Vincent Medical

VINCENT MEDICAL HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

Stock code: 1612

We
INNOVATE
ANESTHESIA
AND ICU
MEDICAL
SOLUTIONS
TODAY

ANNUAL REPORT 2018

CONTENTS

Corporate Information

BOARD OF DIRECTORS

Executive Directors

Mr. CHOI Man Shing *(Chairman)*
Mr. TO Ki Cheung *(Chief Executive Officer)*
Mr. KOH Ming Fai
Mr. FU Kwok Fu

Non-executive Directors

Ms. LIU Pui Ching (Retired on 24 May 2018)
Mr. GUO Pengcheng

Independent Non-executive Directors

Mr. CHAN Ling Ming
Mr. MOK Kwok Cheung Rupert
Mr. AU Yu Chiu Steven
Prof. YUNG Kai Leung

BOARD COMMITTEE

Audit Committee

Mr. AU Yu Chiu Steven *(Chairman)*
Mr. CHAN Ling Ming
Mr. MOK Kwok Cheung Rupert

Nomination Committee

Mr. CHOI Man Shing *(Chairman)*
Mr. CHAN Ling Ming
Mr. MOK Kwok Cheung Rupert

Remuneration Committee

Mr. CHAN Ling Ming *(Chairman)*
Mr. CHOI Man Shing
Mr. MOK Kwok Cheung Rupert

Risk Management Committee

Mr. KOH Ming Fai *(Chairman)*
Mr. KWOK Kam Ming
Ms. HU Fang
Mr. ZHANG Changqing

COMPANY SECRETARY

Ms. TSUI Lai Ki Vicki

AUTHORISED REPRESENTATIVES

Mr. CHOI Man Shing
Mr. TO Ki Cheung

REGISTERED OFFICE

Cricket Square, Hutchins Drive,
P.O. Box 2681, Grand Cayman,
KY1-1111, Cayman Islands

HEADQUARTERS AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Flat B2, 7th Floor, Phase 2,
Hang Fung Industrial Building,
2G Hok Yuen Street,
Hung Hom, Kowloon, Hong Kong

AUDITOR

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

PRINCIPAL SHARE REGISTRAR

Conyers Trust Company (Cayman) Limited
Cricket Square, Hutchins Drive,
P.O. Box 2681, Grand Cayman,
KY1-1111, Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR

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

PRINCIPAL BANKERS

The Hongkong and Shanghai Banking Corporation Limited
Hang Seng Bank Limited
Bank of China (Hong Kong) Limited

INVESTOR RELATIONS CONTACTS

IR Department – Vincent Medical Holdings Limited

Telephone	:	(852) 2365 5688
Fax	:	(852) 2765 8428
Email	:	investors@vincentmedical.com

STOCK CODE

1612

COMPANY WEBSITE

www.vincentmedical.com

Definitions

In this Annual Report (except the sections of "Independent Auditor's Report" and the audited consolidated financial statements set out on pages 74 to 155), unless the context otherwise requires, the following expressions shall have the following meanings:

"AGM"	the annual general meeting of the Company to be held at Suites 903-905, 9th Floor, Shui On Centre, 6-8 Harbour Road, Wanchai, Hong Kong on Wednesday, 22 May 2019 at 10:00 a.m. or any adjournment thereof
"Articles of Association"	the articles of association of the Company as amended from time to time
"Audit Committee"	the audit committee of the Company
"Avalon"	Avalon Photonics Holdings Limited, a limited liability company incorporated under the laws of British Virgin Islands
"Board"	the board of the Directors
"Cayman Companies Law"	the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands
"CE"	Conformité Européenne
"CEO"	Mr. To Ki Cheung, the chief executive officer of the Company
"CG Code"	the Corporate Governance Code and Corporate Governance Report as set out in Appendix 14 to the Listing Rules
"Chairman"	Mr. Choi Man Shing, the chairman of the Company
"Companies Ordinance"	the Companies Ordinance (Chapter 622 of the Laws of Hong Kong), as amended or supplemented from time to time
"Company"	Vincent Medical Holdings Limited (永勝醫療控股有限公司), an exempted company incorporated in the Cayman Islands with limited liability and the Shares of which are listed on the main board of the Stock Exchange
"Company Secretary"	Ms. Tsui Lai Ki Vicki, the company secretary of the Company
"connected person"	has the meaning ascribed thereto under the Listing Rules
"Controlling Shareholders"	Mr. Choi Man Shing, Ms. Liu Pui Ching (the former non-executive Director who retired on 24 May 2018 and the spouse of Mr. Choi Man Shing) and VRI, being the controlling shareholders who jointly control their respective interests in the Company within the meaning of the Listing Rules
"CPAP"	continuous positive airway pressure
"Director(s)"	the director(s) of the Company

"Dividend Policy"	the dividend policy as adopted by the Company on 12 December 2018
"DVRD"	東莞永健康復器具有限公司 (translated as "Dongguan Vincent Rehabilitation Devices Company Limited"), a company established in the PRC and an indirect wholly-owned subsidiary of the Company
"Fresca"	Fresca Medical, Inc., a limited liability company incorporated under the laws of Delaware, the US
"FVTOCI"	fair value through other comprehensive income
"Global Offering"	the Hong Kong public offering and the international placing in connection with the Listing
"Group"	the Company and its subsidiaries
"HK$" or "HKD"	Hong Kong dollars, the lawful currency of Hong Kong
"HKFRS"	Hong Kong Financial Reporting Standards
"Hong Kong"	Hong Kong Special Administrative Region of the PRC
"Inovytec"	Inovytec Medical Solutions Ltd., a limited liability company incorporated under the laws of the State of Israel
"Listing"	the Company's listing of the Shares on the main board of the Stock Exchange on 13 July 2016
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"Model Code"	the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules
"NMPA"	the National Medical Products Administration of the PRC
"Nomination Committee"	the nomination committee of the Company
"OBM"	original brand manufacturing
"OEM"	original equipment manufacturing
"PRC"	the People's Republic of China
"Pre-IPO Share Option Scheme"	the pre-IPO share option scheme as adopted by the Company on 17 June 2016
"Prospectus"	the prospectus issued by the Company dated 30 June 2016

