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)

2018 年報
Annual Report

CONTENTS

CORPORATE INFORMATION

As at 22 March 2019

DIRECTORS

Executive Directors

Mr. Kwok Ying Shing *(Chairman)*
(appointed on 26 February 2019)
Mr. Luo Jun *(Co-Vice Chairman and Chief Executive Officer)*
Mr. Wu Tianyu *(Co-Vice Chairman)*
Mr. Xu Hao (Re-designated from a non-executive Director to an executive Director on 28 February 2019)

Independent Non-executive Directors

Dr. Liu Yanwen
Mr. Wang Wansong
Mr. Fok Hei Yu (appointed on 5 March 2018)
Dr. Lyu Aiping (appointed on 5 March 2018)
Mr. Guo Peineng (resigned on 5 March 2018)

AUDIT COMMITTEE

Dr. Liu Yanwen *(Chairman)*
Mr. Wang Wansong
Mr. Fok Hei Yu (appointed on 5 March 2018)
Mr. Guo Peineng (resigned on 5 March 2018)

REMUNERATION COMMITTEE

Mr. Fok Hei Yu *(Chairman)*
(appointed on 5 March 2018)
Mr. Guo Peineng *(Chairman)*
(resigned on 5 March 2018)
Mr. Wu Tianyu
Mr. Wang Wansong

NOMINATION COMMITTEE

Mr. Kwok Ying Shing *(Chairman)*
(appointed on 26 February 2019)
Mr. Luo Jun *(Chairman)*
(cease to act on 26 February 2019)
Mr. Wu Tianyu *(Chairman)*
(ceased to act on 19 January 2018)
Mr. Wang Wansong
Mr. Fok Hei Yu (appointed on 5 March 2018)
Mr. Guo Peineng (resigned on 5 March 2018)

COMPANY SECRETARY

Mr. Yu Kwok Leung

AUTHORISED REPRESENTATIVES

Mr. Luo Jun (appointed on 19 January 2018)
Mr. Wu Tianyu (ceased to act on 19 January 2018)
Mr. Yu Kwok Leung

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 hereby present the audited consolidated results of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2018. During the year, the Group achieved revenue from its continuing operations of approximately HK$241.9 million (2017: approximately HK$226.7 million), representing an increase of 7% as compared with last year. Loss attributable to the shareholders of the Company was HK$22 million (2017: profit of approximately HK$3.9 million). Loss per share was 0.43 HK cents (2017: earnings per share of 0.10 HK cents). The Board did not recommend the payment of dividend for the year.

BUSINESS REVIEW

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 Group has an extensive sales and service network covering more than 20 European and American countries and regions including the US, Germany, Britain, France, Italy and Australia. As the leading enterprise in the dental prosthetics business, the Group has a sales and service network covering China's market and has service teams located in various cities of China. It has established in-depth cooperative relationships with over 2,000 units in China, which included Grade 3A general hospitals, stomatological hospitals, stomatological chain institutions and medical aesthetic institutions.

In terms of business performance, under the impact of Sino-US trade war, the European and American clients have adjusted their purchase volumes of dental prosthetics from China's market. According to the NADL (National Association of Dental Laboratories), many dental equipment companies in the US have shut down successively due to factors such as overseas competitions and industry consolidation. While the export orders of the Group hence decreased when compared with last year, it still recorded a 7% growth in its overall business due to the significant increase in sales in the PRC market. In regard to its gross profit, as the Group increased its investments in digital equipment, the increased depreciation of newly-added equipment as a result has led to a decrease in gross profit when compared with last year. More efforts have been put on marketing and research activities with an aim to achieve higher revenue in the future. Moreover, there has been keen competition for skilled labour, which resulted in higher labour costs. The Group will continue to cooperate with technical institutes to secure a more stable supply of labour resources and to implement automation in order to reduce its reliance on labour resources.

In the health care field, the Group entered into the health care industry through its acquisition of Trade Guide Limited (a company which engages in public health and medical services) on 14 December 2018. Through the acquisition of Hangzhou Shulan Project, the Group was able to build a Grade 3A hospital with approximately 2,000 hospital beds. After the finalization of such acquisition, the Group had the opportunity to penetrate to the front line of health care sector, and directly respond and understand the needs of patients.

CHAIRMAN'S STATEMENT

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. The Group has formulated a series of growth strategy for its dental prosthetics business, which include expanding its sales network for China and overseas (such as the US) markets, increasing its domestic production capacity in China and developing new high-end dental prosthetics products with aesthetic attributes. The Group's competitiveness is not only manifested in the advancement of innovative technologies, but also in its forward-looking market sensitivity as well as its analysis of and insights into potential clients. The Group's newly launched product, the clear aligner, has outstanding performance in contributing to revenue growth.

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. It is expected that the acquisition of the Shulan (Hangzhou) Hospital Project will create synergy for the existing business of the Group and will further strengthen its dental business development. Moreover, the Group relies on the experience and networks of its management to seize different business and investment opportunities, including but not limited to partnerships and fund investments in the health care industry as well as investments in hospitals and the elderly care industry, in order to prepare for the Group's long-term business development.

In summary, as the Chinese economy improves steadily and urban residents' living standards rise, plus the medical and health care 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 Group for achieving long-term sustainable development. To maintain our market leadership and competitiveness, the Group 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 Group 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 Group will actively capture high-tech dental related business and investment opportunities, explore cooperation and investment opportunities in the health care 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 the coming years.

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

Kwok Ying Shing
Chairman
Hong Kong, 22 March 2019

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL HIGHLIGHTS

During the year, the Group's revenue from its continuing operations reached approximately HK$241.9 million (2017: approximately HK$226.7 million), representing an increase of 7% when compared with last year. The loss attributable to the shareholders of the Company for the year ended 31 December 2018 was approximately HK$22.0 million, representing a basic loss per share of HK0.43 cents (2017: profit of approximately HK$3.9 million, representing a basic earnings per share of HK0.10 cents).

FINAL DIVIDEND

The Board did not recommend the payment of any final dividend for the year ended 31 December 2018 (2017: Nil).

BUSINESS REVIEW

Dental Prosthetics Business

The Group has engaged in the Dental Prosthetics Business, including the sales (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 was approximately HK$241.9 million as of 31 December 2018 when compared to a revenue of approximately HK$226.7 million for the corresponding period in 2017.

The Dental Prosthetics Business continued to have good performance since its acquisition in May 2015. Although Sino-US trade war imposed pressure on the international market, the Group actively reinforced the development and deeply involved in the dental prosthetics sales market in China. Revenue contributed from the Dental Prosthetics Business continued to grow steadily. Overall speaking, the scale of operation of the Dental Prosthetics Business continued to increase. The Group enhanced sales and marketing efforts and offered more sales discounts, which also stimulated revenue growth. The Group will continue to cooperate with technical institutes for more stable supply of labour resources and implement automation in order to reduce the reliance to labour resources.

The Group's newly launched product, the Mega Clear Aligner, has achieved good performance in terms of revenue growth. The turnover for the Mega Clear Aligner as of 31 December 2018 has demonstrated an increasing trend since its launch in June 2017 and the Company will continue to put more effort on it so as to enhance its competitiveness. In contrast to traditional orthodontics, Mega Clear Aligner dental braces are invisible, pain-free, suitable for all ages, and can be worn and removed with ease for better patient oral hygiene. Mega Clear Aligner is based on the latest imported technologies, utilizing 3D-printing technology to diagnose, design and produce custom invisible dental braces for each patient. Meanwhile, the competitiveness of the Group is not only manifested in the advancement of innovative technologies, but also in its forward-looking market sensitivity as well as its analysis of and insights into customers who concerned about beauty. With various attempts made by the Group to collaborate with fashion media since 2015 and the strong alliance with the ELLE CHINA 30th Anniversary in 2018, the Group has created a new landscape for its aesthetic dental business, and has taken further steps to develop the medical aesthetics market in the PRC.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW – continued

Dental Prosthetics Business – continued

Investment in research and know-hows is always a focus in our business. Research and development expense increased to HK$26.5 million during this year (2017: HK$16.1 million), reflecting the management's determination and vision to invest in the future technologies in the Dental Prosthetics Business. On the other hand, grants and subsidies of HK$2.2 million (2017: HK$8.6 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 prosthetics areas.

Health Care Business

The Group has participated in the health care industry through the acquisition of Trade Guide Limited (a company engages in the provision of public health and medical services) at a total consideration of RMB193 million (equivalent to approximately HK$221,732,000) on 14 December 2018. Hangzhou Jinyun Investment Management Co., Ltd. (杭州金韻投資管理有限公司, an associate of the above company) has a project in Hangzhou City, Zhejiang Province, the PRC that provides public health and medical services. With the materialized acquisition, the Company will penetrate to the front line of the health care sector, directly responding and identifying the needs of patients, and it will also facilitate investment decision on the health care industry and building market reputation for the Group. The acquisition is expected to bring synergy effects to the existing business of the Group, and it is believed that the Group's Dental Prosthetics Business can further expand its presence in the Yangtze River Delta region by sharing the resources and reputation of the hospital to be constructed by the Project.

PROSPECT

The Group is principally engaged in the Dental Prosthetics Business, and its business strategy was to further expand its business so as to further enhance shareholders' value. In order to build the brand "Mega", the Group has been oriented towards advanced technologies and integrated quality medical devices in China and overseas to become a high-end dental prosthetics instrument supplier. The Group has put efforts in exploring a medical appliance system with the oral business as its up-stream and down-stream industry chain and a medical service system integrating medical care and health care, developing a closed-loop ecosystem with the coordination of these three major systems.

Dental Prosthetics Business

The Group considers that the increase in the consumption level in the PRC builds the base for the rapid growth in China's dental market. On this basis, through the education promoted by the overseas vendors and dentists, the populace's heightening awareness of oral hygiene provides the endogenous power for maintaining the speedy growth in the dental market. Currently, China's dental market has been rapidly developing, hence the trend of increasing dental consumption will not change, and is expected to gradually extend from the eastern coastal regions to cities in central and western part of the PRC and the overall dental market probably will continue its rapidly increasing trend for a long time in the future. It is projected that with the increase of consumption power in the PRC, regardless of whether it is in terms of the dentist proportion, consultation rate and the permeability rate of high-end dental business or the current market scale, the oral market in China has the development potential to increase over tenfold.

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.

MANAGEMENT DISCUSSION AND ANALYSIS

PROSPECT – continued

Health Care Business

The health care services industry in the PRC has been growing rapidly in recent years. According to National Health Commission of the PRC, the total number of visits to clinics increased by 250 million in 2017 and the total spending on health care services in the PRC grew more than 60% during the period between 2013 and 2017 from RMB3,166 billion to RMB5,160 billion. Also, the revenue and numbers of hospitals have witnessed significant growth in the last decade. The number of admitted cases of private hospitals recorded a CAGR of 18.4% during the period between 2013 and 2017. The Hangzhou Shulan Project acquired by the Group is intended to be built as a Grade 3A Hospital with 2,000 beds and to cover organ transplantation, minimal invasive surgery, biological diagnosis and precision medical services. The acquisition will allow the Group to enhance its health care portfolio and will facilitate the Group's investment decision on the health care industry and building market reputation in the PRC. Through investing in the Project which focuses on developing the hospital, the Group will be able to penetrate to the front line of the health care sector, facing and identifying the needs of the patients directly, and enables the Group to discover and evaluate the potential business opportunity in the health care industry in Hangzhou City. The Group could enjoy the satisfactory synergistic benefits from the investment in the Project as contemplated under the Acquisition upon the successful development of the Project, which is favourable to the existing businesses of the Group and in the interest of the Group and the Independent Shareholders as a whole.

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. The Group is optimistic about the prospect of Dental Prosthetics Business and therefore increased its efforts in the expansion and penetration into the PRC market. Although the Sino-US trade war exerted pressure on the sales in the overseas market, the sales in China still managed to grow steadily. Other revenue has been decreased, which is due to less subsidies were received from the government regarding research and development and the decrease in revenue from dentist training and consultancy services.

Gross Profit and Gross Profit Margin

Gross profit for the year contributed from the continuing operations amounted to HK$109.7 million (2017: HK$113.5 million). Gross profit margin contributed from the continuing operations for the year decreased to 45.3% (2017: 50.0%). This is mainly attributable to the increase in market share in the PRC market, and the gradual extension from the eastern coastal regions to cities in central and western part of the PRC has resulted in more sales discounts given to stimulate sales. Also, the development and penetration in the sales markets of products with lower gross profit had been enhanced, which led to an increase in the sales portion in this segment and hence a decrease in the overall gross profit. Moreover, some of the material costs rose and also higher labour costs were noted due to keen competition for skilled labour resources as compared to 2017.

Selling and Distribution Costs

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

MANAGEMENT DISCUSSION AND ANALYSIS

OPERATING RESULTS AND FINANCIAL REVIEW – continued

Administrative Expenses

The increase in administrative expenses was mainly due to the expansion of Dental Prosthetics Business, the initial investment in the acquisition of health care business and the increase in the introduction of dental prosthetics and medical related professionals during the year.

Other Expenses

Increase in other expenses represented the increase in research and development expenses. The Group increased its investments in research and development to enhance the competitiveness, production capacity, popularity of its products in the future while reducing labour costs. At the same time the Group would also apply for a deduction or exemption of PRC Enterprise Income Tax and grants and subsidies from the government in accordance with the requirements of the state. The related R&D projects includes 3D engraving machines, 3D printers, 3D scanners and the development of an invisible orthodontic software. The scale of the applications for government subsidies for R&D projects and the utilisation of labour and raw materials were all larger and higher than that of 2017.

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.

Convertible Promissory Note

On 15 March 2018, the Group entered into a Note Purchase Agreement with an independent third party, pursuant to which the Group has subscribed for senior secured convertible promissory 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).

Cash Position and Cash Flow

The Group had a solid cash position for the year under review, with bank balances and cash amounting to approximately HK$194.8 million as at 31 December 2018 (31 December 2017: HK$575.4 million).

Capital Expenditure and Capital Commitments

During the year, the Group invested approximately HK$27.2 million (2017: approximately HK$11.3 million) mainly on the purchase of equipment. As at 31 December 2018, there was no capital expenditure commitments.

Contingent Liabilities

The Group had no significant contingent liabilities as at 31 December 2018 (31 December 2017: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

OPERATING RESULTS AND FINANCIAL REVIEW – continued

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 2018 amounted to approximately HK$1,005.1 million (31 December 2017: approximately HK$1,042.9 million).

As at 31 December 2018, the net current assets of the Group amounted to approximately HK$449.0 million (31 December 2017: HK$624.6 million). The current and quick ratio was 8.20 and 8.09 respectively (31 December 2017: 12.00 and 11.94 respectively).

At 31 December 2018, the amount of HK$730,000 (2017: HK$768,000) 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 2018 and 2017, no gearing ratio was calculated as there was no bank borrowing or other long term debt borrowed by the Group.

Taking the above figures into account, the management is confident that the Group is financially strong and has adequate resources to settle its outstanding debts and finance its daily operational expenditures.

Charge on Assets

There was no charge on assets of the Group as at 31 December 2018 and 2017.

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

On 3 August 2018, Mega Deluxe Holdings Limited, a wholly-owned subsidiary of the Company and Rui Jing Investment Company Limited (a wholly-owned subsidiary of Kaisa Group Holdings Ltd., a controlling shareholder of the Company), entered into the Sale and Purchase Agreement for the proposed acquisition (the "2018 Proposed Acquisition") of the target companies which comprises 20% of the equity interest in Hangzhou Jinyun Investment Management Co., Ltd. (杭州金韻投資管理有限公司) ("Hangzhou Jinyun") and as one of the limited partners and holding 9.57% interest of Hangzhou Jiayue Investment Partnership (杭州佳躍投資合夥企業(有限合夥)("Hangzhou Jiayue"). Hangzhou Jinyun is the sole general partner of Hangzhou Jiayue and Hangzhou Jiayue indirectly holds 90% equity interest in Hangzhou Zhaojin Real Estate Co., Ltd. (杭州兆金置業有限公司), which in turns owns the project in Hangzhou City, Zhejiang Province, the PRC for the provision of public health and medical services (the "Project"). For details, please refer to the announcements of the Company dated 4 May 2018, 24 May 2018, 3 August 2018 and 14 December 2018 and the circular of the Company dated 28 November 2018.

