and 1 January 2017	495,069	41,329	24,930	(129,908)	431,420
Loss for the year	–	–	–	(35,685)	(35,685)
Issue of shares upon rights issue	508,568	–	–	–	508,568
Transaction costs on rights issue	(2,858)	–	–	–	(2,858)
Recognition of equity-settled share-based payment	–	21,044	–	–	21,044
Release of share option reserve upon share options forfeited	–	(3,000)	–	3,000	–
At 31 December 2017	**1,000,779**	**59,373**	**24,930**	**(162,593)**	**922,489**

Note: The amount arose pursuant to a group reorganisation in 1997, being the difference between the nominal amount of the share capital issued by the Company in exchange for the shares of the subsidiaries and the nominal amount of the share capital of the subsidiaries acquired, capital reduction and bonus issue by way of capitalisation of the reserve in 2005 and 2006.

34. PRINCIPAL SUBSIDIARIES

Details of the Company's principal subsidiaries, all of which are directly and indirectly owned by the Company at 31 December 2017 and 2016 are as follows:

Name of subsidiary	Place of incorporation/ establishment/ operations	Particulars of issued and paid up capital	Attributable equity interest of the Group		Principal activities
			2017	2016	
智偉龍電線(深圳)有限公司 (note)	PRC	Registered capital of RMB5,500,000	**–**	70%	Manufacture of and trading in electronic components
深圳市金悠然科技有限公司	PRC	Registered capital of RMB42,000,000	**100%**	100%	Manufacture of and trading in dental prosthetics
深圳市聯合牙科科技有限公司	PRC	Registered capital of RMB1,000,000	**100%**	100%	Manufacture of and trading in dental prosthetics
On Growth Global Development Limited	BVI	USD100	**100%**	100%	Investment holding
Common Glory Global Limited (note)	BVI	USD1,000	**–**	70%	Investment holding
Royal Dental Laboratory Limited	Hong Kong	HK$1	**100%**	100%	Trading in dental prosthetics
United Noble Development Limited	Hong Kong	HK$100	**100%**	100%	Investment holding of convertible bonds

Note:

These subsidiaries were disposed of during the year ended 31 December 2017.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

34. PRINCIPAL SUBSIDIARIES – continued

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

None of the subsidiaries had any debt securities subsisting at 31 December 2017 or at any time during the year.

At the end of the reporting period, the Company has other subsidiaries that are not material to the Group in which the principal activities of those major subsidiaries are investment holding and inactive.

At 31 December 2017 and 2016, the directors considered there is no material non-controlling interests held by the Group.

35. RELATED PARTY TRANSACTIONS

Other than the transactions and balances with related parties as disclosed in the respective notes, during the year, the Group entered into the following transactions with the following related parties:

	2017 **HK$'000**	2016 HK$'000
Nature of transactions		
Rental expenses paid to Kaisa Group Holdings Ltd.	**319**	–
Promotion expenses paid to a related company controlled by Mr. Wu	**936**	312

Key management personnel compensation represents the amounts paid to the directors and the five highest paid individuals as set out in notes 8 and 9, respectively.

36. EVENT AFTER THE REPORTING PERIOD

On 15 March 2018 , the Group entered into a Note Purchase Agreement with an independent third party entity (the "Issuer"), pursuant to which the Group will subscribe for senior secured convertible promissory note (the "Note") in the principal amount of US$3,500,000 for the total consideration of US$3,500,000 (equivalent to approximately HK$27,489,000). All unpaid principal, together with any then unpaid and accrued interest and other amounts payable under the Note shall be due and payable on 15 March 2022. The Note may be converted into shares of the Issuer's common stock at a conversion price equivalent to an agreed valuation divided by the number of outstanding shares immediately prior to the initial public offering of the Issuer. The Note bears interest payable in cash at 1.5% per annum, payable semi-annually and deferred interest of 8% per annum, which shall be compounded and added to the principal, and payable upon the maturity date. The acquisition was funded by internal resources of the Group.

FINANCIAL SUMMARY

	Year ended 31 December				
	2013 HK$'000 (Note 1)	2014 HK$'000	2015 HK$'000	2016 HK$'000 (Note 2)	**2017** **HK$'000** **(Note 2)**
RESULTS					
Continuing operation					
Turnover	315,985	363,455	99,873	188,140	**226,703**
Profit/(Loss) before income tax	(32,214)	(124,647)	(6,566)	9,252	**13,597**
Income tax expense	(11,789)	(983)	(3,810)	(10,547)	**(8,049)**
Profit/(Loss) for the year from continuing operation	(44,003)	(125,630)	(10,376)	(1,295)	**5,548**
Profit/(Loss) for the year from discontinued operation	8,136	–	(29,004)	(18,998)	**(2,843)**
Profit/(Loss) for the year	(35,867)	(125,630)	(39,380)	(20,293)	**2,705**
Profit/(Loss) for the year attributable to owners of the Company					
– from continuing operation	(43,672)	(90,005)	(10,008)	(1,645)	**5,548**
– from discontinued operation	8,136	–	(20,605)	(13,543)	**(1,637)**
	(35,536)	(90,005)	(30,613)	(15,188)	**3,911**
Profit/(Loss) for the year attributable to non-controlling interests					
– from continuing operation	(331)	(35,625)	(367)	350	**–**
– from discontinued operation	–	–	(8,400)	(5,455)	**(1,206)**
	(331)	(35,625)	(8,767)	(5,105)	**(1,206)**
	(35,867)	(125,630)	(39,380)	(20,293)	**2,705**

Notes:

1. Included results of the Wing Lee Property whereby its operation was classified as discontinued operation in 2013.

2. Included results of the EMS Business whereby its operation was classified as discontinued operation in 2016 and 2017.

FINANCIAL SUMMARY

	As at 31 December				
	2013	2014	2015	2016	**2017**
	HK$'000	HK$'000	HK$'000	HK$'000	**HK$'000**
ASSETS AND LIABILITIES					
Total assets	452,497	384,546	823,684	586,420	**1,106,766**
Total liabilities	(117,083)	(173,037)	(256,528)	(79,918)	**(63,885)**
Net assets	335,414	211,509	567,156	506,502	**1,042,881**
Attributable to:					
Owners of the Company	335,414	140,827	507,360	504,402	**1,042,881**
Non-controlling interests	–	70,682	59,796	2,100	**–**
	335,414	211,509	567,156	506,502	**1,042,881**

Kaisa Health Group Holdings Limited
佳兆業健康集團控股有限公司