"R&D"	research and development
"Remuneration Committee"	the remuneration committee of the Company
"Retraction"	Retraction Limited, a limited liability company incorporated in Hong Kong
"Risk Management Committee"	the risk management committee of the Company
"RMB"	Renminbi, the lawful currency of the PRC
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended or supplemented from time to time
"Share(s)"	ordinary share(s) of HK$0.01 each in the share capital of the Company
"Share Option Scheme"	the share option scheme as adopted by the Company on 24 June 2016
"Shareholder(s)"	holder(s) of the Shares
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"US"	the United States of America, its territories and possessions, and state of the United States and the District of Columbia
"USD"	United States dollars, lawful currency of the US
"Ventec"	Ventec Life Systems, Inc., a limited liability company incorporated under the laws of Delaware, the US
"VMDG"	東莞永勝醫療製品有限公司 (translated as "Vincent Medical (Dongguan) Mfg. Co. Ltd."), a company established in the PRC and an indirect non-wholly owned subsidiary of the Company
"VMHK"	VINCENT MEDICAL MANUFACTURING CO., LIMITED (永勝醫療製品有限公司), a company incorporated in Hong Kong and an indirect non-wholly owned subsidiary of the Company
"VRDG"	永勝（東莞）電子有限公司 (translated as "Vincent Raya (Dongguan) Electronics Co., Ltd."), a company established in the PRC and wholly-owned by VRHK
"VRDL"	VINCENT RAYA DEVELOPMENT LIMITED (永勝宏基發展有限公司), a company incorporated in Hong Kong and wholly-owned by VRI
"VRHK"	VINCENT RAYA CO., LIMITED (永勝宏基集團有限公司), a company incorporated in Hong Kong and wholly-owned by VRI

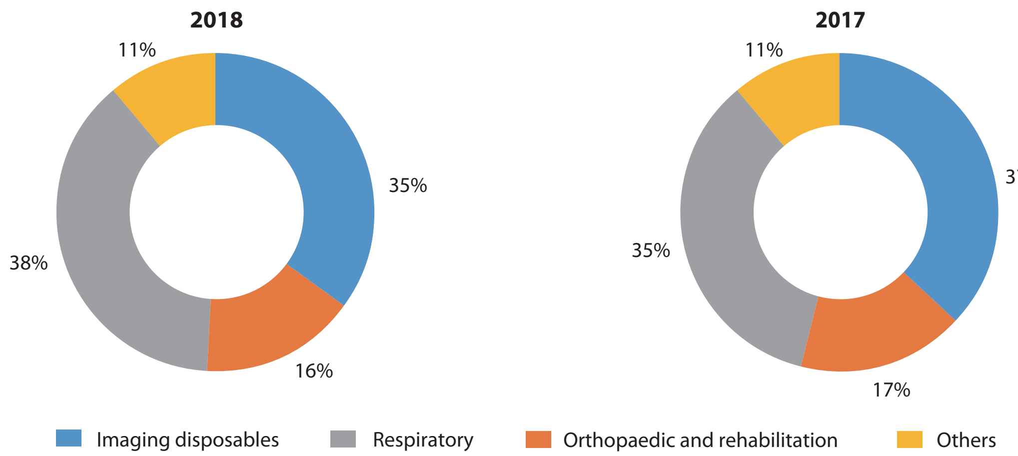
"VRI"	VINCENT RAYA INTERNATIONAL LIMITED, a company incorporated in the British Virgin Islands and being held as to 57.89% by Mr. Choi Man Shing and 42.11% by Ms. Liu Pui Ching as at the date of this Annual Report, and one of the Controlling Shareholders
"VRMD"	東莞永勝宏基醫療器械有限公司 (translated as "Vincent Raya (Dong Guan) Medical Device Co., Ltd."), a company established in the PRC and an indirect wholly-owned subsidiary of the Company
"100ecare"	廣州柏頤信息科技有限公司 (translated as "Guangzhou 100ecare Technology Co. Ltd."), a limited liability company incorporated in the PRC under the PRC laws and regulations
"%"	per cent.

Financial Highlights

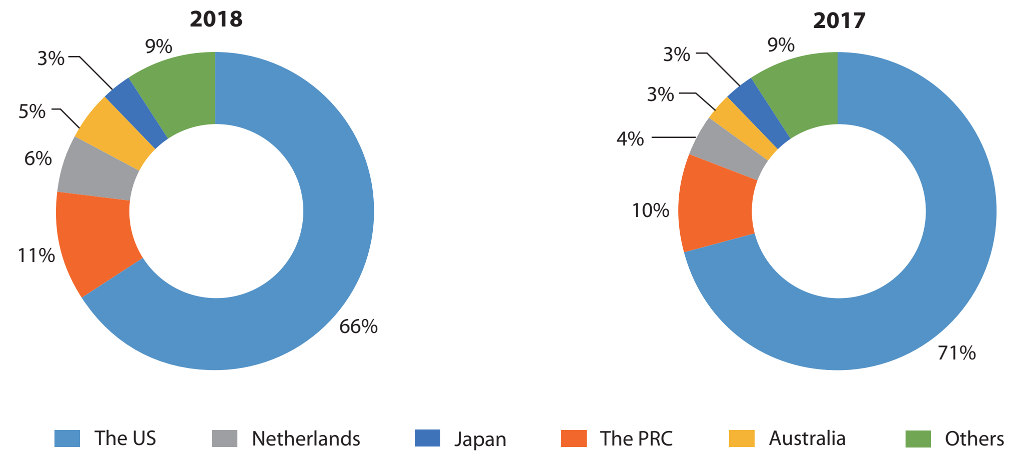
	For the year ended 31 December		
	2018 HK$'000	2017 HK$'000	Change
Revenue	**488,030**	446,302	9.3%
Gross profit	**155,608**	150,303	3.5%
Profit for the year	**34,203**	11,454	198.6%
Profit attributable to owners of the Company	**30,943**	13,155	135.2%
Earnings per share			
Basic (HK cents)	**4.85**	2.06	135.4%
Diluted (HK cents)	**n/a**	2.06	n/a
Dividend per share (HK cents)	**1.6**	1.5	6.7%

REVENUE ANALYSIS

By Product Category



By Geography



2018 Milestones

MARCH

Accredited as a "2017 Famous Brand of Guangdong Province (Industrial Sector)"

APRIL

Awarded a gold medal at the 46th International Exhibition of Inventions Geneva 2018 for the germ-repellent plastics and moisture dissipating cartridge for medical breathing tube