MANAGEMENT DISCUSSION AND ANALYSIS

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 – continued

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 2018. 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 1,240 employees in total as at 31 December 2018 in Hong Kong and the PRC (31 December 2017: 1,370 in Hong Kong 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:

CHAIRMAN AND EXECUTIVE DIRECTOR

Mr. Kwok Ying Shing

Mr. Kwok Ying Shing, aged 54, has been appointed as an executive Director, the Chairman of the Board and the Chairman of the nomination committee of the Board (the "Nomination Committee") with effect from 26 February 2019. Mr. Kwok is currently the chairman, an executive director, the chairman of the nomination committee and a member of the remuneration committee and a substantial shareholder of Kaisa Group Holdings Ltd. (佳兆業集團控股有限公司*) (together with its subsidiaries collectively referred to as "Kaisa Group"), a company listed on the Stock Exchange of Hong Kong Limited (the "Stock Exchange") (Stock Code: 1638), and a controlling shareholder of the Company. Mr. Kwok has extensive experience in real estate development, investment and financing management. Mr. Kwok is primarily responsible for our overall corporate strategies, planning and business development.

EXECUTIVE DIRECTORS

Mr. Luo Jun

Mr. Luo Jun, aged 38, has been appointed as an executive Director and the Chairman of the Board since 2 December 2016 and been appointed as the chairman of the Nomination Committee since 19 January 2018. With effect from 26 February 2019, Mr. Luo has ceased to act as the Chairman of the Board and the chairman of the Nomination Committee and been appointed as the chief executive officer (the "Chief Executive Officer") of the Company and the Co-Vice Chairman of the Board and remains as an executive Director of the Company. He is also a director of certain subsidiaries of the Company. Mr. Luo has been appointed as a director of 振興生化股份有限公司 (Zhenxing Biopharmaceutical and Chemical Co. Ltd.* ("Zhenxing Biopharmaceutical")), a PRC incorporated company listed on the Shenzhen Stock Exchange (Stock Code: 000403) since 2 May 2018 and had acted as the general manager of Zhenxing Biopharmaceutical from 2 May 2018 to 17 December 2018. Prior to this, Mr. Luo worked in Kaisa Holdings Limited, a subsidiary of Kaisa Group, 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.*). Mr. Luo obtained his Bachelor Degree in Management from Nanjing University of Finance & Economics in 2003. Mr. Luo has extensive management experience in operational planning, commerce, hotel and health care industry.

Mr. Wu Tianyu

Mr. Wu Tianyu, aged 54, has been appointed as an executive Director and the Chief Executive Officer of the Company since 21 May 2015 and acted as a member of the remuneration committee of the Board (the "Remuneration Committee") since 30 June 2015. With effect from 26 February 2019, Mr. Wu has resigned as the Chief Executive Officer of the Company and been appointed as the Co-Vice Chairman of the Board and remains as an executive Director and a member of the Remuneration Committee of Board. He is also 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 has been the key operators of the denture business of these companies for more than 20 years, overseeing the production of the denture products and the daily operations. Mr. Wu is the spouse of Ms. Jiang Sisi, the chief operating officer of the Company. Mr. Wu obtained a bachelor degree in Department of Stomatology of the Fourth Military Medical University. He has over 30 years of experience in denture profession.

** For identification purposes only*

DIRECTORS AND SENIOR MANAGEMENT PROFILE

EXECUTIVE DIRECTORS – continued

Mr. Xu Hao

Mr. Xu Hao, aged 34, has been appointed as a non-executive Director since 2 December 2016 and has been re-designated to an executive Director of the Company with effect from 28 February 2019. Mr. Xu has been appointed as a non-executive director of Nam Tai Property Inc., a company listed on the New York Stock Exchange (NYSE Symbol: NTP) since 1 August 2018. Mr. Xu is currently acting as the vice president of Kaisa Group and the president of Kaisa Group (International) Holdings Company Limited, a wholly-owned subsidiary of Kaisa Group. He is also acting as a licensed representative of Kaisa Asset Management Limited, an associate of Kaisa Group. 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 this, Mr. Xu 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. 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. Mr. Xu has over 12 years of experience in investment and finance industry and capital market related activities.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Dr. Liu Yanwen

Dr. Liu Yanwen, aged 53, has been appointed as an independent non-executive Director and the chairman of the audit committee of the Board (the "Audit Committee") since 11 January 2017. Dr. Liu has been appointed as an independent non-executive director of 大化集團大連化工股份有限公司 (Dahua Group Dalian Chemical Industry Company Limited*), a PRC incorporated company listed on the Shanghai Stock Exchange (Stock Code: 900951) since 11 May 2018. Dr. Liu is currently the independent non-executive director of each of 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) 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) and had acted as an independent non-executive director 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) from 21 January 2015 to 9 June 2018. Dr. Liu obtained his Doctorate degree in Technical Economics and Management from Dalian University of Technology in 2009 and is currently the associate professor in the Faculty of Management and Economics of the Dalian University of Technology.

** For identification purposes only*

DIRECTORS AND SENIOR MANAGEMENT PROFILE

INDEPENDENT NON-EXECUTIVE DIRECTORS – continued

Mr. Wang Wansong

Mr. Wang, aged 49, has been appointed as an independent non-executive Director and a member of each of the Audit Committee, the Remuneration Committee and the Nomination Committee since 11 April 2017. Mr. Wang is acting as an independent non-executive director of Lifetech Scientific Corporation, a company listed on the Stock Exchange (Stock Code: 1302). 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 this, Mr. Wang worked at National Development and Reform Commission, Shenzhen City (深圳發展改革委員會), Shenzhen Xinhuayu Marine Environmental Technology Engineering Co., Ltd.* (深圳新華宇海洋環境技術工程公司) and Jiujiang Environmental Protection Bureau, Jiangxi province (江西省九江市環境保護局). Mr. Wang obtained his Bachelor Degree in Biology from the Peking University. He has extensive experience in technological innovation, achievements transformation and projects implementation for high tech bio-pharmaceutical industry and medical device industry.

Mr. Fok Hei Yu

Mr. Fok, aged 48, has been appointed as an independent non-executive Director, the chairman of the Remuneration Committee, a member of each of the Audit Committee and the Nomination Committee since 5 March 2018. Mr. Fok has been appointed as a non-executive director of Nam Tai Property Inc., a company listed on the New York Stock Exchange (NYSE Symbol: NTP) since 1 August 2018 and is acting as an independent non-executive director of Shirble Department Store Holdings (China) Limited, a company listed on the Stock Exchange (Stock Code: 312). Mr. Fok is currently a senior managing director of FTI Consulting, Inc., a business advisory firm assisting companies to protect and enhance enterprise value. Mr. Fok obtained his Degree of Bachelor of Commerce from the Australian National University. He 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.

Dr. Lyu Aiping

Dr. Lyu Aiping, aged 55, has been appointed as an independent non-executive Director since 5 March 2018. Dr. Lyu is currently the Chair Professor and Dean of School of Chinese Medicine of Hong Kong Baptist University. Dr. Lyu is also a member of the Chinese Medicine Development Committee in Hong Kong, a member of Biology and Medicine Panel of the Research Grants Council in Hong Kong and a member of the Chinese Pharmacopoeia Commission. Dr. Lyu obtained his Bachelor Degree from Jiangxi University of Traditional Chinese Medicine his Master and Ph.D. degrees in China Academy of Traditional Chinese Medicine. Dr. Lyu is focusing on the translational research in Chinese medicine and the development of new drugs based on Chinese medicine and has extensive experience in strategic planning and research for Chinese medicine development and the standardization of Chinese medicine.

** For identification purposes only*

DIRECTORS AND SENIOR MANAGEMENT PROFILE

SENIOR MANAGEMENT

Ms. Jiang Sisi

Ms. Jiang Sisi, is the Chief Operating Officer of the Company. Ms. Jiang has been a key management personnel and operator of On Growth Global Development Limited for more than 5 years and the director of certain subsidiaries of the Company. Ms. Jiang is the spouse of Mr. Wu Tianyu, an executive Director of the Company. Ms. Jiang obtained her Master Degree in Business Administration in the University of Wales. She is responsible for the overall sales, marketing and administration and has demonstrated her strong marketing and management expertise by successfully building up various customer networks in the PRC and overseas.

Ms. Zhao Ai

Ms. Zhao, aged 36, has been appointed as the Chief Financial Officer of the Company since 10 December 2018. Ms. Zhao joined the Kaisa Group in April 2018 and was responsible for the financial analysis and general compliance matters of the Kaisa Group and its subsidiaries. Prior to that, she worked as audit supervisor of Ernst & Young LLP in Singapore. Ms. Zhao obtained her Bachelor Degree of Information and Technology Science from Zhejiang Gongshang University and her Master Degree of Accounting from Zhongnan University of Economics and Law. She is a member of the Institute of Singapore Chartered Accountants and a member of the Association of Chartered Certified Accountants. Ms. Zhao has many years of experience in accounting and finance.

Mr. Yu Kwok Leung

Mr. Yu, aged 43, has been appointed as the company secretary, an authorised representative and process agent of the Company ("Company Secretary") since 10 December 2018. He has also acted as the company secretary of Kaisa Group since 3 May 2018 and the company secretary of Kaisa Property Holdings Limited (佳兆業物業集團有限公司*), a company listed on the Stock Exchange (Stock Code: 2168) since 12 March 2019. Mr. Yu joined the Kaisa Group as the financial controller in April 2016 and is responsible for financial reporting, company secretarial duties and corporate finance activities of the Kaisa Group. Prior to that, he was the financial controller of a listed company in Hong Kong and as a senior audit manager in one of the international accounting firms. Mr. Yu obtained his bachelor degree of business administration in accountancy from the Hong Kong Polytechnic University. He is a member of the Hong Kong Institute of Certified Public Accountants. Mr. Yu has many years of experience in accounting and finance.

** For identification purposes only*

CORPORATE GOVERNANCE REPORT

The Board is pleased to present the Corporate Governance Report of the Group for the year ended 31 December 2018.

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 2018, 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 2018 and up to the date of this report:

Executive Directors

Mr. Kwok Ying Shing *(Chairman)* (appointed on 26 February 2019)
Mr. Luo Jun *(Co-Vice Chairman and Chief Executive Officer)*
Mr. Wu Tianyu *(Co-Vice Chairman)*
Mr. Xu Hao (re-designated from a non-executive Director to an executive Director on 28 February 2019)

CORPORATE GOVERNANCE REPORT

A. BOARD OF DIRECTORS – continued

(2) Board Composition – continued

Independent Non-executive Directors

Dr. Liu Yanwen
Mr. Wang Wansong
Mr. Fok Hei Yu (appointed on 5 March 2018)
Dr. Lyu Aiping (appointed on 5 March 2018)
Mr. Guo Peineng (appointed on 11 January 2017 and resigned 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 11 to 14 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. Kwok Ying Shing, 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. Luo Jun, 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 and were re-elected as independent non-executive Directors at the annual general meeting on 18 May 2018.

Up to the date of this report, Mr. Kwok Ying Shing was appointed as the Chairman and executive Director on 26 February 2019 and is subject to election by shareholders at the first annual meeting after his appointment.

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 2018, the Nomination Committee comprised one executive Director, Mr. Luo Jun (Chairman) (on 19 January 2018 Mr. Wu Tianyu ceased and Mr. Luo Jun was appointed) and two independent non-executive Directors, namely Mr. Fok Hei Yu (on 5 March 2018, Mr. Guo Peineng resigned and Mr. Fok Hei Yu was appointed) and Mr. Wang Wansong. On 26 February 2019, Mr. Luo Jun ceased and Mr. Kwok Ying Shing was appointed as the chairman of the Nomination Committee.

CORPORATE GOVERNANCE REPORT

A. BOARD OF DIRECTORS – continued

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

Nomination Committee – continued

Code Provision A.5.1

There was 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, an 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 was elected as the chairman of the Nomination Committee on 19 January 2018 and he was then the Chairman of the Board and an executive Director.

On 26 February 2019, Mr. Luo ceased to act as the chairman of the Nomination Committee and Mr. Kwok Ying Shing, Chairman of the Board and an executive Director was elected as the chairman of the Nomination Committee. This deviation is no longer applicable.

The principal duties of the Nomination Committee include reviewing the Board composition, developing and formulating relevant procedures and policy 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.

The nomination committee have adopted a Board Diversity Policy which sets out the approach to achieve diversity on the Board. As a summary of the Board Diversity Policy, the nomination and appointment of Board member shall be considered from a number of factors, including but not limited to gender, age, cultural and educational background, professional experience and length of service. The Company will continue to achieve Board diversity with consideration of its own business model and specific need, and 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.

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 2018 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 the policy concerning diversity of Board members ; 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.

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 2018 according to the records provided by the Directors is as follows:-

Name of the Directors	Participated in Continuous Professional Development*
Executive Directors	
Mr. Kwok Ying Shing	N/A
Mr. Luo Jun	✓
Mr. Wu Tianyu	✓
Mr. Xu Hao	✓
Independent non-executive Directors	
Dr. Liu Yanwen	✓
Mr. Guo Peineng (appointed on 11 January 2017 and resigned on 5 March 2018)	N/A
Mr. Wang Wansong	✓
Mr. Fok Hei Yu (appointed on 5 March 2018)	✓
Dr. Lyu Aiping (appointed on 5 March 2018)	✓

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

CORPORATE GOVERNANCE REPORT

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 2018, 12 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 2018 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. Kwok Ying Shing (note (c))	N/A	N/A	N/A	N/A
Mr. Luo Jun	12/12	N/A	2/2	N/A
Mr. Wu Tianyu	11/12	1/2	N/A	N/A
Mr. Xu Hao	11/12	N/A	N/A	N/A
Independent Non-Executive Directors:				
Dr. Liu Yanwen	12/12	N/A	N/A	2/2
Mr. Wang Wansong	7/10	2/2	2/2	1/2
Mr. Guo Peineng (note (b))	N/A	N/A	N/A	N/A
Mr. Fok Hei Yu (note (a))	8/8	N/A	1/1	2/2
Dr. Lyu Aiping (note (a))	6/8	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 were appointed after the financial year

CORPORATE GOVERNANCE REPORT

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 2018.

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 2018.

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 2018.

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

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 two meetings during the year ended 31 December 2018 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.

CORPORATE GOVERNANCE REPORT

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 2018.

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 2018. 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 2018, the Audit Committee comprised three independent non-executive Directors, namely Dr. Liu Yanwen, chairman of the Audit Committee, Mr. Fok Hei Yu (On 5 March 2018, Mr. Guo Peineng resigned and Mr. Fok Hei Yu was appointed as a member of the Audit Committee) and Mr. Wang Wansong.

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 two meetings during the year ended 31 December 2018. 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 2017, and reviewed the unaudited interim financial statements for the six months ended 30 June 2018, 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 appointment of Grant Thornton Hong Kong Limited as the independent auditor of the Group 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 55 to 61.

The remuneration paid to the Company's independent auditor, Grant Thornton Hong Kong Limited, in respect of audit services and non-audit services for the year ended 31 December 2018 is set out below:

Grant Thornton Hong Kong Limited

Services rendered	Remuneration paid/Payable
Audit services	HK$1,050,000
Non-audit services	HK$195,000

CORPORATE GOVERNANCE REPORT

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 ZHONGXI CPAs (SPECIAL GENERAL PARTNERSHIP) ("ZHONGXI"), an independent international audit firm, to conduct a risk assessment and review of internal control systems for risk management purpose. ZHONGXI has identified critical risk presenting threats to the Group, including strategic risk, operation risk, information risk and financial risk. ZHONGXI 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.

CORPORATE GOVERNANCE REPORT

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 2018, the Company held one special general meeting on 14 December 2018 and the annual general meeting on 18 May 2018.

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 14 December 2018. 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.

CORPORATE GOVERNANCE REPORT

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.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

OBJECTIVE

This Environmental, Social and Governance (the "ESG") Report provides the performance of Kaisa Health Group Holdings Limited ("Kaisa Health", the "Group", "We") in respect of environmental, social and governance for the year ended 31 December 2018.

This Report has been prepared in accordance with the "Environmental, Social and Governance Reporting Guide" contained in Appendix 27 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("HKEx"), for the purpose of identifying and making disclosure of the material matters and key performance indicators in relation to the Group's environmental, social and governance and promoting the full implementation of sustainable development and social responsibilities by the Group.

REPORT SCOPE AND BOUNDARIES

This report made disclosure of matters in relation to Kaisa Health's manufacturing and trading of dental prosthetics business in the operation headquarter and factories in Shenzhen. The source of data in preparing the ESG report is primarily based on the internal policies and documents as well as information provided by various key stakeholders.