MAY

Obtained NMPA approval for Hypnus™ CPAP 7 Series ventilators

JUNE

Obtained CE marking certificate for Inspired™ Bubble CPAP System

JULY

Opened a new sales support office in Changchun, the PRC

AUGUST

Obtained approval from Japan's Ministry of Health, Labour and Welfare for Inspired® O_2FLO Respiratory Unit

OCTOBER

Obtained NMPA approval for single use CPAP Patient Interface and Nasal Cannule

Obtained approval from Japan's Ministry of Health, Labour and Welfare for Inspired® Respiratory Humidifier

NOVEMBER

Obtained NMPA approval for Incentive Spirometer

The new R&D and production facility in Dongguan Songshan Lake Science and Technology Industrial Park awarded ISO 13485 certification for medical device manufacturing

DECEMBER

Received a Second-Class award (Technological Innovation) in the Higher Education Outstanding Scientific Research Output Awards (Science and Technology) 2018 from the Ministry of Education of the PRC

Choi Man Shing
Chairman and Executive Director

"We have seen noticeable progress against the key strategic initiatives we set for ourselves: restore revenue growth, secure new contracts, stronger sales momentum of our Inspired Medical products and a broader portfolio of products and pipeline."

Dear Shareholders,

On behalf of the Board, I am pleased to present the audited results of the Group for the year ended 31 December 2018.

In 2018, Vincent Medical had restored growth, demonstrating progress and improvement in its operating performance, with revenue increased by 9.3% and profit attributable to owners increased by 135.2%. We have seen noticeable progress against the key strategic initiatives we set for ourselves: restore revenue growth, secure new contracts, stronger sales momentum of our Inspired Medical products and a broader portfolio of products and pipeline.

The Board recommends the payment of a final dividend of HK1.60 cents per Share for 2018 (2017: HK1.50 cents), or HK$10.2 million (2017: HK$9.6 million) in total, to be payable on or around Thursday, 20 June 2019 followed by the approval at the AGM to be held on Wednesday, 22 May 2019, to those persons who registered as the Shareholders on Wednesday, 5 June 2019, being the record date for determining the Shareholders' entitlements to the proposed final dividend. Total full year dividend represents 33.0% of profit attributable to owners for the year, which is in line with the Dividend Policy, and represents a 6.3% increase compared to that in 2017.

An important element of our strategy is to increase revenue growth by focusing on innovation and the development of new products with higher gross profit margins across our business segments, and we work relentlessly to build this capability. In 2018, we brought several new products to market. We completed the development of our new O_2FLO Respiratory Unit, an oxygen therapy device designed for high flow oxygen therapy with the convenience of inhalation of medication. We introduced the Hypnus™ CPAP 7 Series to the PRC market, a new series of CPAP/automatic positive airway pressure (APAP) systems for the treatment of sleep-disordered breathing with patented technologies and enhanced cloud-based software. We continued to develop our humidification system and neonatal respiratory care products, gained the NMPA clearance to market the CPAP patient interface and obtained CE mark for our Inspired® Bubble CPAP system. We also kicked off the registration procedures to launch our humidification and other respiratory products in Japan, the second largest medical device market globally after the US. In addition to these accomplishments, our R&D team continued to build our pipeline for the future by innovating new products and technologies through the continuous collaborations with academics and technology companies. In 2018, we received a gold medal at the 46th International Exhibition of Inventions Geneva 2018 for the germ-repellent plastics and moisture dissipating cartridge for medical breathing tube that co-developed with Nano and Advanced Materials Institute Limited in Hong Kong. We also received a Second-Class award (Technological Innovation) in the Higher Education Outstanding Scientific Research Output Awards (Science and Technology) 2018 from the Ministry of Education of the PRC. We have protected our intellectual property rights through our patent portfolio, striving to maintain and execute on deliberate innovation areas for our sustainable development. As of 31 December 2018, we held over 90 issued patents and over 55 patent applications.

Our profit margins weakened in 2018 as buoyant markets led to a higher cost of raw material and manufacturing overhead, and also a longer product lead time due to the shortage of labour, all these rising costs had yet to be passed to the customers. In addition, the implementation of the two-invoice system and the tendering and bidding mechanism for medical device in the PRC has driven down the price of products. Higher marketing cost and administrative expenses recorded were mainly attributable to new product development and their launching to the market, which have also affected the overall profitability.

In 2018, the global healthcare market continued to offer exceptional growth opportunities for medical device providers. However, the industry also is facing challenges with evolving government regulations relating to the development, manufacture, sale and distribution of medical products. Demand for many medical devices is heavily depending on the ability of users to obtain coverage and reimbursement from government healthcare programs or private insurers. Whether the governments or insurers consider certain devices medically necessary for treatment presents a hurdle that we need to overcome when bringing new devices to market. Nonetheless, we do see more opportunities to collaborate with multinational med-tech corporates.

The PRC government has continued the reform of healthcare system and implemented a series of regulatory changes and improvements in 2018. The NMPA implemented a reform of the medical device evaluation, examination and approval system and issued a circular on implementing measures for the reform of "Separating Business Licenses from Operating Permits". We believe the ongoing regulatory reform in the PRC will benefit the industry and create positive impact on both the development of the Chinese healthcare system and the innovation of domestic medical devices with smaller or sub-standard manufacturers to be eliminated or forced out of business.

Looking ahead in 2019, we see signs of pressure or change of product mix for our OEM segment amid the uncertainty of the trade wars as customers are trying to mitigate such risk by diversifying sourcing strategies. Despite the global macroeconomic uncertainty, we remain confident that the Group will continue to make further progress in the coming year as there are more product launches and new markets for our existing devices of the OBM segment as well as new supply contracts from our OEM segment. With the launches of a broader range of higher margin devices in 2019 and onwards, we expect to see gradual improvements in our OBM gross profit margins.

We will continue to invest prudently in our sales and marketing organization by expanding our international marketing programs as well as broaden awareness of our products to global med-tech companies to create future oriented collaboration. We also expect to continue to invest in R&D, regulatory affairs and clinical studies to expedite the development of our Inspired® products, support regulatory submissions and demonstrate the clinical efficacy of our new products.

On behalf of the Board, I would like to take this opportunity to express my sincere appreciation to all staff for their commitment, dedication and continuing support. I would also like to express my gratitude to my fellow Directors for their guidance and diligent service to the Group.

Choi Man Shing
Chairman and Executive Director

Hong Kong, 22 March 2019

REVIEW OF OPERATIONS

OEM

Revenue from the OEM segment amounted to HK$389.8 million (2017: HK$366.0 million), representing a growth of 6.5% and accounting for 79.9% of the Group's total revenue (2017: 82.0%). The increase was attributable to higher sales from all major product categories particularly for respiratory products. The OEM segment gross profit margin decreased to 30.4% (2017: 32.0%) mainly due to higher raw material costs, manufacturing costs and change in product mix.

During the year, we have expanded our OEM product line to offer a broader spectrum of single use plastic disposable products including tubing sets, heat and moisture exchange (HME) filters, sterilized high efficiency particulate air (HEPA) filters and surgical tools to our customers. Satisfactory growth was achieved in some of our key accounts across the respiratory range of products through deeper penetration and identifying additional value-adding opportunities.

The following table sets forth the revenue breakdown of the Group's OEM segment by product category:

By product category	For the year ended 31 December				
	2018		2017		Change
	HK$'000	% of revenue	HK$'000	% of revenue	
Respiratory products	95,664	24.5%	87,002	23.8%	+10.0%
Imaging disposable products	170,548	43.8%	165,748	45.3%	+2.9%
Orthopaedic and rehabilitation products	69,828	17.9%	65,842	18.0%	+6.1%
Others products (includes infusion regulators, moulds, surgical tools and plastic disposable products)	53,752	13.8%	47,378	12.9%	+13.5%
Total	389,792	100.0%	365,970	100.0%	+6.5%

Despite the continuing uncertainty about the trade relationship between the US and the PRC which has led to some buyers seeking alternatives by sourcing domestically or from proximal countries to mitigate risks, our OEM sales to the US market remained stable in 2018. Sales to Europe grew 58.5% to HK$32.5 million, attributable to increased sales of our respiratory products. Sales to Australia increased by 71.4% to HK$25.4 million, this was primarily attributable to higher sales of our imaging disposable products.

The table below sets out the revenue breakdown of the Group's OEM segment by location of customers:

By geography	For the year ended 31 December				
	2018		2017		Change
	HK$'000	% of revenue	HK$'000	% of revenue	
The US	311,317	79.9%	312,974	85.5%	–0.5%
Europe	32,487	8.3%	20,491	5.6%	+58.5%
Australia	25,405	6.5%	14,821	4.1%	+71.4%
Japan	12,679	3.3%	11,803	3.2%	+7.4%
Others (including Israel and Hong Kong)	7,904	2.0%	5,881	1.6%	+34.4%
Total	389,792	100.0%	365,970	100.0%	+6.5%

OBM

Our OBM segment has consistently delivered double-digit revenue growth in the past few years. In 2018, the OBM segment reported a 22.3% increase in revenue to HK$98.2 million (2017: HK$80.3 million), reflecting good progress achieved in broadening our international customer base through directly collaborating with global med-tech conglomerates and the launch of new ventilation circuits, HME filters and neonatal CPAP product lines in the respiratory segment.

Gross profit margin from the OBM segment decreased to 37.8% (2017: 41.5%), this was mainly due to some increase in manufacturing costs and strategic pricing set to penetrate new customers. The implementation of two-invoice policy in the PRC also impacted the gross profit margin.

The following table sets forth the revenue breakdown of the Group's OBM segment by product category:

By product category	For the year ended 31 December				
	2018		2017		Change
	HK$'000	**% of revenue**	HK$'000	% of revenue	
Respiratory products	**88,203**	**89.8%**	70,192	87.4%	+25.7%
Orthopaedic and rehabilitation products	**10,035**	**10.2%**	10,140	12.6%	−1.0%
Total	**98,238**	**100.0%**	80,332	100.0%	+22.3%

The PRC market continued to be the major market for our OBM segment with sales grew by 21.4% to HK$53.7 million in 2018 (2017: HK$44.2 million). Sales to international markets recorded an overall growth of 23.3% to HK$44.5 million (2017: HK$36.1 million). Our investments in sales and marketing efforts are coming to fruition as the "Inspired Medical" branded products are gaining traction in areas that we had previously identified as new growth markets for the OBM segment. During the year, sales to the US jumped by 193.6% to HK$8.3 million attributable to growth in new customers as well as an increase in sales to existing distributors. The introduction of reimbursement codes for respiratory and anesthesia products in Korea has caused intense price competition in the market.

The table below sets out the revenue breakdown of the Group's OBM segment by location of customers:

By geography	For the year ended 31 December				
	2018		2017		Change
	HK$'000	**% of revenue**	HK$'000	% of revenue	
The PRC	**53,671**	**54.6%**	44,197	55.0%	+21.4%
Europe	**10,448**	**10.6%**	9,825	12.3%	+6.3%
The US	**8,296**	**8.5%**	2,826	3.5%	+193.6%
Korea and Japan	**6,487**	**6.6%**	8,128	10.1%	−20.2%
Hong Kong	**4,713**	**4.8%**	3,440	4.3%	+37.0%
Others (including Israel, India, Australia and Canada)	**14,623**	**14.9%**	11,916	14.8%	+22.7%
Total	**98,238**	**100.0%**	80,332	100.0%	+22.3%

Development of New Products

The OBM segment launched the Inspired® Bubble CPAP system that includes heated humidifier, humidification chamber, bubble CPAP circuits, nasal prongs and pressure release valve in the fourth quarter of 2018. As a new product launched in the market, our neonatal respiratory care product line will be further enriched and become a catalyst for sales growth in the neonatal space.

Following the development of the O_2FLO Respiratory Unit for High Flow Oxygen Therapy along with our O_2B Electronic Oxygen Bender, we kicked-off our product launch strategies and showcased the devices at various major medical-tech tradeshows and professional respiratory care congresses, and received tremendous market feedback from the industry, potential partners and international distributors.

In mid-2018, we introduced the Hypnus™ CPAP 7 Series, a new series of CPAP system for the treatment of sleep-disordered breathing. The 7 Series is equipped with patented noise control and pressure regulating technologies designed to increase patient comfort and encourage compliance with the therapy. We also introduced and upgraded a new software solution, the iHypnusCare™, with new features and enhancements within the cloud-based software system.