PARTICIPATION OF STAKEHOLDERS AND COMMUNICATION

Understanding and taking actions towards stakeholders' concerns and expectations is essential to our sustainability development. In Kaisa Health, we ensure various communication channels are set up so that comments and feedbacks from key stakeholders are effectively and timely addressed.

The following table shows the expectations and requirements of the key stakeholders as identified by the Group.

Stakeholders	Communication Goals	Communication Methods/ Channels
Employees	• Humanity • Health and safety • Labour rights • Career development	• Create a competitive working atmosphere • Improve performance appraisal and compensation and welfare system • Staff activities and mailboxes • Continuously improve the training and development system
Customers	• Integrity • Product quality and safety	• Maintain high product quality • Listen to customer opinions and handle enquiries or complaints • Customer satisfaction survey • Communication visits
Shareholders and investors	• Return on investment • Interest protection • Information transparency	• General meetings • Annual and interim reports • Analyst meeting

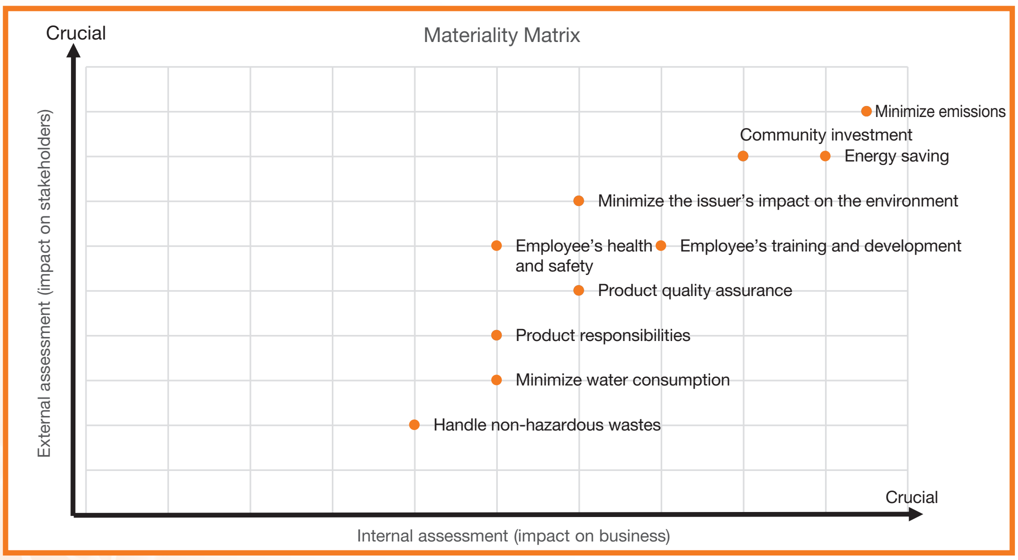
ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

PARTICIPATION OF STAKEHOLDERS AND COMMUNICATION – continued

Stakeholders	Communication Goals	Communication Methods/ Channels
The government	• Abide to law • Fulfil tax obligation • Cooperation for mutual benefits	• Public consultations • Online opinion surveys • Seminars
Suppliers	• Integrity • Transparent procurement process	• Ensure contractual obligations are in place • Supplier performance review and evaluation
The community	• Energy saving • Public welfare • Community culture and services	• Organize social welfare activities • Practice corporate social responsibilities • Actively communicate with local government agencies

MATERIALITY ASSESSMENT

Kaisa Health assessed and analysed the importance of environmental, social and governance issues based on its business and daily operations. Factors such as our business strategy objectives and policies, industry standards, legal and regulatory responsibilities, environmental protection, use of resources, service quality control, employee protection, etc. were taken into consideration in order to identify the important issues. Below important issues have been identified and prioritized through materiality assessment. The issues in the upper right corner are of high importance to the stakeholders. The Group's responses to these important issues have been elaborated in more details in the following section of this report.



ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

A. ENVIRONMENTAL

As part of the users of the natural resources, Kaisa Health acknowledges its responsibility to the environment. The Group not just aim to report on its carbon footprint, but also take initiatives to protect our environment. As a manufacturing company operates in a factory setting, the major environment impact is the greenhouse gas emission generated, followed by wastewater discharge. These lead to the formation of the Group's primary operation initiative — to reduce the emission of carbon dioxide.

The Group has established a series of management guidelines in order to regulate practices over our daily operations and ultimately minimize the impact to the environment. Such guidelines include but not limited to the Guidelines on Vehicle Use Management (《車輛使用管理規定》), Wastewater Discharge Management (《廢水管理規範》), Solid Waste Management (《固體廢棄物管理規範》), and Conserving Energy and Reducing Consumption (《節能降耗作業指導書》), as well as the Procedures on Environmental Factors Identification and Environmental Impacts Assessment (《環境因素識別與環境影響評價程序》).

A1: Emissions

Greenhouse gas ("GHG") emission and other air pollutants

During the production process, the Group generates dust. In addition to the establishment of Guideline on Vehicle Use Management (《車輛使用管理規定》), which provides guidelines on reducing air pollutants emitted from the vehicles controlled by the Group, there are dust filtering devices installed to minimize air pollutants generated during the production process. Employees are encouraged to plan travelling routes reasonably, turn off idling engines after reaching the destinations and refrain from the use of air-conditioning when the vehicles are idle.

During the reporting period, the Group totally consumed 2,253,098 kg carbon dioxide equivalent emissions. The nitrogen oxides ("NOx"), particulate matter ("PM") and sulphur oxides ("SOx") emitted by vehicles controlled by the Group accounted for 7,572 g, 558 g and 186 g respectively.

GHG emissions	**Carbon dioxide equivalent emission** (in kg)	**Intensity** (in kg per labour)
Scope 1 — Direct emissions (vehicles controlled by the Group)	34,194	28.71
Scope 2 — Indirect emissions (electricity purchased externally)	2,205,366	1,851.69
Scope 3 — Other emissions (business air travel by employees and water usage)	26,287	22.07
Total GHG emissions	**2,265,847**	**1,902.47**

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

A. ENVIRONMENTAL – continued

A1: Emissions – continued

Greenhouse gas ("GHG") emission and other air pollutants – continued

Other air pollutants	**Types of Emission** (in g)	**Intensity** (in g per labour)
NOx	7,572	6.36
PM	558	0.47
SOx	186	0.16

Waste

The Group has committed to comply with the PRC Law on Prevention and Control of Environmental Pollution by Solid Wastes (《中華人民共和國固體廢物污染環境防治法》), by categorising solid waste into hazardous recyclable waste, hazardous non-recyclable waste, non-hazardous recyclable waste and non-hazardous non-recyclable waste as stated in the Group's Solid Waste Management (《固體廢棄物管理規範》). To draw the employees' awareness towards waste reduction, designated personnel are assigned to supervise the implementation of waste reduction controls and conduct 6S management in the plant, namely, Sort, Straighten, Sweep, Standardise, Self discipline and Safety.

Non-hazardous recyclable waste and non-hazardous non-recyclable waste are generally living wastes, which would be collected by recycling company and relevant government department. Employees are required to indicate hazardous recyclable waste clearly for identification, carry out measures to prevent sun-lights, rainwater and control dust to ensure no leakage. Hazardous non-recyclable waste such as waste engine oils and batteries are stored seperately in a designated area. All hazardous waste is handled by qualified hazardous handling company. During the reporting period, the Group has produced 85 tons non-hazardous waste.

Wastes	**Wastes produced** (in tons)	**Intensity** (in tons per labour)
Hazardous waste	Nil	Nil
Non-hazardous waste	85 tons	0.07

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

A. ENVIRONMENTAL – continued

A2: Use of Resources

The Group proactively implemented conservative energy usage and resource consumption measures according to its Guideline on Conserving Energy and Reducing Consumption (《節能降耗作業指導書》), in order to use resources effectively and improve environmental efficiency.

Resources	Energy-saving and resource consumption measures
Electricity	• Select energy-saving product when purchasing new equipment • Turn off the power of equipment/machinery when not using it, no idling is allowed • Turn on the air-conditioner only when temperature is above 28 degrees Celsius
Raw materials and ancillary materials for production	• Establish policies and procedures to control the material procurement, inspection, storage, stock in and out process • Set material consumption quotas and continuously improve the utilization rates to reduce material losses
Water	• Reuse water in industrial aspects • Prevent water leakage by reinforce the maintenance work of water facilities
Paper	• Introduce paperless office • Use both side of the paper if necessary

During the reporting period, the total volume of petrol, electricity and water directly consumed by the Group were 12,628 litres, 2,791,603 kWh and 33,287 m^3 respectively.

Energy Consumption

Types of energy	Energy consumption	Unit	Intensity (in unit per labour)
Petrol	12,628	Litre	10.60
Electricity	2,791,603	kWh	2,343.92

Water Consumption

Water Consumption (in m^3)	Intensity (in m^3 per labour)
33,287	27.95

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

A. ENVIRONMENTAL – continued

A3: The Environment and Natural Resources

To better understand the environmental impacts caused by the Group, Procedures on Environmental Factors Identification and Environmental Impacts Assessment (《環境因素識別與環境影響評價程序》) has been formulated to identify, assess and manage the work processes which may have impact to the environment. All departments are required to identify the potential environmental impacts caused by their respective daily operations and to document in the Evaluation Form of Identification of Environmental Factors (《環境因素識別與環境影響評價表》). It covers areas such as waste water, waste gas, solid waste, noise, pollutants and energy consumption that affect surrounding residents. The evaluation forms shall be passed to the quality inspection department to assess and establish management goals and plans to reduce environmental impacts.

B. SOCIAL

In order to maintain the competitiveness in the industry in the long run, it is essential for the Group to build a loyal and competent work environment and commit a giving-back concept to support our employees, and to show compassion to the society.

B1: Employment

Equality and harmony are two essential components to compose a desirable work place. Kaisa Health is committed to ensure that these values are spread through the workplace, such that discrimination, sexual harassment and any unethical conducts do not exist. The Group has formulated the Anti-Discrimination Requirements (《反歧視規定》) to ensure employees are not subject to discrimination in areas such as recruitment, compensation, training, promotion and termination due to race, social class, nationality, age, religion, physical ability, disability, gender, sexual orientation or political affiliation.

Adopting a people-oriented philosophy, the Group encourages employees to speak up their mind. The Internal Communication Management Requirements (《內部溝通管理規定》) has been implemented to establish upstream communications channels. All opinions and complaints submitted by the employees shall be reviewed and handled by the management in a transparent and fair manner within 7 working days.

Recruitment, compensation and other benefits and welfare

Kaisa Health ensures employment contracts are signed with employees based on the principles of legality, fairness, equality and free will with mutual agreement and in good faith, in which matters of employment including working hours, rest time and holidays, remuneration, social insurance and welfare benefits are clearly defined.

To create a harmony atmosphere and team spirit, the Group organizes a variety of team building activities for employees, such as organizing sports day and employee travelling. These provide chances for the employees to get acquainted with each other.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

B. SOCIAL – continued

B1: Employment – continued

Number of employees by geographical region, gender, age, ranking and employment type

	By geographical region	By gender		By age				By ranking				By employment type
Total workforce	Mainland China	Male	Female	Below 30	31-40	41-50	Over 50	Chief officer	Senior management	Middle management	General staff	Full-time
Total number of employees	1,191	613	578	926	229	26	10	4	22	122	1,043	1,191
Percentage	100%	51%	49%	78%	19%	2%	1%	0%	2%	10%	88%	100%

As of 31 December 2018, in terms of gender, the Group had 613 male employees and 578 female employees; in terms of geographical region, all employees are from Mainland China; in terms of employment type, all employees are full-time employees; in terms of age, the Group had 926 employees aged 30 or below, 229 employees aged 31-40, 26 employees aged 41-50 and 10 employees aged above 50.

B2: Health and Safety

Employees' health and safety is the Group's top priority and the Group is committed to provide the employees with safe and healthy working environment. The Group understands that its employees are exposed to safety risk due to their work nature such as working at height and using hazardous chemicals. Therefore, employees are required to follow the Employee Safety Manual (《員工安全手冊》) which explains the basic safety regulations and state the specific safety rules clearly for different positions. The Group also conducts safety training regularly to all levels of employees based on the established Production Safety Education and Training System (《安全生產教育培訓制度》) and Work Injury Prevention Measures (《預防工傷的管理措施》).

In addition to work safety, the Group also put significant efforts into raising employees' awareness towards emergency incidents. Safety trainings regarding the usage of fire equipment as well as fire drills are conducted regularly to educate our employees in the event of a fire. Policy on Prevention of fire accident (《防火檢查巡查制度》) and Fire Drill Plan (《消防滅火及逃生演習方案計劃》) have been established and communicated to all employees. Guideline on Work Injury (《工傷管理規定》) is also established to list out the procedures of handling the compensation claims and reporting the work injury cases. During the reporting period, there were 10 work-related injury cases and 130 days were lost due to work-related illness and injuries.

For employees' healthiness, the Group has put in a dust filtration system in the manufacturing workshop and provides personal protective devices for employees. Decibel standards are established and isolation measures are in place to protect the health of employees from the noises generated during production. Moreover, the Group has established a Policy on Medical Examination (《員工體檢制度》) according to the PRC Law on Prevention and Control on Occupational Diseases. All employees are provided with pre-job medical examination to ensure the employees are competent to their duties. Employees who work in hazardous operations are also provided with medical examinations on an annual basis.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

B. SOCIAL – continued

B3: Development and Training

Professionalism and competency are the core intrinsic values that employees are expected to hold in Kaisa Health. We are committed to provide training to the staffs such that they are professional and competent to apply their best knowledge on their daily job duties. To ensure all the employees have received training, the Policy of Human Resources Management (《人力資源管理程序》) states that every department must prepare an annual staff training plan based on their operation needs. During the reporting period, the Group has organized 31 training events according to the 2018 Annual Staff Training Plan, which covered areas such as pre-job training, compliance and regulations updates, management skills improvement, quality control management and technical skills training. All employees have been provided with training. The total training hours completed by the employees are 8,792 hours. In average, the training hours completed by each employee are 7 hours. Kaisa Health will continuously encourage and organize various training events to meet the expectations and necessities of employees.

Training hours completed by employees by gender and ranking

Training hours	By gender		By ranking				Total training hours
	Male	Female	Chief officer	Senior management	Middle management	General staff	
Number of training hours completed (hours)	4,644	4,148	1,044	752	1,006	5,990	8,792
Average training hours completed per employee (hours)	8	7	261	34	8	6	7

B4: Labour Standards

Human rights are considered the fundamental rights that the Group should value the most. Child or forced labour is strictly prohibited according to the national and local laws and regulations. Such regulations are clearly stated in the Group's Policy on Prohibition of Child Labour (《禁止雇用童工政策》), staff handbook (《員工手冊》) and Policy of Human Resource Management (《人力資源管理程序》). To prevent hiring people aged less than 16, the user department must verify the applicants' identity cards, health certificates and photos during the recruitment process. In addition, when overtime work is required, the Group ensures that the employees do so on a voluntary basis and pays overtime wages in compliance with the laws and regulations.

B5: Supply Chain Management

Kaisa Health focuses on the importance of cooperating with material suppliers. The Group has a rigor set of supplier selection criteria and procurement procedures to select suppliers that uphold the highest quality, in order to minimize any product defects as well as potential environmental and social impacts. Specifically, we require all suppliers to sign a Supplier's/Subcontractor's Letter of Undertaking on Social Responsibility Management (《供應商/分包商社會責任管理承諾書》) ("Letter of Undertaking") and complete a Questionnaire on Environmental Factors of Related Party (《相關方環境因素調查表》) to identify and take immediate control of environmental impacts results from the suppliers. The Letter of Undertaking has set out the corporation's requirements for suppliers in respect of environmental protection and labour standards. During the reporting period, the Group has worked with 41 suppliers in total.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

B. SOCIAL – continued

B5: Supply Chain Management – continued

Number of suppliers by geographical region and type of product/ service

Geographical region						Type of product or service	
Southern China	Eastern China	Northern China	Central China	Southwest China	North America	Dental prosthetics materials	Transportation services
19	13	4	3	1	1	39	2

B6: Product Responsibility

The Group aims at providing customers with high quality products which are internationally recognised, therefore, it has implemented a series of controls to ensure all the products sold are safe and up to standard.