Inspired® Bubble CPAP System

Respiratory distress syndrome is a leading cause of neonatal mortality where mechanical ventilation or CPAP are effective treatment for pre-matured babies. However, standard CPAP and neonatal ventilator are expensive and inaccessible in the less developed countries.

The bubble CPAP system comprises a humidified gas source, an interface that connects the CPAP circuit to the infant's airway through short nasal prongs. Bubble CPAP is an alternative approach to CPAP that has been shown to be effective and more economical for neonate, infant and paediatric patients. Target markets for Inspired® Bubble CPAP System will be in the less developed Asia Pacific countries, India, Africa, Latin America and selected markets in Europe and the US.

Inspired® O_2FLO Respiratory Unit

Patients with respiratory distress (e.g. pneumonia, chronic obstructive pulmonary disease, heart failure, asthma) have severe difficulty breathing and require respiratory support ranging from supplemental oxygen therapy to invasive mechanical ventilators.

Non-invasive high flow oxygen therapy has become increasingly popular in the treatment of patients with chronic or acute respiratory failure in both home setting and critical care unit as it is clinically proven that high flow oxygen therapy can improve oxygenation, decrease the patient's work of breathing and serve as a more economical and safer alternative to invasive mechanical ventilation. The Inspired® O_2FLO Respiratory Unit is designed for high flow oxygen therapy with the convenience of inhalation of medication within a single oxygen therapy machine. Mainly used in emergency room, outpatient department, inpatient department and other diagnostic and treatment rooms. This unit is also suitable for homecare use.

Continued Enhancement at Manufacturing Facilities

The Group's new R&D and manufacturing facility for electronic devices in Dongguan Songshan Lake Science and Technology Industrial Park is in operation after the site is awarded ISO 13485 certification for medical device manufacturing in December 2018.

During 2018, new manufacturing equipment and production lines were installed for new products and for the automation or semi-automation of the respiratory disposable assembly lines to achieve long-term cost improvement initiatives.

Investments and Collaboration

Our manufacturing and distribution partnership with Ventec, a US-based technology company focusing on providing integrated innovations in respiratory care with its revolutionary life-support multi-functional ventilator, the "VOCSN", has made substantial progress in 2018. As the manufacturing partner, we supplied Ventec with a series of disposable circuits and accessories and the sale of such has jumped by 4 times in 2018. During the year, we also started the process to prepare for the application of VOCSN for regulatory approval in the PRC. Beginning from 1 January 2019, Medicare suppliers in the US can bill for VOCSN using a new code under the new Medicare Part B reimbursement policy for a multi-function ventilator.

Fresca's CURVE™ System was granted the De Novo request to market the CURVE™ Positive Airway Pressure Delivery System for the treatment of obstructive sleep apnea by the FDA (Food and Drug Administration of the US) in June 2018. Our team of engineers and technicians also worked with Fresca to develop the production supply chain in the PRC. Fresca will launch the CURVE™ system in the US, Japan, Europe and the PRC after the relevant regulatory approvals are secured.

During the year, Inovytec launched the CE marked portable turbine ventilator "Ventway Sparrow", an ultra-light weight ventilator for use in emergency and transport medicine that weighs approximately 1kg (majority of turbine transport ventilators in the market weigh between 4kg and 9kg). Being the exclusive manufacturer of Inovytec, we delivered the first commercial production batch of the ventilator by end of 2018. We also worked with Inovytec's clinical and operations teams to start the process for the NMPA certification of the device in the PRC.

100ecare launched a series of smart wearable devices, namely the sensor-based sleep monitoring device, household emergency wearable device and the new smart wristband, targeting the booming elderly healthcare market in the PRC. These new products started to contribute revenue to 100ecare since the fourth quarter of 2018.

Retraction launched its new version of REVEEL™ retractor after obtaining the CE marking certificate during the year. This device won a Certificate of Merit in both the Technological Achievement and Innovation and Creativity categories in the 2018 Hong Kong Awards for Industries. However, delivery of the REVEEL™ retractor was slow in 2018 due to production bottlenecks. We are seeing sales to Europe started picking up gradually in 2019.

The LED-based Wearable Phototherapy Device for neonatal jaundice jointly developed by Avalon and the Group has received NMPA approval during the year. The Group began to penetrate the market with this product in selected cities with partners and specialized distributors.

FINANCIAL REVIEW

REVENUE

Driven by improved sales in both OEM and OBM segments, the Group's total revenue increased by 9.3% to HK$488.0 million for 2018 (2017: HK$446.3 million). Revenue from the US market and the PRC market increased by 1.2% and 21.4% respectively. In respect of business segments, OEM and OBM contributed 79.9% (2017: 82.0%) and 20.1% (2017: 18.0%), respectively, to the Group's total revenue.

GROSS PROFIT AND GROSS PROFIT MARGIN

Despite the 9.3% increase in total revenue, gross profit rose by 3.5% to HK$155.6 million for 2018 (2017: HK$150.3 million). Gross profit margin for 2018 decreased by 1.8 percentage points from 33.7% to 31.9%. The aggregate effect of rising of labour costs, increasing price of raw materials for production and the appreciation of RMB against USD during the year has more than offset the positive contribution to the Group's gross profit margin through the enhancement of production efficiency.

OTHER INCOME, OTHER GAINS AND LOSSES

Other income for 2018 mainly represented the subsidies of HK$1.3 million (2017: Nil) from the Enterprise Support Scheme under the Innovation and Technology Fund of the Hong Kong Government and the subsidies of HK$2.5 million (2017: Nil) from "Guan-Rong Plan" of Dongguan Songshan Lake Science and Technology Industrial Park.

Other gains and losses for 2018 mainly represented write back of other payables of HK$3.9 million (2017: Nil), exchange loss of HK$1.1 million (2017: HK$3.9 million) and impairment of goodwill of HK$2.6 million (2017: HK$6.3 million). Other gains and losses for 2017 also included impairment of investment in an associate of HK$11.6 million.

SELLING AND DISTRIBUTION EXPENSES

Selling and distribution expenses increased by 19.9% to HK$27.7 million for 2018 (2017: HK$23.1 million). The increase was primarily due to (i) the start-up marketing cost for the new Hypnus™ business; and (ii) an increase in staff costs for sales and marketing. Selling and distribution expenses as a percentage of revenue was 5.7% (2017: 5.2%).