Product quality: Quality Control ("QC") department is set up to perform quality inspection at different stages within the production line, i.e. when raw materials are received, during the production process, and before finished goods being dispatched. All these quality inspection controls are clearly defined in the Quality Inspection Standards for Raw Materials (《原材料品質檢查標準》), Management Procedures for Production Process (《生產過程管理程序》), Procedures for Production and Inspection Process (《過程和產品的監視和測量控制程序》) and Standards for Finished Products (《成品檢驗標準》). All the defect products are placed in a designated area in the factory and handled according to the Procedures for Handling Defect Products (《不合格品管理程序》).

Customers' satisfaction and feedback: The Group's Customer Satisfaction and Feedback Management Procedures (《客戶滿意及回饋管理程序》) states the procedures for the follow-up and handling of problems encountered by customers when using the products. Customer satisfaction surveys are also conducted annually with customers in order to identify rooms for improvements. Customer complaints are taken seriously. Guideline on Handling Client Complaints (《客戶投訴處理規定》) has been implemented to ensure all feedback from customers have been handled properly within a reasonable time. During the reporting period, the customer complaints rate was 0.001% out of the total orders.

Advertising and products labelling: The Group's Management Requirements for Advertising (《廣告管理規定》) specifies that the advertisement documents must be approved by the relevant government department before publishing. Also, the Group's Label Management Regulations (《標籤管理規定》) states the requirements for the design, use, keeping, distribution and destruction of product labels. All the labels of new products shall be designed by the Research and Development ("R&D") department according to the relevant national laws and regulations and submitted to the QC department for inspection, ensuring the labels meet relevant requirements.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

B. SOCIAL – continued

B6: Product Responsibility – continued

Confidentiality: The Group's Regulations on Privacy Management of Customers' Information (《客戶信息保密管理規定》) states that all customers' information must be kept confidential. There are also specific guidelines on access rights setting, procedures of using, keeping and destroying of different types of information in order to prevent leakage of customer data. On the other hand, each employee is required to sign a confidentiality agreement to prohibit the employee from disclosing company confidential information. The heads of each department are responsible to review and report the implementation of confidentiality measures by the employees. In addition, the Group encourages whistleblowing for any irregularities. The whistle-blower would be protected and rewarded while the staff who got reported may be subject to penalties.

Product recall management: The Group has established Product Recall Procedures (《醫療器械召回管理程序》) to ensure all the recalled products have been handled in a timely manner. During the reporting period, the product recall rate was 0% out of the total orders.

B7: Anti-Corruption

In recently years, anti-corruption has been a hot topic even the Chinese Government proactively implement measures to fight against such issue. The Group also believes that maintaining an ethical working environment is essential, and therefore we have formulated an Anti-Corruption Policy (《反貪污政策》) and Integrity Agreement (《廉潔協議》) that specifies the requirements for preventing, detecting and reporting fraud, such as deception, bribery, extortion, corruption, embezzlement, misappropriation, false representation and collusion, and money laundering. Employees of the Group are encouraged to report any acts of non-compliances with laws, disciplines or regulations, and to give comments and suggestions with respect to the Group's operations and management through suggestion boxes and e-mails.

B8: Community investment

Kaisa Health emphasizes the community involvement and philanthropic activities in order to build a healthy and vibrant community for the public through understanding the needs of the community where it operates.

During the reporting period, the Group has contributed to the China Dental Technology Alliance (《中華口腔醫學技術高校聯盟》) by providing the learning materials and courses to students and teachers. The Group has played an obvious leading role in promoting the stomatology by holding the China Dental Technology Alliance — Fifth Working Conference and Forth Period Teacher Training (《中華口腔醫學技術高校聯盟-第五次高校聯盟工作會議及第四期師資培訓》) in 2018. The Group shared valuable experiences in the working conference with more than 30 alliance units, formed by more than 50 members, and led the alliance units to visit the Faculty of Dentistry, The University of Hong Kong. The visit has deeply opened the horizon of the members and improved their technical skills. Looking forward, the Group will contribute more resources to drive the development of the stomatology industry.

DIRECTORS' REPORT

The Directors are pleased to present their annual report and the audited consolidated financial statements for the year ended 31 December 2018.

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company. The activities of its principal subsidiaries are set out in note 35 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 2018 is set out in note 5 to the consolidated financial statements.

RESULTS

The results of the Group for the year ended 31 December 2018 are set out in the consolidated statement of profit or loss and other comprehensive income on pages 62 to 63.

The board of Directors does not recommend the payment of any dividend for the year ended 31 December 2018.

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 10 of this report.

Information on the Company's corporate governance practices is set out in the Corporate Governance Report on pages 15 to 30.

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 2018, 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 135 and 136 of this report.

DIRECTORS' REPORT

MAJOR CUSTOMERS AND SUPPLIERS

During the year, the aggregate sales attributable to the Group's five largest customers was approximately 57.60% of the Group's total sales while the sales attributable to the Group's largest customer was approximately 20.08% of the Group's total sales.

During the year, the aggregate purchases attributable to the Group's five largest suppliers was approximately 46.49% of the Group's total purchases while the purchases attributable to the Group's largest supplier was approximately 13.79% 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 2018 are set out in note 28 to the consolidated financial statements.

Details of movements in the Company's share options during the year ended 31 December 2018 are set out in note 29 to the consolidated financial statements.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES

During the year ended 31 December 2018, the Company bought back a total of 59,470,000 shares on The Stock Exchange of Hong Kong Limited, with the aggregate consideration paid (before expenses) amounting to HK$16,214,000. All the shares bought back have been cancelled. As at the date of this Report, the total number of shares in issue is 5,042,139,374.

RETIREMENT BENEFITS SCHEME

Details of the Group's retirement benefits scheme in operation for the year ended 31 December 2018 are set out in note 3.12 to the consolidated financial statements.

DISTRIBUTABLE RESERVES OF THE COMPANY

As at 31 December 2018, 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$177,221,000.

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 2018 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. Kwok Ying Shing *(Chairman)* (appointed on 26 February 2019)
Mr. Luo Jun *(Co-Vice Chairman and Chief Executive Officer)*
Mr. Wu Tianyu *(Co-Vice Chairman)*
Mr. Xu Hao (re-designated from a non-executive Director to an executive Director on 28 February 2019)

Independent non-executive Directors

Dr. Liu Yanwen
Mr. Guo Peineng (resigned on 5 March 2018)
Mr. Wang Wansong
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. Kwok Ying Shing, being an executive Director, entered into service contract with the Company for an initial term of three years commencing on 26 February 2019, which can be terminated by either party giving not less than three months' notice in writing.

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. Mr. Wu has entered into a supplemental letter with the Company dated 26 February 2019 to amend and supplement the terms of the existing service contract.

Mr. Luo Jun being an executive Director, entered into service contract with the Company for an initial term of three years commencing on 2 December 2016, which can be terminated by either party giving not less than three months' notice in writing. Mr. Luo has entered into a supplemental letter with the Company dated 26 February 2019 to amend and supplement the terms of the existing service contract.

Mr. Xu Hao, being executive Director, entered into a letter of appointment with the Company as a non-executive Director 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. Mr. Xu has entered into a supplemental letter with the Company dated 28 February 2019 to amend and supplement the terms of the existing letter of appointment.

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.

DIRECTORS' REPORT

DIRECTORS' SERVICE CONTRACTS – continued

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

At 31 December 2018, 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. Kwok Ying Shing	Interest of controlled corporation	308,000,000	6.11%
Mr. Wu Tianyu	Beneficial owner	61,910,000	1.23%
Ms. Jiang Sisi	Interest of spouse	61,910,000 (Note 1)	1.23%

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.

DIRECTORS' REPORT

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

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	1.47%
	38,000,000 (note 3)	38,000,000	HK$0.40	0.75%
	112,070,000	112,070,000		
Ms. Jiang Sisi (note 1)	74,070,000 (note 2)	74,070,000	HK$0.784	1.47%
	38,000,000 (note 3)	38,000,000	HK$0.40	0.75%
	112,070,000	112,070,000		

DIRECTORS' REPORT

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 2018.

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 2018, 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 2018.

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

As at 31 December 2018, 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	2,167,600,491 (L)	42.99%
Ying Hua Holdings Limited (Note 3)	Beneficial owner	308,000,000 (L)	6.11%
Mr. Kwok Ying Shing (Note 3)	Interest of controlled corporation	308,000,000 (L)	6.11%
Xianjian Advanced Technology Limited (Note 4)	Beneficial owner	504,000,000 (L)	9.99%
Mr. Xie Yuehui (Note 4)	Interest of controlled corporation	504,000,000 (L)	9.99%
ABG II-RYD Limited (Note 5)	Beneficial owner	270,300,000 (L)	5.36%
Ally Bridge Group Capital Partners II, L.P. (Note 5)	Interest of controlled corporation	270,300,000 (L)	5.36%
ABG Capital Partners II GP, L.P (Note 5)	Interest of controlled corporation	270,300,000 (L)	5.36%
ABG Capital Partners II GP Limited (Note 5)	Interest of controlled corporation	270,300,000 (L)	5.36%
Mr. Yu Fan (Note 5)	Interest of controlled corporation	270,300,000 (L)	5.36%

DIRECTORS' REPORT

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 2018, 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);

DIRECTORS' REPORT

SHARE OPTION SCHEME – continued

Movement of share options during the year ended 31 December 2018 is as follows:

Name	Balance as at 1 January 2018	Granted during the year	Exercised during the year	Forfeited during the year	Balance as at 31 December 2018	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	1.47%
	38,000,000 (note 4)	–	–	–	38,000,000	HK$0.40	0.75%
	112,070,000	–	–	–	112,070,000		
Ms. Jiang Sisi (note 1)	74,070,000 (note 3)	–	–	–	74,070,000	HK$0.784	1.47%
	38,000,000 (note 4)	–	–	–	38,000,000	HK$0.40	0.75%
	112,070,000	–	–	–	112,070,000		
Employees and consultants	7,800,000 (note 2)	–	–	–	7,800,000	HK$0.784	0.15%
	38,000,000 (note 4 & 5)	–	–	(6,500,000)	31,500,000	HK$0.40	0.62%
	45,800,000	–	–	(6,500,000)	39,300,000		
	269,940,000	–	–	(6,500,000)	263,440,000		

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 2018.

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 2018 and up to the date of this report:

(i) On 3 August 2018, the Group has entered into transaction with a subsidiary of Kaisa Group Holdings Ltd., the controlling shareholder of the Company, for the 2018 Proposed Acquisition of the target companies engaged in the provision of public health and medical services. For details, please refer to the announcements of the Company dated 4 May 2018, 24 May 2018, 3 August 2018 and 14 December 2018, and the Circular of the Company dated 28 November 2018.

(ii) During the year ended 31 December 2018, the Group had rented a property from Kaisa Group Holdings Ltd. amounted to HK$546,000. 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.

(iii) During the year ended 31 December 2018, the Group had incurred promotional expense to a dental clinic amounted to HK$624,000. Mr. Wu Tianyu, a Director 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.

DIRECTORS' REPORT

CONNECTED TRANSACTIONS – continued

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.

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.

USE OF PROCEEDS FROM RIGHTS ISSUE

On 28 July 2017, in order to equip the Group with more financial resources, 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, 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 in the dental prosthetic and other dentistry areas (the "Other Potential Acquisitions"). The Company is considering the Other Potential Acquisitions and are in discussions with potential acquisition targets. For details, please refer to the announcement of the Company dated 13 March 2018.

DIRECTORS' REPORT

USE OF PROCEEDS FROM RIGHTS ISSUE – continued

On 4 May 2018, due to the escalation of the tense trade relationships among various countries, the Board considered to be more prudent for the Company to take a more cautious approach for the expansion of the Group's production capacity. It is currently expected that the Group shall enhance its business diversification and risk resistance capacity in order to better cope with the uncertainty of international market. Therefore, the Board decided to re-allocate the sum of approximately HK$296 million initially allocated for the purpose of the Proposed Acquisition of Land to the possible investment opportunities within the health care industry in the PRC. On 3 August 2018, the Group has entered into transaction with a subsidiary of Kaisa Group Holdings Ltd., the controlling shareholder of the Company, for the 2018 Proposed Acquisition of the target companies engaged in the provision of public health and medical services. For details, please refer to the announcements of the Company dated 4 May 2018, 24 May 2018, 3 August 2018 and 14 December 2018 and the Circular of the Company dated 28 November 2018.

Together with the re-allocation and change of use of the proceeds from the Rights Issue, the net proceeds from the Rights Issue will be allocated in the following manner: (i) approximately HK$296 million would be applied to investments within the health care industry in the PRC; (ii) approximately HK$154.16 million would be applied to the Other Potential Acquisitions in the dental prosthetic and other dentistry areas; and (iii) approximately HK$57 million to satisfy the working capital requirements of the Existing Products.

As of the date of this report, approximately HK$43.054 million has been utilized as working capital, HK$179.386 million has been paid as deposit for the 2018 Proposed Acquisition of the target companies engaged in the provision of public health and medical services and as cost in identifying investment opportunities in health care industry in the PRC, and approximately HK$284.720 million of the actual proceeds from the Rights Issue remained unutilized.

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.

DIRECTORS' REPORT

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.

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 2018 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. 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 2019 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 2018, 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 2018.

AUDITOR

The consolidated financial statements of the Company for the year ended 31 December 2018 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

Kwok Ying Shing
Chairman
Hong Kong, 22 March 2019

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
(incorporated in Bermuda with limited liability)

Opinion

We have audited the consolidated financial statements of Kaisa Health Group Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 62 to 134, which comprise the consolidated statement of financial position as at 31 December 2018, 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 2018, 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	How our audit addressed the 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 2018 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 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. For the year ended 31 December 2018, 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 calculation are disclosed in note 16 to the consolidated financial statements.	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 valuation model, assess appropriateness to growth rates and discount rates adopted by management, perform sensitivity analysis on the growth rates and discount rates to assess the extent of impact on the impairment assessment, and check the mathematical accuracy of the valuation model; • Evaluating the appropriateness and reasonableness of key assumptions adopted by the management of the Group based on our knowledge of CGU's strategic plans and industry; and • Checking on sample basis, the relevance of the input data in the calculation by reconciling input data to the approved budget and comparing against historical performance.

INDEPENDENT AUDITOR'S REPORT

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. Loss allowances for trade receivables are based on management's estimate of the lifetime expected credit losses to be incurred, which is estimated by taking into account the credit loss experience, aging of overdue trade receivables, customers' repayment history and customers' financial position and an assessment of both the current and forecast general economic conditions, all of which involve a significant degree of management judgment. At 31 December 2018, the carrying amount of trade receivables is HK$63,559,000 as set out in note 20 to the consolidated financial statements.	Our procedures in relation to the valuation of trade receivables included: • Obtaining an understanding of how the loss allowances for 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; • Assessing the reasonableness of management's loss allowance estimates by examining the information used by management to form such judgments, including testing the accuracy of the historical default data, evaluating whether the historical loss rates are appropriately adjusted based on current economic conditions and forward-looking information and examining the actual losses recorded during the current financial year and assessing whether there was an indication of management bias when recognising loss allowances; and • Inspecting cash receipts from customers after the financial year end relating to trade receivable balances as at 31 December 2018, on a sample basis.

INDEPENDENT AUDITOR'S REPORT

Key Audit Matters – continued

Key audit matter	How our audit addressed the key audit matter
Valuation of convertible bonds receivable and convertible promissory note	
We identified the valuation of convertible bonds receivable and convertible promissory note as a key audit matter due to significant judgments and assumptions involved. As disclosed in notes 17 and 18 to the consolidated financial statements, the carrying amounts of convertible bonds receivable and convertible promissory note measured at fair value as at 31 December 2018 are HK$47,649,000 and HK$29,309,000 respectively, and a gain from change in fair value of HK$449,000 and HK$2,011,000 respectively are recorded in profit or loss for the year ended 31 December 2018. The Group engaged independent qualified professional valuer to perform the valuation of convertible bonds receivable and convertible promissory note. Significant judgments and assumptions, including valuation methodologies and key inputs used, are required to determine the fair value of convertible bonds receivable and convertible promissory note by the valuers.	Our procedures in relation to the valuation of convertible bonds receivable and convertible promissory note included: • Evaluating the independent external valuer's competence, capabilities and objectivity; • Engaging professional valuation expert to evaluate the appropriateness of the valuation model and key inputs used in determining the fair value of convertible bonds receivable and convertible promissory note, and checking its mathematical accuracy; • Reviewing the key terms of the purchase agreements of the convertible bonds receivable and convertible promissory note to obtain understanding of the terms of the transactions; and • Reviewing the adequacy of the disclosures made in notes to the consolidated financial statements.