ADMINISTRATIVE EXPENSES

Administrative expenses increased by 5.3% to HK$89.1 million for 2018 (2017: HK$84.6 million), which was primary due to an increase in R&D expenses related to the Group's OBM segment.

Capitalised R&D expenses (including salaries and wages of R&D staff) for 2018 was HK$6.0 million (2017: HK$1.5 million), while expensed R&D expenses (including salaries and wages of R&D staff) which included in administrative expenses for 2018 was HK$26.0 million (2017: HK$19.1 million). The increase in total R&D expenses was mainly due to (i) the expansion of the R&D team and an increase in average salaries of staff; (ii) an increase in the number of in-process R&D projects; and (iii) an increase in product development related expenses, such as engineering sample and tooling fees.

SHARE OF RESULTS OF ASSOCIATES AND JOINT VENTURES

The Group shared losses of associates for 2018 amounted to HK$2.8 million (2017: losses of HK$1.0 million) and losses of joint ventures amounted to HK$1.6 million (2017: profits of HK$0.1 million), reflected mainly by the share of results of Retraction, 100ecare and Avalon.

INCOME TAX EXPENSE

Income tax expense decreased by 52.4% to HK$3.9 million (2017: HK$8.2 million) which was mainly due to over-provision of HK$3.1 million for the Hong Kong Profits Tax and the PRC Corporate Income Tax.

PROFIT ATTRIBUTABLE TO OWNERS OF THE COMPANY

Profit attributable to owners of the Company for 2018 increased by 135.2% to HK$30.9 million (2017: HK$13.2 million). The increase was mainly due to an overall increase in revenue and gross profit from both OEM and OBM segments, and a decrease in impairment of goodwill and investment in an associate, which was offset by higher selling and distribution expenses, administrative expenses and share of losses of associates and joint ventures.

OTHER INTANGIBLE ASSETS

As at 31 December 2018, other intangible assets included (i) use right and development costs of HK$13.1 million (2017: HK$14.5 million) for "Hand of Hope" robotic hand training devices business; (ii) patents and development costs of HK$14.3 million (2017: HK$7.7 million) for Hypnus™ business; and (iii) patents and license rights of HK$4.6 million (2017: HK$4.1 million) for other products. The increase was mainly due to additions to patents and development costs for Hypnus™ business.

INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

As at 31 December 2018, investments in associates amounted to HK$12.0 million (2017: HK$4.8 million), consisted of the Group's investments in Retraction and another associate. The increase was mainly due to planned further capital injection of HK$6.0 million in Retraction pursuant to the preference share subscription agreement dated 28 November 2016 and acquisition of an associate at a consideration of HK$4.2 million during the year.

As at 31 December 2018, investments in joint ventures amounted to HK$20.8 million (2017: HK$23.0 million), consisted of the Group's investments in 100ecare and Avalon.

For details, please refer to the paragraph headed "Significant Investments" below.

EQUITY INVESTMENTS AT FVTOCI

On 1 January 2018, the date of initial application of HKFRS 9 Financial Instruments, the Group reclassified its equity investments (primarily consisted of the Group's investment in Fresca and Inovytec) from available-for-sale financial assets to financial assets at FVTOCI. Before adoption of HKFRS 9 on or prior to 31 December 2017, these equity investments are measured at cost less impairment losses, while after adoption of HKFRS 9 from 1 January 2018, these equity investments are measured at fair value. On 1 January 2018, the fair value of these equity investments (with cost of HK$48.6 million) amounted to HK$61.4 million.

During the year, the Group paid HK$22.0 million to subscribe additional interests in Fresca, Inovytec and other investments upon achievement of milestones set forth in the relevant agreements. On 31 December 2018, the fair value of the Group's equity investments amounted to HK$64.3 million.

CONTRACT ASSETS

As at 31 December 2018, contract assets primarily consisted of unbilled amount of HK$17.2 million (2017: Nil) resulting from sales of OEM products transferred over time after adoption of HKFRS 15 Revenue from Contracts with Customers from 1 January 2018. Contract assets are transferred to trade receivables when the rights become unconditional. This usually occurs when the Group issues an invoice to the customer.

CURRENT TAX ASSETS

As at 31 December 2017, current tax assets represented prepaid Hong Kong Profits Tax for two subsidiaries incorporated in Hong Kong while as at 31 December 2018, there were no current tax assets. The decrease was attributable to the provision of Hong Kong Profits Tax for these two subsidiaries during the year.

EMPLOYEE INFORMATION

As at 31 December 2018, the total number of full-time employees of the Group was 1,103 (2017: 1,073). The remuneration of employees was determined according to their experience, qualifications, result of operations of the Group and market condition. During the year, staff costs including Directors' emoluments (excluding capitalised salaries and wages of R&D staff) amounted to HK$125.5 million (2017: HK$113.2 million), representing 25.7% of the Group's revenue (2017: 25.4%). The increase of staff costs was mainly due to an increase in number of employees, salary increment, and an increase in social insurance contributions and housing provident fund.

LIQUIDITY AND FINANCIAL RESOURCES AND BORROWINGS

Bank and cash balances for 2018 decreased by 28.2% to HK$81.1 million (2017: HK$113.0 million). This was a result of the net cash inflow from operating activities of HK$35.1 million, net cash outflow from investing activities of HK$61.3 million, net cash outflow from financing activities of HK$0.6 million and negative effect of foreign exchange rate changes of HK$5.1 million. Most of the bank and cash balances were denominated in HKD, USD and RMB.

Net cash outflow from investing activities for 2018 mainly due to the purchase of equity investments at FVTOCI of HK$22.0 million, purchase of property, plant and equipment of HK$21.4 million, addition of other intangible assets of HK$7.9 million and capital injection/acquisition of associates of HK$10.2 million, while net cash outflow from financing activities mainly arose from final dividend paid for 2017 of HK$9.6 million, net off by net cash inflow of HK$9.2 million from borrowings.

As at 31 December 2018, total borrowings amounted to HK$17.2 million (2017: HK$9.8 million). The increase was primarily due to new bank borrowing of HK$10.0 million during the year. The net gearing ratio, which was calculated on the basis of the amount of total borrowings divided by the total equity attributable to owners of the Company, was 0.05 (2017: 0.03). As at 31 December 2018, the Group had unutilised bank facilities of HK$30.0 million.