INDEPENDENT AUDITOR'S REPORT

Other Information

The directors are responsible for the other information. The other information comprises all the information in the 2018 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.

INDEPENDENT AUDITOR'S REPORT

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 2019

Chiu Wing Ning
Practising Certificate No.: P04920

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2018

	Notes	2018 HK$'000	2017 HK$'000
Continuing operation			
Revenue	5	241,948	226,703
Cost of sales		(132,275)	(113,244)
Gross profit		109,673	113,459
Other income, gains and losses	6	10,930	19,399
Selling and distribution costs		(45,061)	(43,752)
Administrative expenses		(70,797)	(59,457)
Gain from change in fair value of convertible bonds receivable	17	449	–
Gain from change in fair value of convertible promissory note	18	2,011	–
Other expenses		(26,460)	(16,052)
(Loss)/Profit before income tax	7	(19,255)	13,597
Income tax expense	10	(2,784)	(8,049)
(Loss)/Profit for the year from continuing operation		(22,039)	5,548
Discontinued operation			
Loss for the year from discontinued operation	12	–	(2,843)
(Loss)/Profit for the year		(22,039)	2,705
Other comprehensive (expense)/income, including reclassification adjustments			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences arising on translation of foreign operations		(9,601)	9,566
Reclassification of exchange differences upon disposal of a subsidiary		–	(2,343)
Other comprehensive (expense)/income for the year		(9,601)	7,223
Total comprehensive (expense)/income for the year		(31,640)	9,928

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2018

	Notes	2018 HK$'000	2017 HK$'000
(Loss)/Profit for the year attributable to owners of the Company:			
– from continuing operation		(22,039)	5,548
– from discontinued operation		–	(1,637)
		(22,039)	3,911
Loss for the year attributable to non-controlling interests:			
– from discontinued operation		–	(1,206)
		–	(1,206)
(Loss)/Profit for the year		(22,039)	2,705
Total comprehensive (expense)/income attributable to:			
Owners of the Company		(31,640)	10,131
Non-controlling interests		–	(203)
		(31,640)	9,928
		HK cents	HK cents
(Loss)/Earnings per share	13		
From continuing and discontinued operation			
– Basic		(0.43)	0.10
– Diluted		(0.43)	0.10
From continuing operation			
– Basic		(0.43)	0.14
– Diluted		(0.43)	0.14

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2018

	Notes	2018 HK$'000	2017 HK$'000
Non-current assets			
Property, plant and equipment	14	35,166	16,716
Intangible assets	15	27,760	28,453
Goodwill	16	330,805	330,805
Deposits paid to a fellow subsidiary	21	140,000	–
Convertible bonds receivable	17	–	49,441
Convertible promissory note	18	29,309	–
		563,040	425,415
Current assets			
Inventories	19	6,877	3,247
Trade and other receivables	20	71,651	72,569
Convertible bonds receivable	17	47,649	–
Amount due from a director	22	27,788	30,087
Amount due from a fellow subsidiary	23	1,466	–
Taxation recoverable		1,150	–
Short-term bank deposits	24	160,000	–
Bank balances and cash	24	194,765	575,448
		511,346	681,351
Current liabilities			
Trade and other payables	25	61,622	54,926
Amount due to a related party	26	730	768
Taxation payable		–	1,077
		62,352	56,771
Net current assets		448,994	624,580
Total assets less current liabilities		1,012,034	1,049,995
Non-current liabilities			
Deferred taxation	27	6,940	7,114
Net assets		1,005,094	1,042,881

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2018

	Notes	2018 HK$'000	2017 HK$'000
Capital and reserves			
Share capital	28	**6,303**	6,377
Reserves		**998,791**	1,036,504
		1,005,094	1,042,881

The consolidated financial statements on pages 62 to 134 were approved and authorised for issue by the Board of Directors on 22 March 2019 and are signed on behalf of the Board by:

Kwok Ying Shing
Director

Luo Jun
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2018

	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 30)	–	–	–	–	–	–	(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 28)	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 29)	–	–	–	–	21,044	–	–	21,044	–	21,044
Release of share option reserve upon share options forfeited	–	–	–	–	(3,000)	3,000	–	–	–	–
Disposal of subsidiaries (note 30)	–	–	–	–	–	–	–	–	(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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2018

	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	Total HK$'000
At 1 January 2018	6,377	1,000,779	1,545	5,727	59,373	(30,920)	1,042,881
Loss for the year	–	–	–	–	–	(22,039)	(22,039)
Exchange differences arising on translation of foreign operations	–	–	–	(9,601)	–	–	(9,601)
Total comprehensive expense for the year	–	–	–	(9,601)	–	(22,039)	(31,640)
Purchase and cancellation of owned shares (note 28)	(74)	(16,140)	–	–	–	–	(16,214)
Recognition of equity-settled share-based payment (note 29)	–	–	–	–	10,067	–	10,067
Release of share option reserve upon share options forfeited	–	–	–	–	(902)	902	–
At 31 December 2018	6,303	984,639	1,545	(3,874)	68,538	(52,057)	1,005,094

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 2018

	Notes	2018 HK$'000	2017 HK$'000
Operating activities			
(Loss)/Profit before income tax			
– from continuing operation		(19,255)	13,597
– from discontinued operation	12	–	(2,843)
		(19,255)	10,754
Adjustments for:			
Amortisation of intangible assets		693	693
Depreciation of property, plant and equipment		7,104	3,786
(Gain)/Loss on disposal of property, plant and equipment		(19)	13
Loss on disposal of subsidiaries	30	–	3,374
(Reversal of) Impairment of trade receivables, net		(301)	875
Interest income on bank deposit		(384)	(26)
Interest income on time deposit		(1,922)	–
Interest income on convertible bonds receivable		–	(2,203)
Interest income on convertible promissory note		(329)	–
Income from short-term investments		(168)	(802)
Gain from change in fair value of convertible bonds receivable		(449)	–
Gain from change in fair value of convertible promissory note		(2,011)	–
Share-based payment expenses		10,067	21,044
Operating cash flows before movements in working capital		(6,974)	37,508
Increase in inventories		(3,972)	(187)
Increase in trade and other receivables		(420)	(15,906)
Increase/(Decrease) in trade and other payables		9,395	(1,256)
Net cash (used in)/generated from operations		(1,971)	20,159
Hong Kong Profits Tax paid		(4,339)	(9,058)
PRC Enterprise Income Tax paid		(773)	(5,142)
Net cash (used in)/from operating activities		(7,083)	5,959
Investing activities			
Income from short-term investments		168	802
Purchase of property, plant and equipment		(27,190)	(11,273)
Net cash outflow from disposal of subsidiaries	30	–	(3,080)
Purchase of short-term investments		(40,717)	(162,451)
Proceeds from redemption of short-term investments		40,717	162,451
Payment of deposits to a fellow subsidiary		(140,000)	–
Purchase of convertible promissory note		(27,489)	–
Increase in short-term bank deposits		(160,000)	–
Repayment from a director		2,063	5,792
Interest received		1,214	26
Proceeds from disposal of property, plant and equipment		55	–
Net cash used in investing activities		(351,179)	(7,733)

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2018

	Notes	2018 HK$'000	2017 HK$'000
Financing activities			
Advances to a fellow subsidiary		(1,466)	–
Repayment to a non-controlling shareholder of a subsidiary	24(b)	–	(1,232)
Repayment to a related party	24(b)	–	(3,252)
Issues of shares upon rights issue	28	–	510,162
Transaction costs on rights issue		–	(2,858)
Payment for repurchase of shares of the Company	28	(16,214)	–
Net cash (used in)/from financing activities		(17,680)	502,820
Net (decrease)/increase in cash and cash equivalents		(375,942)	501,046
Cash and cash equivalents at 1 January		575,448	72,131
Effect of foreign exchange rate changes		(4,741)	2,271
Cash and cash equivalents at 31 December, representing bank balances and cash	24(a)	194,765	575,448

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

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.

The Company is an investment holding company. The principal activities of its principal subsidiaries are set out in note 35.

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

New and amended HKFRSs that are effective for annual periods beginning or after 1 January 2018

In the current year, the Group has applied for the first time the following new and amended 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 2018:

HKFRS 9	Financial Instruments
HKFRS 15	Revenue from Contracts with Customers and the related Amendments
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions
Amendments to HKFRS 4	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts
Amendments to HKFRS 1	As part of the Annual Improvements to HKFRSs 2014-2016 Cycle
Amendments to HKAS 28	As part of the Annual Improvements to HKFRSs 2014-2016 Cycle
Amendments to HKAS 40	Transfers of Investment Property
HK (IFRIC) – Int 22	Foreign Currency Transactions and Advance Consideration

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

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

New and amended HKFRSs that are effective for annual periods beginning or after 1 January 2018 – continued

Other than as noted below, the adoption of the new and amended HKFRSs had no material impact on how the results and financial position for the current and prior periods have been prepared and presented.

HKFRS 9 “Financial Instruments”

HKFRS 9 replaces HKAS 39 “Financial Instruments: Recognition and Measurement” (“HKAS 39”). It makes major changes to the previous guidance on the classification and measurement of financial assets and introduces an “expected credit losses (“ECL”) model” for the impairment of financial assets.

When adopting HKFRS 9, the Group has applied the standard retrospectively to items that existed at 1 January 2018 in accordance with the transition requirement and also applied transitional relief and opted not to restate prior periods. Differences arising from the adoption of HKFRS 9 in relation to classification, measurement, and impairment are recognised in accumulated losses.

The adoption of HKFRS 9 has impacted the following areas:

– the classification and measurement of the Group’s financial assets. The Group has convertible bonds receivable of approximately HK$49,441,000 at 31 December 2017 that was stated at cost, accrued interest less impairment under HKAS 39. As a result of the adoption of HKFRS 9, the convertible bonds receivable is reclassified to financial assets at fair value through profit or loss (“FVTPL”) based on the business model and contractual cash flows characteristics (defined in note 3.18). At 1 January 2018, the fair value of convertible bonds receivable was approximate to its carrying amount with reference to the valuation conducted by an independent external valuer, and accordingly, no adjustment to the opening balance of equity at 1 January 2018 is required.

– HKFRS 9 replaces the “incurred loss” model in HKAS 39 with the ECL model. The ECL model requires an ongoing measurement of credit risk associated with a financial asset and therefore recognises ECL earlier than under the “incurred loss” accounting model in HKAS 39.

The Group applies the new ECL model to the financial assets measured at amortised cost (including short-term bank deposits, bank balances and cash, trade and other receivables, amount due from a director and amount due from a fellow subsidiary). Financial assets at FVTPL, including the convertible bonds receivable and convertible promissory note are not subject to the ECL assessment.

For trade receivables, the Group applies a simplified model of recognising lifetime ECL as these items do not have a significant financing component. For other financial assets, the Group applies a general approach of recognising ECL. As a result of this change in accounting policy on financial assets impairment, there is no significant impact to the Group’s consolidated financial statements and accordingly no adjustment to the opening balance of equity at 1 January 2018 is required.

There have been no changes to the classification or measurement of financial liabilities as a result of the application of HKFRS 9.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

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

New and amended HKFRSs that are effective for annual periods beginning or after 1 January 2018 – continued

HKFRS 15 "Revenue from Contracts with Customers and the related Amendments"

HKFRS 15 "Revenue from Contracts with Customers" and the related "Clarifications to HKFRS 15 Revenue from Contracts with Customers" (hereinafter referred to as "HKFRS 15") replaces HKAS 18 "Revenue", HKAS 11 "Construction Contracts", and several revenue-related Interpretations.

The Group has elected to use the cumulative effect transition method, with the cumulative effect of initial application recognised as an adjustment to the opening balance of equity at 1 January 2018. Therefore, comparative information has not been restated and continues to be reported under HKAS 18. In accordance with the transition guidance under HKFRS 15, the Group has only been applied to contracts that are incomplete as at 1 January 2018.

Summary of nature and effect of the changes on previous accounting policies are set out below:

Timing of revenue recognition

Prior to 1 January 2018, revenue arising from provision of services was recognised when services were provided, whereas revenue from sale of goods was recognised when the goods were delivered and titles had passed.

Under HKFRS 15, revenue is recognised when the customer obtains control of the promised good or service in the contract. This may be at a single point in time or over time. HKFRS 15 identifies the following three situations in which control of the promised good or service is regarded as being transferred over time:

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

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

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

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

The adoption of HKFRS 15 does not have a significant impact on the timing and amounts of revenue recognised in the Group's consolidated statement of profit or loss and other comprehensive income.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

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

Issued but not yet effective HKFRSs

At the date of authorisation of these consolidated financial statements, certain new and amended HKFRSs have been published but are not yet effective, and have not been adopted early by the Group.

HKFRS 16	Leases[1]
HKFRS 17	Insurance Contracts[3]
Amendments to HKFRS 9	Prepayment Features with Negative Compensation[1]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[4]
Amendments to HKAS 19	Plan Amendment, Curtailment or Settlement[1]
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures[1]
Amendments to HKFRS 3	Definition of a Business[5]
Amendments to HKAS 1 and HKAS 8	Definition of Material[2]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2015-2017 Cycle[1]
HK (IFRIC) – Int 23	Uncertainty over Income Tax Treatments[1]

1 Effective for annual periods beginning on or after 1 January 2019
2 Effective for annual periods beginning on or after 1 January 2020
3 Effective for annual periods beginning on or after 1 January 2021
4 Effective date not yet determined
5 Effective for business combinations and asset acquisitions for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1 January 2020

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 expected to have a material impact on the Group's consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

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

Issued but not yet effective HKFRSs – continued

HKFRS 16 "Leases"

HKFRS 16 "Leases" will replace HKAS 17 and three related Interpretations.

As disclosed in note 3.16, the Group enters into some leases as the lessee.

Upon adoption of HKFRS 16, lessees will no longer distinguish between finance leases and operating leases. Instead, subject to practical expedients, lessees will account for all leases in a similar way to current finance lease accounting, i.e. at the commencement date of the lease, the lessee will recognise a lease liability at the present value of the minimum future lease payments and will recognise a corresponding "right-of-use" asset. After initial recognition of this asset and liability, the lessee will recognise interest expense accrued on the outstanding balance of the lease liability, and depreciation of the right-of-use asset, instead of the current policy of recognising rental expenses incurred under operating leases on a systematic basis over the lease term. As a practical expedient, the lessee can elect not to apply this accounting model to short-term leases (i.e. where the lease term is 12 months or less) and to leases of low-value assets, in which case the rental expenses would continue to be recognised on a systematic basis over the lease term.

HKFRS 16 will primarily affect the Group's accounting as a lessee of leases of office premises which are currently classified as operating leases. The application of the new accounting model is expected to lead to an increase in both assets and liabilities and to impact on the timing of the expense recognition in the consolidated statement of profit or loss and other comprehensive income over the period of the lease.

The Group plans to elect to use the modified retrospective approach for the adoption of HKFRS 16 on 1 January 2019 and will recognise the cumulative effect of initial application as an adjustment to the opening balance of equity at 1 January 2019. Comparative information will not be restated. In addition, the Group plans to elect the practical expedient for not applying the new accounting model to short-term leases and leases of low-value assets and not to perform a full review of existing leases and apply HKFRS 16 only to new contracts. Furthermore, the Group plans to use the practical expedient to account for leases for which the lease term ends within 12 months from the date of initial application as short-term lease.

As disclosed in note 31, as at 31 December 2018, the Group's future minimum lease payments under non-cancellable operating leases amount to HK$7,925,000 for office premises. Upon the initial application of HKFRS 16 at 1 January 2019, the opening balances of lease liabilities and the corresponding right-of-use assets will both be adjusted to HK$3,924,000.

Other than the recognition of lease liabilities and right-of-use assets, the Group expects that the transition adjustments to be made upon the initial adoption of HKFRS 16 will not be material. However, the expected changes in accounting policies as described above could have a material impact on the Group's consolidated financial statements from 2019 onwards.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

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 the disclosure requirements of the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared on the historical cost except for certain financial instruments that are measured at fair value. The measurement bases are fully described in the accounting policies below.

It should be noted that accounting estimates and assumptions are used in preparation of the consolidated financial statements. Although these estimates are based on management's best knowledge and judgment of current events and actions, actual results may ultimately differ from those estimates. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in note 4.

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 item 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 in 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING POLICIES – continued

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.