CAPITAL EXPENDITURE AND COMMITMENTS

During the year, total investment in property, plant and equipment was HK$21.4 million (2017: HK$15.4 million), in which 39.0% was used for the purchase of production equipment and the remaining balance was used for procurement of other fixed assets.

As at 31 December 2018, the Group had contracted capital commitments of HK$12.8 million for procurement of property, plant and equipment, which was mainly financed with internal resources.

CAPITAL STRUCTURE

As at the date of this Annual Report, the issued share capital of the Company was approximately HK$6.4 million, comprising 637,650,000 Shares of nominal value of HK$0.01 per Share.

SIGNIFICANT INVESTMENTS

As at 31 December 2018, the Company considered that the significant investments were as follows:

1. The Group held 40% (2017: 20%) interest in Retraction with carrying amount of HK$7.9 million (2017: HK$4.8 million). The Group further injected capital in Retraction of HK$6.0 million and shared a loss of HK$2.7 million in the consolidated statement of profit or loss during the year.

2. The Group paid US$3.0 million (2017: US$2.4 million) to subscribe for 12,091 (2017: 9,673) Series A preferred shares, representing 14.3% (2017: 12.4%) with diluted effect of the enlarged issued share capital of Inovytec. After adoption of HKFRS 9 from 1 January 2018, the equity investment in Inovytec is measured at fair value. At 31 December 2018, the fair value of the equity investment in Inovytec amounted to US$2.0 million (equivalent to HK$15.9 million) (1 January 2018: US$3.6 million (equivalent to HK$27.9 million)).

3. The Group held 10% (2017: 10%) interest in 100ecare with carrying amount of HK$9.5 million (2017: HK$9.9 million). The Group shared a profit of HK$0.04 million in the consolidated statement of profit or loss during the year.

4. The Group held 20% (2017: 20%) interest in Avalon with carrying amount of HK$11.3 million (2017: HK$13.1 million). The Group shared a loss of HK$1.6 million in the consolidated statement of profit or loss during the year.

For additional information of the above significant investments, please refer to the paragraph headed "Investments and Collaboration" above.

MATERIAL ACQUISITIONS AND DISPOSALS

During the year, the Group had no material acquisitions or disposals of subsidiaries and associated companies.

CHARGES ON THE GROUP'S ASSETS

As at 31 December 2018, none of the assets of the Group were pledged.

FOREIGN EXCHANGE EXPOSURE

While some of the Group's costs and expenses are denominated in RMB, there was a substantial amount of sales denominated in USD given the export-oriented nature of the OEM segment. Thus, any appreciation of RMB against USD may subject the Group to increased costs and lower profitability. The Directors have assessed the impact of such foreign currency risk and considered that it may materially affect the Group's profitability. The Group currently does not have a foreign currency hedging policy in respect of foreign currency transactions, assets and liabilities. The Group monitors its foreign currency exposure closely and will consider hedging significant foreign currency exposure should the need arise.

CONTINGENT LIABILITIES

As at 31 December 2018, the Group did not have other contingent liabilities.

OPERATING LEASE COMMITMENT

As at 31 December 2018, the Group had operating lease commitment of HK$36.4 million (2017: HK$21.1 million).

Biographical Details of Directors and Senior Management

EXECUTIVE DIRECTORS

Mr. Choi Man Shing (蔡文成), aged 66, is the Chairman and an executive Director of the Company, the chairman of the Nomination Committee and a member of the Remuneration Committee. He currently serves as a director of all subsidiaries of the Company. Mr. Choi is the founder of the Group and primarily responsible for formulating long-term development and marketing strategies of the Group. He has over 40 years of management experience in the manufacturing industry in Hong Kong and the PRC.

Mr. To Ki Cheung (陶基祥), aged 52, is an executive Director and CEO of the Company. He currently serves as the general manager of the Group and a director of all subsidiaries of the Company. Mr. To joined the Group in February 2000 and is primarily responsible for overseeing the corporate management and formulating the business and product development strategies of the Group.

Mr. To was awarded a bachelor's degree in commerce from Murdoch University, Australia in August 1990. He further obtained a master's degree in science in Chinese business studies from the Hong Kong Polytechnic University in November 2010. He was the vice chairman of Hong Kong Medical and Healthcare Device Industries Association for the term from 2015 to 2016. He is also an associate member of the Hong Kong Institute of Certified Public Accountants.

Before joining the Group, Mr. To worked in the audit division of H. L. Leung & Co, Certified Public Accountants from January 1991 to December 1992. He also held various positions in Deloitte Touche Tohmatsu from January 1993 to April 1996 where he was responsible for accounting work.

Mr. Koh Ming Fai (許明輝), aged 45, is an executive Director of the Company and the chairman of the Risk Management Committee. He currently serves as the assistant general manager of the Group and a director of various subsidiaries of the Company. Mr. Koh joined the Group in September 2000 and is primarily responsible for managing the operations of the Group, including quality assurance production, engineering and procurement of the Group.

Mr. Koh received a bachelor's degree in science in mechanical engineering from University of Alberta, Canada in June 2000 and a master's degree in business from the University of Newcastle, Australia in May 2009. He is a member of the Hong Kong Institution of Engineers and he was admitted as a member of the biomedical discipline of the Hong Kong Institution of Engineer through the founding member route in January 2007. He is also a professional engineer (biomedical) registered with the Engineers Registration Board, a body corporate established under the Engineers Registration Ordinance (Chapter 409 of the Laws of Hong Kong). He is also elected as a member of the Institution of Mechanical Engineers and was registered as a chartered engineer in April 2008. He is currently an executive board member of Hong Kong Medical and Healthcare Device Industries Association.

Mr. Fu Kwok Fu (符國富), aged 48, is an executive Director of the Company. He currently serves as the engineering manager of the Group and a director of one of the subsidiaries of the Company. Mr. Fu joined the Group in June 1997 and is primarily responsible for overseeing the R&D and initiating product development through integrating technologies and techniques. He has over 21 years of experience in the medical device manufacturing industry.

Mr. Fu obtained a bachelor's degree in engineering from the University of Hong Kong in December 1997 and a master's degree in business administration (general management) from the Hong Kong Polytechnic University in October 2009. He is a member of the Institution of Mechanical Engineer and was registered as a chartered engineer in April 2008 and is a member of the Hong Kong Institution of Engineers. He was admitted as a member of the biomedical discipline of the Hong Kong Institution of Engineers through the founding member route in January 2007 and serves as a member of the committee of the biomedical division of the same institution.