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 HKFRS 9/HKAS 39 or, 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING POLICIES – continued

3.3 Business combinations – continued

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

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the 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 2018

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 groups constituting the discontinued operation.

3.6 Revenue recognition

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

To determine whether to recognise revenue, the Group follows a 5-step process:

1. Identifying the contract with a customer
2. Identifying the performance obligations
3. Determining the transaction price
4. Allocating the transaction price to the performance obligations
5. Recognising revenue when/as performance obligations are satisfied

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING POLICIES – continued

3.6 Revenue recognition – continued

Revenue is recognised either at a point in time or over time, when (or as) the Group satisfies performance obligations by transferring the promised goods or services to its customers.

Further details of the Group's revenue and other income recognition policies are as follows:

Revenue from the sale of goods is recognised when or as the Group transfers control of the goods to the customer.

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 are initially recognised at acquisition cost or manufacturing cost, including any cost directly attributable to bringing the assets to the location and condition necessary for them to be capable of operating in the manner intended by the Group's management. They are stated at cost less accumulated depreciation and 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:

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 2018

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 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

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 recoverable amount, 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 2018

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

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 share options at date of grant are set out in note 29.

The fair value determined at the grant date of the share options is expensed on a straight-line basis over the vesting period, based on the Group's estimate of equity instruments that will eventually vest, with a corresponding increase in equity (share option reserve). At the end of 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 option 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 option reserve will be transferred to accumulated 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 share option reserve, when the Group obtains the goods or when the counterparties render services, unless the goods or services qualify for recognition as assets.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING POLICIES – continued

3.15 Taxation – continued

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 interest 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.

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.

When different tax rates apply to different levels of taxable income, deferred tax assets and liabilities are measured using the average tax rates that are expected to apply to the taxable income of the periods in which the temporary differences are expected to reverse.

The determination of the average tax rates requires an estimation of (i) when the existing temporary differences will reverse and (ii) the amount of future taxable profit in those years. The estimate of future taxable profits includes:

– Income or loss excluding reversals of temporary differences; and
– Reversals of existing temporary differences.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING POLICIES – continued

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 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 (i.e. only translated using the exchange rates at the transaction date).

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING POLICIES – continued

3.18 Financial instruments

3.18.1 Policy applicable from 1 January 2018

(i) Recognition and derecognition

Financial assets and financial liabilities are recognised when the Group becomes a party to the contractual provisions of the financial instrument.

Financial assets are derecognised when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and substantially all of its risks and rewards are transferred. A financial liability is derecognised when it is extinguished, discharged, cancelled or expires.

(ii) Classification and initial measurement of financial assets

Except for those trade receivables that do not contain a significant financing component are measured at the transaction price in accordance with HKFRS 15, all financial assets are initially measured at fair value, in case of a financial asset not at fair value through profit or loss ("FVTPL"), plus transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVTPL are expensed in the consolidated statement of profit or loss and other comprehensive income.

Non-equity financial assets held by the Group are classified into one of the following measurement categories:

- amortised cost, if the financial asset is held for the collection of contractual cash flows which represent solely payments of principal and interest. Interest income from the financial asset is calculated using the effective interest method;

- Fair value through other comprehensive income ("FVOCI") – recycling, if the contractual cash flows of the financial asset comprise solely payments of principal and interest and the financial asset is held within a business model whose objective is achieved by both the collection of contractual cash flows and sale. Changes in fair value are recognised in other comprehensive income, except for the recognition in profit or loss of expected credit losses, interest income (calculated using the effective interest method) and foreign exchange gains and losses. When the financial asset is derecognised, the amount accumulated in other comprehensive income is recycled from equity to profit or loss; or

- FVTPL, if the financial asset does not meet the criteria for being measured at amortised cost or FVOCI (recycling). Changes in the fair value of the financial asset (including interest) are recognised in profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING POLICIES – continued

3.18 Financial instruments – continued

3.18.1 Policy applicable from 1 January 2018 – continued

(ii) Classification and initial measurement of financial assets – continued

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

Trade receivables are recognised when the Group has an unconditional right to receive consideration. A right to receive consideration is unconditional if only the passage of time is required before payment of that consideration is due. They are stated at amortised cost using the effective interest method less allowance for impairment losses.

Other receivables, amount due from a director, amount due from a fellow subsidiary, short-term bank deposits and bank balances and cash of the Group are stated at amortised cost.

As disclosed in note 2, the Group currently classifies its convertible bonds receivable and convertible promissory note as financial assets at FVTPL based on the business model and contractual cash flows characteristics.

(iii) Subsequent measurement of financial assets

Financial assets at amortised cost

After initial recognition, these financial assets are measured at amortised cost using the effective interest method. Interest income from these financial assets is included in other income, gains and losses in profit or loss. Discounting is omitted where the effect of discounting is immaterial.

Financial assets at FVTPL

Financial assets at FVTPL are subsequently carried at fair value. Unrealised and realised gains and losses arising from changes in the fair value of such financial assets are recognised in profit or loss in the period in which they arise.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING POLICIES – continued

3.18 Financial instruments – continued

3.18.1 Policy applicable from 1 January 2018 – continued

(iv) Impairment of financial assets

HKFRS 9's impairment requirements use more forward-looking information to recognise ECL – the "ECL model". Instruments within the scope included financial assets carried at amortised cost.

The Group considers a broader range of information when assessing credit risk and measuring ECL, including past events, current conditions, reasonable and supportable forecasts that affect the expected collectability of the future cash flows of the instrument.

ECL is measured on either of the following bases:

– 12-month ECL: these are losses that are expected to result from possible default events within the 12 months after the reporting date; and

– lifetime ECL: these are losses that are expected to result from all possible default events over the expected lives of the items to which the ECL model applies.

In applying this forwarding-looking approach, a distinction is made between:

– financial instruments that have not deteriorated significantly in credit quality since initial recognition or that have low credit risk ("Stage 1"); and

– financial instruments that have deteriorated significantly in credit quality since initial recognition and whose credit risk is not low ("Stage 2").

"Stage 3" would cover financial assets that have objective evidence of impairment at the reporting date.

"12-month ECL" is recognised for the Stage 1 category while "lifetime ECL" is recognised for the Stage 2 category.

Measurement of the ECL is determined by a probability-weighted estimate of credit losses over the expected life of the financial instrument.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING POLICIES – continued

3.18 Financial instruments – continued

3.18.1 Policy applicable from 1 January 2018 – continued

(iv) Impairment of financial assets – continued

Trade receivables

The Group applies a simplified approach in calculating ECL and recognises a loss allowance based on lifetime ECL at each reporting date. These are expected shortfalls in contractual cash flows, considering the potential for default at any point during the life of the financial assets. In calculating the ECL, the Group has established a provision matrix that is based on its historical credit loss experience and external indicators, adjusted for forward-looking factors specific to the debtors and the economic environment.

Other financial assets measured at amortised cost

The Group measeures the loss allowance for other receivables equal to 12-month ECL, unless when there has been a significant increase in credit risk since initial recognition, in which case the loss allowance is measured at an amount equal to lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increase in the likelihood or risk of default occurring since initial recognition.

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

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

– an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;

– significant deterioration in external market indicators of credit risk, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor;

– existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;

– an actual or expected significant deterioration in the operating results of the debtor;

– an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING POLICIES – continued

3.18 Financial instruments – continued

3.18.1 Policy applicable from 1 January 2018 – continued

(iv) Impairment of financial assets – continued

Despite the aforegoing, the Group assumes that the credit risk on a debt instrument has not increased significantly since initial recognition if the debt instrument is determined to have low credit risk at the end of each reporting period. A debt instrument is determined to have low credit risk if it has a low risk of default, the borrower has strong capacity to meet its contractual cash flow obligations in the near term and adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfill its contractual cash flow obligations.

For internal credit risk management, the Group considers an event of default occurs when information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full (without taking into account any collateral held by the Group).

Detailed analysis of the ECL assessment of trade receivables, other financial assets measured at amortised cost are set out in note 33.2.

(v) Classification and measurement of financial liabilities

The Group's financial liabilities include trade and other payables, and amount due to a related party.

Financial liabilities are initially measured at fair value, and where applicable, adjusted for transaction costs unless the Group designated a financial liability at FVTPL.

Subsequently, financial liabilities are measured at amortised cost using the effective interest method except for derivatives and financial liabilities designated at FVTPL, which are carried subsequently at fair value with gains or losses recognised in profit or loss (other than derivative financial instruments that are designated and effective as hedging instruments).

All interest-related charges and, if applicable, changes in an instrument's fair value that are reported in profit or loss.

Trade and other payables and amount due to a related party

These are recognised initially at their fair value and subsequently measured at amortised cost, using the effective interest method.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING POLICIES – continued

3.18 Financial instruments – continued

3.18.2 Policy applicable before 1 January 2018

(i) Classification and measurement of 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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING POLICIES – continued

3.18 Financial instruments – continued

3.18.2 Policy applicable before 1 January 2018 – continued

(ii) 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;

– 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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING POLICIES – continued

3.18 Financial instruments – continued

3.18.2 Policy applicable before 1 January 2018 – continued

(iii) Measurement of 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.

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, and amount due to a related party are subsequently measured at amortised cost, using the effective interest method.

(iv) Derecognition of financial assets and financial liabilities

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

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING POLICIES – continued

3.19 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.

3.20 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING POLICIES – continued

3.21 Segment reporting

The Group identifies operating segments and prepared segment information based on regular internal financial information reported to the chief operating decision maker ("CODM"). The CODM regularly review revenue analysis and profit for the period of the Group as a whole in order to make decisions about resource allocation.

The Group has identified the following reportable segments:

– Dental prosthetics business – manufacturing of and trading in dental prosthetics

– Health care business – provision of public health and medical services

Each of these operating segments is managed separately as each of the product and service lines requires different resources as well as marketing approaches. All inter-segment transfers are carried out at arm's length prices.

Segment assets include all assets other than certain prepayments, short-term bank deposits, bank balances and cash held by the respective head offices, convertible bonds receivable, convertible promissory note and taxation recoverable.

Segment liabilities exclude corporate liabilities which are not directly attributable to the business activities of any operating segment and are not allocated to a segment. These include deferred taxation.

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") (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 and value in use ("VIU") of the CGU. The VIU amount 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 2018 and 2017, the carrying amount of goodwill is HK$330,805,000. In the opinion of the directors, no impairment of goodwill is required for the years ended 31 December 2018 and 2017.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

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

Key sources of estimation uncertainty – continued

Estimated impairment of trade receivables and other financial assets

Since initial adoption of HKFRS 9, the Group makes allowances on items subjects to ECL (including trade and other receivables, amount due from a director and amount due from a fellow subsidiary) based on assumptions about risk of default and expected loss rates. The Group uses judgment in making these assumptions and selecting the inputs to the impairment calculation, based on the Group's past history, existing market conditions as well as forward looking estimates at the end of each reporting period as set out in note 3.18. As at 31 December 2018, the aggregate carrying amounts of trade and other receivables, amount due from a director and amount due from a fellow subsidiary amounted to HK$66,429,000 (net of ECL allowance of HK$574,000), HK$27,788,000 (net of ECL allowance of HK$Nil), and HK$1,466,000 (net of ECL allowance of HK$Nil), respectively.

Before the adoption of HKFRS 9, 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 aggregate carrying amounts of trade receivables amounted to HK$62,958,000 (net of loss allowance of HK$875,000).

Income tax

At 31 December 2018, no deferred tax asset has been recognised in relation to unused tax losses of approximately HK$45,700,000 (2017: HK$37,157,000) due to the unpredictability of future profit streams (note 27). 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 case 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.

Estimated fair value of financial instruments not traded in an active market

At 31 December 2018, financial instruments that are not traded in an active market including convertible bonds receivable and convertible promissory note are carried at fair value of HK$47,649,000 (2017: carried at cost, accrued interest less impairment of HK$49,441,000 under HKAS 39) and HK$29,309,000 (2017: HK$Nil), respectively. The fair values are determined by using valuation techniques, details of which are set out in notes 17 and 18. This involves developing estimates and assumptions consistent with how market participants would price the instrument. The Group bases its assumptions on observable data as far as possible but this is not always available. In that case the Group uses the best information available. Estimated fair values may vary from the actual prices that would be achieved in an arm's length transaction at the reporting date.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

5. REVENUE AND SEGMENT INFORMATION

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

For the year ended 31 December 2018, the Group's operating activities are attributable to two operating segments focusing on the operation of manufacturing of and trading in dental prosthetics and the health care business. The operation of health care business is introduced to the Group during the year ended 31 December 2018.

For the year ended 31 December 2017, the Group's operating activities were attributable to a single operating segment which focused on the operation of manufacturing of and trading in dental prosthetics. Accordingly, no separate segment information other than entity level information was presented.

5.1 Segment revenue and results

For the year ended 31 December 2018

	Dental prosthetics business HK$'000	Health care business HK$'000	Total HK$'000
REVENUE			
External sales	241,948	–	241,948
RESULTS			
Segment profit/(loss) before depreciation and amortisation	29,588	(13,092)	16,496
Depreciation of property, plant and equipment	(6,915)	(189)	(7,104)
Amortisation of intangible assets	(693)	–	(693)
Segment operating profit/(loss)	21,980	(13,281)	8,699
Gain from change in fair value of convertible bonds receivable			449
Gain from change in fair value of convertible promissory note			2,011
Unallocated income			3,304
Unallocated expenses			(33,718)
Loss before income tax			(19,255)

The accounting policies of the operating segments are the same as the Group's accounting policies. Segment profit/loss represents the profit/loss earned/incurred by each segment without allocation of central administration costs and certain other income, gains and losses, and changes in fair value of convertible bonds receivable and convertible promissory note. This is the information reported to the CODM for the purposes of resource allocation and performance assessment.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

5. REVENUE AND SEGMENT INFORMATION – continued

5.2 Segment assets and liabilities

As at 31 December 2018

	Dental prosthetics business HK$'000	Health care business HK$'000	Total HK$'000
Reportable segment assets	628,832	157,487	786,319
Taxation recoverable			1,150
Unallocated assets			286,917
Total assets			1,074,386
Reportable segment liabilities	(52,395)	(2,083)	(54,478)
Deferred taxation			(6,940)
Unallocated liabilities			(7,874)
Total liabilities			(69,292)

5.3 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 revenue from continuing operation by the location of business operation and the Group's non-current assets by geographical location of assets.

	Revenue from external customers		Non-current assets	
	2018 HK$'000	2017 HK$'000	2018 HK$'000	2017 HK$'000
Hong Kong	124,052	139,963	–	–
PRC	116,292	84,171	34,711	16,295
Others	1,604	2,569	455	421
	241,948	226,703	35,166	16,716

Note: Non-current assets exclude deposits paid to a fellow subsidiary, financial instruments, intangible assets and goodwill.

5.4 Information about major customers

The Group's customer base includes two (2017: two) customers in the dental prosthetics business segment with each of whom transactions have exceeded 10% of the Group's total revenue. Revenue from sales to these customers amounted to approximately HK$48,583,000 and HK$34,079,000 (2017: HK$30,283,000 and HK$25,832,000) respectively.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

6. OTHER INCOME, GAINS AND LOSSES

	2018 HK$'000	2017 HK$'000
Continuing operation		
Interest income on bank deposits	384	26
Interest income on time deposits	1,922	–
Income from short-term investments	168	802
Interest income on convertible bonds receivable	–	2,203
Interest income on convertible promissory note	329	–
Gain/(Loss) on disposal of property, plant and equipment	19	(13)
Government subsidy (note)	2,239	8,601
Consultancy income	2,326	6,451
Net exchange gain	3,341	1,267
Reversal of impairment loss of trade receivables, net	301	–
Others	(99)	62
	10,930	19,399

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 2018

7. (LOSS)/PROFIT BEFORE INCOME TAX

	2018 HK$'000	2017 HK$'000
(Loss)/Profit before income tax has been arrived at after (crediting)/charging:		
Directors' remuneration (note 8)		
– fees	1,088	973
– other emoluments	8,485	4,563
– equity-settled share-based payment expenses	4,221	8,713
– contributions to defined contribution retirement schemes	29	20
	13,823	14,269
Other staff costs		
– staff salaries and allowances	121,261	95,813
– equity-settled share-based payment expenses	5,846	12,331
– contributions to defined contribution retirement schemes	5,788	4,292
	132,895	112,436
Total staff costs	146,718	126,705
Auditor's remuneration		
– Current year	1,245	1,180
Amortisation of intangible assets (included in cost of sales)	693	693
Cost of inventories recognised as expense	131,582	112,551
Depreciation of property, plant and equipment	7,104	3,786
(Reversal of) Impairment of trade receivables, net	(301)	875
Net exchange gain (included in other income, gains and losses)	(3,341)	(1,267)
Operating lease rentals in respect of rented premises	7,350	5,031
Research and development expenses (included in other expenses)	26,460	16,052

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

8. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS

Directors' and chief executive's remuneration for the year, disclosed pursuant to the applicable Listing Rules, section 383(1) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation, is as follows:

	Fees HK$'000	Basic salaries and allowances HK$'000	Performance related incentive bonus HK$'000	Equity-settled share-based payment expenses HK$'000	Retirement benefits scheme contributions HK$'000	Total HK$'000
2018						
Executive directors						
Mr. Luo Jun	–	600	1,400	–	18	2,018
Mr. Wu Tianyu	–	2,705	3,780	4,221	11	10,717
Non-executive director						
Mr. Xu Hao (note a)	400	–	–	–	–	400
Independent non-executive directors						
Dr. Liu Yanwen	180	–	–	–	–	180
Mr. Wang Wansong	180	–	–	–	–	180
Mr. Fok Hei Yu (note b)	148	–	–	–	–	148
Dr. Lyu Aiping (note b)	148	–	–	–	–	148
Mr. Guo Peineng (note c)	32	–	–	–	–	32
	1,088	3,305	5,180	4,221	29	13,823

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

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

	Fees HK$'000	Basic salaries and allowances HK$'000	Performance related incentive bonus HK$'000	Equity-settled share-based payment expenses HK$'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 d)	–	63	–	–	–	63
Non-executive directors						
Dr. Jiang Feng (note d)	26	–	–	–	–	26
Mr. Xu Hao	400	–	–	–	–	400
Independent non-executive directors						
Dr. Loke Yu alias Loke Hoi Lam (note e)	5	–	–	–	–	5
Mr. Wu Jixian (note f)	11	–	–	–	–	11
Dr. Liu Yanwen (note g)	175	–	–	–	–	175
Mr. Wang Wansong (note h)	130	–	–	–	–	130
Mr. Song Qun (note i)	51	–	–	–	–	51
Mr. Guo Peineng (note c)	175	–	–	–	–	175
	973	3,063	1,500	8,713	20	14,269

Notes:

(a) Re-designated from a non-executive director to an executive director with effect from 28 February 2019.

(b) Appointed as an independent non-executive director with effect from 5 March 2018.

(c) Appointed as an independent non-executive director with effect from 11 January 2017, and resigned on 5 March 2018.

(d) Resigned on 21 February 2017.

(e) Resigned on 11 January 2017.

(f) Resigned on 23 January 2017.

(g) Appointed as an independent non-executive director with effect from 11 January 2017.

(h) Appointed as an independent non-executive director with effect from 11 April 2017.

(i) Resigned on 11 April 2017.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

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

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.

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 29 to the Group's consolidated financial statements.

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid individuals of the Group during the year included two (2017: one) director(s), details of whose remunerations are set out in note 8. The details of the remaining three (2017: four) highest paid employees who are not a director or chief executive of the Company are as follows:

	2018 **HK$'000**	2017 HK$'000
Continuing operation		
Staff salaries and allowances	**9,219**	6,001
Equity-settled share-based payment expenses	**4,356**	10,017
Contributions to defined contribution retirement schemes	**94**	36
	13,669	16,054

The emoluments were within the following bands:

	2018 **HK$'000**	2017 HK$'000
Continuing operation		
Nil to HK$1,000,000	**–**	1
HK$1,000,001 to HK$2,000,000	**1**	1
HK$2,000,001 to HK$3,000,000	**1**	1
HK$9,000,001 to HK$10,000,000	**1**	–
HK$11,000,001 to HK$12,000,000	**–**	1
	3	4

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For the year ended 31 December 2018

9. FIVE HIGHEST PAID EMPLOYEES – continued

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

	2018 HK$'000	2017 HK$'000
Continuing operation		
Current tax:		
Hong Kong Profits Tax	2,918	5,324
PRC Enterprise Income Tax	–	3,088
	2,918	8,412
Under/(Over)-provision in prior years:		
Hong Kong Profits Tax	(30)	(203)
PRC Enterprise Income Tax	70	13
	40	(190)
Deferred tax credit (note 27)	(174)	(173)
	2,784	8,049

On 21 March 2018, the Hong Kong Legislative Council passed The Inland Revenue (Amendment) (No. 7) Bill 2017 (the "Bill") which introduces the two-tiered profits tax rates regime. The Bill was signed into law on 28 March 2018 and was gazetted on the following day.

Under the two-tiered profits tax rates regime, the first HK$2 million of profits of qualifying entities will be taxed at 8.25%, and the profits above HK$2 million will be taxed at 16.5%. The profits of entities not qualifying for the two-tiered profits tax rates regime will continue to be taxed at 16.5%. For the year ended 31 December 2018, Hong Kong Profits Tax of Royal Dental Laboratory Limited, a subsidiary of the Group, is calculated in accordance with the two-tiered profits tax rates regime.

For the year ended 31 December 2017, Hong Kong Profits Tax was calculated at a flat rate of 16.5% of the estimated assessable profit for the year.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

10. INCOME TAX EXPENSE – continued

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" ("HNTE") in the PRC with effect from 2 November 2015 and further accredited as HNTE with effect from 9 November 2018, and was registered with the local tax authority to be eligible to a concessionary tax rate of 15% for three years from 2015 to 2017, and another three years from 2018 to 2020.

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 years ended 31 December 2018 and 2017.

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

	2018	2017
	HK$'000	HK$'000
(Loss)/Profit before income tax (from continuing operation)	**(19,255)**	13,597
Tax charge at applicable tax rate at 25%	**(4,814)**	3,399
Effect of different tax rates of subsidiaries operating in Hong Kong	**(1,588)**	(2,743)
Tax effect of income not taxable for tax purpose	**(2,405)**	(581)
Tax effect of expenses not deductible for tax purpose	**12,805**	12,066
Tax effect of Super Deduction on research and development expenses	**(3,308)**	(2,006)
Tax effect on concessionary tax rate	**(165)**	(2,028)
Tax effect of tax losses not recognised	**2,203**	265
Tax effect of temporary difference not recognised	**3**	(111)
Utilisation of tax losses previously not recognised	**(67)**	–
Under/(Over)-provision in prior years	**40**	(190)
Others	**80**	(22)
Tax charge for the year (from continuing operation)	**2,784**	8,049

11. DIVIDENDS

No dividends were paid, declared or proposed for the years ended 31 December 2018 and 2017, nor has any dividend been proposed since the end of the reporting periods.

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For the year ended 31 December 2018

12. DISCONTINUED OPERATION

Pursuant to the board resolution dated 2 December 2016, the directors of the Company decided to discontinue the Electronic Manufacturing Services Business ("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 Holdings Limited and its subsidiaries (collectively referred to as the "Modern Success Group"), at a consideration of HK$2,800,000. The disposal was completed on 22 February 2017.

Accordingly, 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) were accounted for as a discontinued operation in the consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2017.

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

	2017 HK$'000
Revenue	2,308
Cost of sales	(2,010)
Gross profit	298
Other income	6,951
Selling and distribution costs	(10)
Administrative expenses	(6,708)
Loss on disposal of subsidiaries	(3,374)
Loss before income tax	(2,843)
Income tax expense	–
Loss for the year from discontinued operation	(2,843)

During the year ended 31 December 2017, the discontinued operation paid cash flows of HK$6,086,000 in respect of the Group's operating activities, paid cash flows of HK$3,080,000 in respect of investing activities and paid cash flows of HK$1,109,000 in respect of financing activities.

Directors' and chief executive's remuneration, disclosed pursuant to the applicable Listing Rules, section 383(1) for the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation for the year ended 31 December 2017 was HK$Nil.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

13. (LOSS)/EARNINGS PER SHARE

From continuing operation

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

	2018 HK$'000	2017 HK$'000
(Loss)/Profit figures are calculated as follows:		
(Loss)/Profit for the year attributable to owners of the Company	(22,039)	3,911
Loss for the year from discontinued operation attributable to owners of the Company	–	1,637
(Loss)/Profit for the purpose of basic (loss)/earnings per share from continuing operation	(22,039)	5,548

Number of shares

	2018	2017
Weighted average number of ordinary shares for the purpose of basic and diluted (loss)/earnings per share	5,083,611,319	3,953,531,060*

* Adjusted for rights issue of shares during the year ended 31 December 2017 as disclosed in note 28.

From continuing and discontinued operation

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

	2018 HK$'000	2017 HK$'000
(Loss)/Profit for the year attributable to owners of the Company for the purpose of basic and diluted (loss)/earnings per share	(22,039)	3,911

The diluted (loss)/earnings per share for the years ended 31 December 2018 and 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.

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

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For the year ended 31 December 2018

13. (LOSS)/EARNINGS PER SHARE – continued

From discontinued operation

Basic loss per share for the discontinued operation for the year ended 31 December 2017 was 0.04 HK cents per share, based on the loss for the year from the discontinued operation attributable to owners of the Company of HK$1,637,000 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 did 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.

14. PROPERTY, PLANT AND EQUIPMENT

	Moulds, plant and machinery HK$'000	**Furniture, fixtures and equipment** HK$'000	**Leasehold improvements** HK$'000	**Motor vehicles** HK$'000	**Total** HK$'000
Cost					
At 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 and 1 January 2018	19,498	3,205	435	1,032	24,170
Currency realignment	(1,565)	(400)	(161)	–	(2,126)
Additions	16,865	6,883	3,442	–	27,190
Disposals/write-off	(2,433)	(448)	–	–	(2,881)
At 31 December 2018	32,365	9,240	3,716	1,032	46,353
Depreciation/Impairment					
At 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 and 1 January 2018	5,095	1,667	412	280	7,454
Currency realignment	(374)	(122)	(30)	–	(526)
Provided for the year	5,330	1,461	230	83	7,104
Disposals/write-off	(2,427)	(418)	–	–	(2,845)
At 31 December 2018	7,624	2,588	612	363	11,187
Carrying values					
At 31 December 2018	**24,741**	**6,652**	**3,104**	**669**	**35,166**
At 31 December 2017	14,403	1,538	23	752	16,716

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For the year ended 31 December 2018

15. INTANGIBLE ASSETS

	Trademarks and patent HK$'000
Cost	
At 1 January 2017, 31 December 2017, 1 January 2018 and 31 December 2018	32,149
Amortisation	
At 1 January 2017	3,003
Provided for the year	693
At 31 December 2017 and 1 January 2018	3,696
Provided for the year	693
At 31 December 2018	4,389
Carrying values	
At 31 December 2018	**27,760**
At 31 December 2017	28,453

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 the 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 2018 and 2017, the directors determined that there is no impairment of the trademarks.

16. GOODWILL

	HK$'000
Cost	
At 1 January 2017, 31 December 2017, 1 January 2018 and 31 December 2018	**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 2018 and 2017, 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.

The recoverable amount of the CGU has been determined based on a VIU calculation. The calculation uses cash flows projections based on financial budgets approved by the management for the year ending 31 December 2019 and the following four years based on average growth rate of 35.5% (2017: 38.1%) per annum. Cash flows beyond the five-year (2017: five-year) period are extrapolated using 3% (2017: 3%) growth rate. A discount rate of 19% (2017: 19.5%) 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

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 carry 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.

As detailed in note 2, the convertible bonds receivable was reclassified to FVTPL upon the adoption of HKFRS 9 on 1 January 2018. As at 31 December 2018, the convertible bonds receivable has been fair valued with reference to the valuation conducted by an independent external valuer. A gain from change in fair value of approximately HK$449,000 is recognised in the consolidated statement of profit or loss and other comprehensive income during the year ended 31 December 2018.

Details of movement is set out below:

	HK$'000
At 1 January 2017	40,984
Exchange realignment	6,254
Interest income receivable	2,203
At 31 December 2017 and 1 January 2018	49,441
Exchange realignment	(2,241)
Change in fair value recognised in profit or loss	449
At 31 December 2018	**47,649**

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18. CONVERTIBLE PROMISSORY NOTE

On 15 March 2018, the Group entered into a Note Purchase Agreement with an independent third party (the "Issuer"), pursuant to which the Group has subscribed 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 convertible promissory note is classified as FVTPL under HKFRS 9 and as at 31 December 2018, the convertible promissory note has been fair valued with reference to the valuation conducted by an independent external valuer. A gain from change in fair value of approximately HK$2,011,000 is recognised in the consolidated statement of profit or loss and other comprehensive income during the year ended 31 December 2018.

Details of movement is set out below:

	HK$'000
At 1 January 2018	–
At date of subscription	27,489
Exchange realignment	(191)
Change in fair value recognised in profit or loss	2,011
At 31 December 2018	**29,309**

19. INVENTORIES

	2018 **HK$'000**	2017 HK$'000
Raw materials	**6,877**	3,247

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

20. TRADE AND OTHER RECEIVABLES

	2018 HK$'000	2017 HK$'000
Trade receivables	**64,133**	63,833
Less: ECL allowance/loss allowance	**(574)**	(875)
	63,559	62,958
Other receivables, prepayments and deposits	**8,092**	9,611
	71,651	72,569

The following is an aged analysis of trade receivables, presented based on invoice date (also approximates to revenue recognition date), net of ECL allowance (2017: net of loss allowance), at the end of the reporting period:

	2018 HK$'000	2017 HK$'000
0 – 90 days	**58,171**	55,876
91 – 180 days	**3,099**	5,002
181 – 365 days	**1,966**	1,493
Over 1 year	**323**	587
	63,559	62,958

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 ECL allowance (2017: loss allowance) of trade receivables is as follows:

	2018 HK$'000	2017 HK$'000
At 1 January	**875**	–
Amount reversed during the year	**(545)**	–
ECL/Loss allowance recognised during the year	**244**	875
At 31 December	**574**	875

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

21. DEPOSITS PAID TO A FELLOW SUBSIDIARY

On 3 August 2018, the Group entered into the Sale and Purchase Agreement ("SPA") with Rui Jing Investment Company Limited ("Vendor"), a wholly-owned subsidiary of Kaisa Group Holdings Ltd., which is the Group's ultimate holding company, pursuant to which the Vendor has conditionally agreed to sell, and the Group has conditionally agreed to acquire the entire issued share capital ("Sale Share") of Trade Guide Limited ("Target Company"), a wholly-owned subsidiary of the Vendor, and the Vendor has conditionally agreed to assign and the Group has conditionally agreed to take up the interest free shareholder's loan in an estimated amount of RMB191,412,000 ("Sale Loan") to be provided by the Vendor to the Target Company and its associates (collectively referred to as the "Target Group"), at an aggregate consideration of RMB193,000,000 (equivalent to approximately HK$221,732,000).

The Target Group is planned to engage in a project which is intended to be built as a Grade 3A Hospital with 2,000 beds and to cover organ transplantation, minimum invasive surgery, biological diagnosis and precision medical services. Further details of the SPA are disclosed in the Company's circular dated 28 November 2018, and the announcements dated 4 May 2018, 24 May 2018, 3 August 2018, 31 August 2018, 28 September 2018, 31 October 2018 and 14 December 2018 respectively.

As at 31 December 2018, the balances represent deposits paid to the Vendor.

22. 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 of the Company), and the maximum amount outstanding during the year ended 31 December 2018 is HK$30,087,000 (2017: HK$35,534,000).

23. AMOUNT DUE FROM A FELLOW SUBSIDIARY

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

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24. SHORT-TERM BANK DEPOSITS AND BANK BALANCES AND CASH

(a) Short-term bank deposits and bank balances and cash comprise:

	2018 HK$'000	2017 HK$'000
Short-term bank deposits	160,000	–
Bank balances and cash	194,765	575,448
	354,765	575,448

The effective interest rates of short-term bank deposits are ranged from 2.20% to 2.50% per annum, with maturities within 12 months as at 31 December 2018.

Bank balances carry interest at market rates which ranges from 0.001% to 0.32% (2017: 0.001% to 0.35%) per annum.

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

	2018 HK$'000	2017 HK$'000
United States dollar	26,358	11,924
Euro	13,397	3,061

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24. SHORT-TERM BANK DEPOSITS AND 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 HK$'000	**Amount due to a related party** HK$'000 (note 26)	**Amount due to a non-controlling shareholder of a subsidiary** 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)
Total changes from financing cash flows	(3,252)	–	(1,232)	(4,484)
Non-cash changes:				
Currency realignment	–	56	–	56
At 31 December 2017 and 1 January 2018	–	768	–	768
Non-cash changes:				
Currency realignment	–	(38)	–	(38)
At 31 December 2018	**–**	**730**	**–**	**730**

25. TRADE AND OTHER PAYABLES

	2018 **HK$'000**	2017 HK$'000
Trade payables	**6,717**	9,792
Other payables	**17,092**	15,211
Accrued charges	**37,813**	29,923
	61,622	54,926

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For the year ended 31 December 2018

25. TRADE AND OTHER PAYABLES – continued

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

	2018 HK$'000	2017 HK$'000
0 - 90 days	6,486	9,369
91 - 180 days	97	256
Over 180 days	134	167
	6,717	9,792

The average credit period on purchases of goods is 90 days (2017: 90 days).

26. AMOUNT DUE TO A RELATED PARTY

At 31 December 2018, the amount of HK$730,000 (2017: HK$768,000) represents balance due to Ms. Jiang Sisi ("Ms. Jiang", the spouse of Mr. Wu (defined in note 22)). The amount is unsecured, interest-free and repayable on demand.

27. 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 2017	7,287
Credit to profit or loss for the year	(173)
At 31 December 2017 and 1 January 2018	7,114
Credit to profit or loss for the year	(174)
At 31 December 2018	**6,940**

At 31 December 2018, the Group had unused tax losses of HK$45,700,000 (2017: HK$37,157,000) 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$603,000 and HK$8,663,000 that will expire in 2022 and 2023 respectively (2017: HK$890,000 that will expire in 2022). Other losses may be carried forward indefinitely.

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28. SHARE CAPITAL

	Number of shares	Share capital HK$'000
Ordinary shares of HK$0.00125 each:		
Authorised:		
At 1 January 2017, 31 December 2017, 1 January 2018 and 31 December 2018	160,000,000,000	200,000
Issued and fully paid:		
At 1 January 2017	3,826,207,031	4,783
Issue of shares upon rights issue (note (i))	1,275,402,343	1,594
At 31 December 2017 and 1 January 2018	5,101,609,374	6,377
Shares repurchased and cancelled (note (ii))	(59,470,000)	(74)
At 31 December 2018	**5,042,139,374**	**6,303**

Note:

(i) 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.

(ii) During the year, the Company repurchased a total of 59,470,000 shares on the Stock Exchange as follows:

Month/year	Number of shares repurchased '000	Highest price paid per share HK$	Lowest price paid per share HK$	Aggregate price paid HK$'000
July 2018	**18,820**	**0.299**	**0.268**	**5,425**
August 2018	**1,270**	**0.276**	**0.265**	**347**
September 2018	**4,000**	**0.270**	**0.265**	**1,070**
October 2018	**34,520**	**0.272**	**0.260**	**9,144**
November 2018	**860**	**0.265**	**0.265**	**228**
				16,214

All shares repurchased were cancelled during the year. The issued share capital of the Company was accordingly diminished by the nominal value of these shares. The premium paid on repurchase was charged against the share premium account.

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For the year ended 31 December 2018

29. 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.

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 2018, the number of shares in respect of which options had been granted and remained outstanding under the Scheme was 263,440,000 (2017: 269,940,000), representing 5.2% (2017: 5.3%) of the shares of the Company in issue at that date.

No share options were granted during the years ended 31 December 2018 and 2017.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

29. 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

29. SHARE OPTIONS – continued

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 1.1.2017	Forfeited during the year	Outstanding at 31.12.2017 and 1.1.2018	Forfeited during the year	Outstanding at 31.12.2018
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	(1,100,000)	3,800,000	–	3,800,000
Employees	2016	30,000,000	–	30,000,000	(6,500,000)	23,500,000
Consultants	2015A	12,000,000	(8,000,000)	4,000,000	–	4,000,000
		279,040,000	(9,100,000)	269,940,000	(6,500,000)	**263,440,000**
Exercisable at the end of the year		50,260,000		112,170,000		**177,055,000**
Weighted average exercise price		0.627	0.784	0.622	0.4	**0.627**

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

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 2018, the Group recognised a share-based payment expense of HK$10,067,000 (2017: HK$21,044,000) in the consolidated statement of profit or loss and other comprehensive income.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

30. DISPOSAL OF SUBSIDIARIES

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 an ultimate holding company	(3,136)
Amount due to a 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 an 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)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

31. 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:

	2018 HK$'000	2017 HK$'000
Within one year	**5,713**	4,115
In second to fifth year inclusive	**2,212**	2,624
	7,925	6,739

Leases are negotiated and rentals are fixed for an average term of 3 years (2017: 3 years).

32. 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

33. FINANCIAL INSTRUMENTS

33.1 Categories of financial instruments

	2018 HK$'000	2017 HK$'000
Financial assets		
Financial assets at amortised cost:		
Trade and other receivables	66,429	–
Amount due from a director	27,788	–
Amount due from a fellow subsidiary	1,466	–
Short-term bank deposits	160,000	–
Bank balances and cash	194,765	–
	450,448	–
Financial assets at FVTPL:		
Convertible bonds receivable	47,649	–
Convertible promissory note	29,309	–
	76,958	–
Loans and receivables:		
Trade and other receivables	–	65,542
Amount due from a director	–	30,087
Bank balances and cash	–	575,448
	–	671,077
Convertible bonds receivable	–	49,441
	527,406	720,518
Financial liabilities		
Financial liabilities measured at amortised cost:		
Trade and other payables	44,696	40,639
Amount due to a related party	730	768
	45,426	41,407

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

33. FINANCIAL INSTRUMENTS – continued

33.2 Financial risk management objectives and policies

The Group's major financial instruments include trade and other receivables, convertible bonds receivable, convertible promissory note, amount due from a director, amount due from a fellow subsidiary, short-term bank deposits, bank balances and cash, trade and other payables and amount due to a related party. 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.

Market risk

Interest rate risk

At 31 December 2018 and 2017, the Group is exposed to fair value interest rate risk in relation to fixed-rate bank deposits, fixed-rate convertible bonds receivable and fixed-rate convertible promissory note. 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 2018 and 2017, 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

33. FINANCIAL INSTRUMENTS – continued

33.2 Financial risk management objectives and policies – continued

Market risk – continued

Foreign currency risk – continued

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

	2018 EUR HK$'000	2017 EUR HK$'000
Trade and other receivables	986	4,251
Convertible bonds receivable	47,649	49,441
Bank balances and cash	13,397	3,061
	62,032	56,753

The following table illustrates the sensitivity of the Group's (loss)/profit 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 best assessment of the possible change in foreign exchange rates.

	Sensitivity rate %	Decrease in loss/ Increase in profit HK$'000	Increase in equity HK$'000
2018			
EUR	**5%**	**2,590**	**2,590**
2017			
EUR	5%	2,369	2,369

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

Credit risk

At 31 December 2018 and 2017, 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

33. FINANCIAL INSTRUMENTS – continued

33.2 Financial risk management objectives and policies – continued

Credit risk – continued

Applicable from 1 January 2018

(i) Trade receivables

The Group's credit risk is primarily attributable to its trade receivables. At 31 December 2018, the Group has concentration of credit risk on certain trade receivables as 12% (2017: 17%) and 31% (2017: 36%) 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 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. In addition, as set out in note 3.18.1(iv), the Group assesses ECL under HKFRS 9 on trade receivables based on provision matrix, the expected loss rates are based on the payment profile for sales as well as the corresponding historical credit losses. The historical rates are adjusted to reflect current and forward-looking macroeconomic factors affecting the customer's ability to settle the amount outstanding. At each reporting date, the historical default rates are updated and changes in the forward-looking estimates are analysed.

Based on the above basis, the Group's management considers that the loss allowance inherent in the Group's outstanding trade receivables within one year are not significant, while loss allowance is made in full on the Group's outstanding trade receivables over one year.

(ii) Other financial assets at amortised cost

Other financial assets at amortised cost include other receivables, short-term bank deposits, bank balances and cash, amount due from a director and amount due from a fellow subsidiary. In order to minimise the credit risk of other receivables and amounts due from related parties, the management would make periodic collective and individual assessment on the recoverability of other receivables and amounts due from related parties based on historical settlement records and past experience as well as current external information. Other monitoring procedures are in place to ensure that follow-up action is taken to recover overdue debts. In these regards, the credit risk of other receivables and amounts due from related parties are considered to be low.

Besides, the Group's management is of opinion that there is no significant increase in credit risk on these financial assets since initial recognition as the risk of default is low after considering the factors as set out in note 3.18.1(iv) and thus, ECL recognised is based on 12-month ECL and is close to zero.

The credit risks on short-term bank deposits and bank balances and cash are considered to be insignificant because the counterparties are banks/financial institutions with high credit ratings assigned by international credit-rating agencies.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

33. FINANCIAL INSTRUMENTS – continued

33.2 Financial risk management objectives and policies – continued

Credit risk – continued

Applicable before 1 January 2018

At 31 December 2017, the Group reviewed receivables for evidence of impairment on both an individual and collective basis. As at 31 December 2017, the Group had determined trade receivables of HK$875,000 as individually impaired. Based on this assessment, impairment loss of HK$875,000 had been recognised. The impaired trade receivables were due from customers experiencing financial difficulties that were in default or delinquency of payments.

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

The Group had concentration of credit risk in respect of amount due from a director. However, the management considered the risk associated with amount due from a director was minimal.

The credit risk on bank balances was limited as such amounts were 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 2018

33. FINANCIAL INSTRUMENTS – continued

33.2 Financial risk management objectives and policies – continued

Liquidity risk

In the management of liquidity risk, the Group monitors and maintains a level of bank balances and cash 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 2018 and 2017, 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
At 31 December 2018			
Non-derivative financial liabilities			
Trade and other payables	**44,696**	**44,696**	**44,696**
Amount due to a related party	**730**	**730**	**730**
	45,426	**45,426**	**45,426**
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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

33. FINANCIAL INSTRUMENTS – continued

33.3 Fair value measurement of financial instruments

Financial assets and liabilities measured at fair value

The following table presents the fair value of the Group's financial instruments measure at the end of the reporting period on a recurring basis, categorised into the three-level fair value hierarchy as defined in HKFRS 13 "Fair Value Measurement". The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation techniques 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.

	At 31 December 2018			
	Level 1 HK$'000	Level 2 HK$'000	Level 3 HK$'000	Total HK$'000
Recurring fair value measurement				
Financial assets at FVTPL:				
Convertible bonds receivable	–	–	47,649	47,649
Convertible promissory note	–	–	29,309	29,309
	–	–	76,958	76,958

As at 31 December 2017, the Group had no financial assets and liabilities measured at fair value.

During the years ended 31 December 2018 and 2017, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3. The Group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

33. FINANCIAL INSTRUMENTS – continued

33.3 Fair value measurement of financial instruments – continued

Information about Level 3 fair value measurements

The fair values of convertible bonds receivable and convertible promissory note are determined by using the binomial option pricing model. The valuation techniques and significant unobservable inputs are as follows:

Valuation techniques	Significant unobservable inputs	Range (Weighted average)	Sensitivity relationship of unobservable inputs to fair value
Discounted cash flow model and binomial option pricing model	Expected volatility	Convertible bonds receivable: 55.5% Convertible promissory note: 50.4% (53.5%) (2017: Nil)	Increase/(decrease) in expected volatility would result in increase/(decrease) in fair value
	Discount rate	Convertible bonds receivable: 8.5% Convertible promissory note: 9.8% (9.0%) (2017: Nil)	Increase/(decrease) in discount rate would result in (decrease)/increase in fair value

The movements during the year in the balance of Level 3 fair value measurements are disclosed in notes 17 and 18.

Financial assets and liabilities not reported at fair value

The directors of the Company consider that the carrying amounts of financial assets and financial liabilities carried at amortised cost in the consolidated financial statements approximate their fair values as at 31 December 2018 and 2017.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

34. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY

	2018 HK$'000	2017 HK$'000
Non-current assets		
Investments in subsidiaries	344,915	389,702
Current assets		
Prepayments	1,866	797
Amounts due from subsidiaries	308,723	55,315
Amount due from a fellow subsidiary	1,466	–
Dividend receivable	50,000	–
Short-term bank deposits	100,000	–
Bank balances and cash	108,093	488,367
	570,148	544,479
Current liabilities		
Other payable and accrued charges	7,874	5,315
Net current assets	562,274	539,164
Total assets less current liabilities/Net assets	907,189	928,866
Capital and reserves		
Share capital	6,303	6,377
Reserves	900,886	922,489
	907,189	928,866

On behalf of the Board by:

Kwok Ying Shing
Director

Luo Jun
Director

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

34. 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 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 and 1 January 2018	1,000,779	59,373	24,930	(162,593)	922,489
Loss for the year	–	–	–	(15,530)	(15,530)
Purchase and cancellation of owned shares	(16,140)	–	–	–	(16,140)
Recognition of equity-settled share-based payment	–	10,067	–	–	10,067
Release of share option reserve upon share options forfeited	–	(902)	–	902	–
At 31 December 2018	**984,639**	**68,538**	**24,930**	**(177,221)**	**900,886**

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

35. PRINCIPAL SUBSIDIARIES

Details of the Company's principal subsidiaries, all of which are directly and indirectly owned by the Company at 31 December 2018 and 2017 are as follows:

Name of subsidiary	Place of incorporation/ establishment/ operations	Particulars of issued and paid up capital/ registered capital	Attributable equity interest of the Group		Principal activities
			2018	2017	
深圳市金悠然科技有限公司	PRC	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	RMB1,000,000	100%	100%	Manufacture of and trading in dental prosthetics
On Growth Global Development Limited	BVI	USD100	100%	100%	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
Huge Profit Group Limited	Hong Kong	HK$1	100%	100%	Investment holding of convertible promissory note

Note:

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 2018 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 2018 and 2017, the directors considered there is no material non-controlling interests held by the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

36. 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:

	2018 HK$'000	2017 HK$'000
Nature of transactions		
Rental expenses paid to Kaisa Group Holdings Ltd.	546	319
Promotion expenses paid to a related company controlled by Mr. Wu	624	936

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.

FINANCIAL SUMMARY

	Year ended 31 December				
	2014 HK$'000	2015 HK$'000	2016 HK$'000 (Note)	2017 HK$'000 (Note)	**2018** **HK$'000**
RESULTS					
Continuing operation					
Revenue	363,455	99,873	188,140	226,703	**241,948**
Profit/(Loss) before income tax	(124,647)	(6,566)	9,252	13,597	**(19,255)**
Income tax expense	(983)	(3,810)	(10,547)	(8,049)	**(2,784)**
Profit/(Loss) for the year from continuing operation	(125,630)	(10,376)	(1,295)	5,548	**(22,039)**
Profit/(Loss) for the year from discontinued operation	–	(29,004)	(18,998)	(2,843)	**–**
Profit/(Loss) for the year	(125,630)	(39,380)	(20,293)	2,705	**(22,039)**
Profit/(Loss) for the year attributable to owners of the Company					
– from continuing operation	(90,005)	(10,008)	(1,645)	5,548	**(22,039)**
– from discontinued operation	–	(20,605)	(13,543)	(1,637)	**–**
	(90,005)	(30,613)	(15,188)	3,911	**(22,039)**
Profit/(Loss) for the year attributable to non-controlling interests					
– from continuing operation	(35,625)	(367)	350	–	**–**
– from discontinued operation	–	(8,400)	(5,455)	(1,206)	**–**
	(35,625)	(8,767)	(5,105)	(1,206)	**–**
	(125,630)	(39,380)	(20,293)	2,705	**(22,039)**

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

FINANCIAL SUMMARY

	As at 31 December				
	2014 HK$'000	2015 HK$'000	2016 HK$'000	2017 HK$'000	**2018** **HK$'000**
ASSETS AND LIABILITIES					
Total assets	384,546	823,684	586,420	1,106,766	**1,074,386**
Total liabilities	(173,037)	(256,528)	(79,918)	(63,885)	**(69,292)**
Net assets	211,509	567,156	506,502	1,042,881	**1,005,094**
Attributable to:					
Owners of the Company	140,827	507,360	504,402	1,042,881	**1,005,094**
Non-controlling interests	70,682	59,796	2,100	–	**–**
	211,509	567,156	506,502	1,042,881	**1,005,094**

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