NON-EXECUTIVE DIRECTOR

Mr. Guo Pengcheng (過鵬程), aged 57, is a non-executive Director of the Company and joined the Group in February 2017. He graduated from the Shanghai University of Technology with a bachelor's degree in mechanical engineering in 1983. He has over 32 years of experience in business advisory work and cross-border investments. During the period from 1986 to 2004, Mr. Guo worked in various organizations where he was responsible for inbound and outbound business development and business expansion from the PRC. From 2009 to 2015, he was the operating partner of Orchid Asia Private Equity Fund where he was responsible for operational due diligence and post-investment management for listing applicants on the Stock Exchange.

Since 2015, Mr. Guo has acted as the senior investment consultant of Dong Yin Development (Holdings) Limited, an indirect substantial Shareholder interested in 33,000,000 Shares of the Company, representing approximately 5.18% of the issued share capital of the Company.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Chan Ling Ming (陳令名), aged 59, is an independent non-executive Director of the Company and joined the Group in June 2016. Also, he is the chairman of the Remuneration Committee, as well as a member of each of the Audit Committee and the Nomination Committee. Mr. Chan graduated from Newcastle University, the United Kingdom with a bachelor's degree in mechanical engineering in June 1989. He further obtained a master's degree in business administration from the University of Bradford, the United Kingdom in December 1990 and a doctor's degree in business administration from the Macquarie Graduate School of Management, Australia in July 2012. He is a fellow member of the Hong Kong Institution of Engineers and an adjunct professor in the interdisciplinary division of biomedical engineering of the Hong Kong Polytechnic University.

Mr. Chan is the founder member and the honorary chairman of the Hong Kong Medical and Healthcare Devices Industries Association. He was appointed as a member of the biomedical engineering programme advisory committee of the Chinese University of Hong Kong for a three-year term from August 2016 to July 2019; a non-official member of the Assessment Panel of the Innovation and Technology Fund for Better Living, Innovation and Technology Commission, for a two-year term from 1 May 2017 to 30 April 2019; the deputy chairman of the biomedical engineering departmental advisory committee of the City University of Hong Kong for a three-year term from 1 September 2018 to 31 August 2021; and a member of the industry, research and investment community of the AI & Robotics Alliance of Hong Kong for a two-year term from October 2018 to September 2020. Mr. Chan was a member of the Innovation and Technology Fund Research Projects Assessment Panel, Innovation and Technology Commission, for a two-year term from 2017 to 2018. Mr. Chan has over 27 years of experience in the manufacture of medical devices and corporate management.

Mr. Mok Kwok Cheung Rupert (莫國章), aged 60, is an independent non-executive Director of the Company and joined the Group in June 2016. Also, he is a member of the Audit Committee, the Nomination Committee and the Remuneration Committee, respectively. Mr. Mok obtained a bachelor's degree in electrical engineering from the University of Sydney, Australia in March 1982 and a master's degree in biomedical engineering from the University of New South Wales, Australia in October 1984. He is the secretary general of the executive board, the chairperson of the membership committee and a member of the product and technology committee of the Hong Kong Medical and Healthcare Device Industries Association. Mr. Mok has over 34 years of experience in administrative management, sales and marketing and R&D of medical devices in the Asia Pacific region.

Mr. Au Yu Chiu Steven (區裕釗), aged 60, is an independent non-executive Director of the Company and joined the Group in June 2016. Also, he is the chairman of the Audit Committee. Mr. Au graduated from the University of East Anglia, the United Kingdom, with a bachelor's degree in arts majoring in economics in July 1982. He further obtained a master's degree in business administration from the University of Western Ontario, Canada in October 2000. Mr. Au was admitted as a chartered accountant of the Institute of Chartered Accounts in England and Wales in November 1987. He is also a fellow member of the Hong Kong Institute of Certified Public Accountants.

Mr. Au has more than 33 years of experience in accounting and finance. He worked as an accountant at an accounting firm in the United Kingdom from October 1982 to October 1987 and then at Arthur & Anderson & Co. from December 1987 to January 1989. During the period from August 1992 to April 2008, he was a director of a number of companies where he was responsible for overall corporate management, including China Everbright Securities (International) Limited and Anglo Chinese Securities Limited, both of which are finance and investment companies, and Kin Wah Hong Company Limited, a textiles trading company.

Mr. Au has been an executive director of finance and administration of Matilda International Hospital since October 2002. He was also appointed as an independent non-executive director of Expert Systems Holdings Limited (stock code: 8319), a company which shares are listed on the GEM of the Stock Exchange, on 15 March 2016.

Prof. Yung Kai Leung (容啟亮), aged 69, is an independent non-executive Director of the Company and joined the Group in February 2017. He graduated from Brighton University, the United Kingdom with a bachelor's degree in electronic engineering in 1975. He further obtained a master's degree in automatic control systems from Imperial College of Science, Technology and Medicine, London, the United Kingdom in 1976 and his doctorate in microprocessor applications in process control from the Plymouth University, the United Kingdom in 1985. He is a fellow member of the Hong Kong Institute of Engineers and a fellow of the Hong Kong Academy of Engineering Sciences. In 2015, Prof. Yung was awarded the Bronze Bauhinia Star for his contributions to scientific research.

Since 1986, Prof. Yung held various positions at The Hong Kong Polytechnic University. He has been a professor in the department of industrial and systems engineering at The Hong Kong Polytechnic University since 2001 and has been promoted to a chair professor of precision engineering with effect from 1 July 2017.

SENIOR MANAGEMENT

Mr. Lai Hoi Ming (黎海明), aged 37, is the financial controller of the Group. Mr. Lai joined the Group in July 2018 and is primarily responsible for managing all finance, accounting and administration work. He obtained a bachelor degree in accountancy from the City University of Hong Kong in November 2005. He is currently an associate member of the Hong Kong Institute of Certified Public Accountants. Before joining the Group, Mr. Lai was the senior manager of RSM Hong Kong where he was responsible for the IPO and audit work of the Group. He has over 14 years of experience in finance and accounting.

Ms. Tsui Lai Ki Vicki (徐麗琪), aged 43, is the Company Secretary of the Group. She joined the Group in April 2016 and is responsible for the company secretarial functions and provides advice to the Board and the Board committees. Ms. Tsui was graduated from the University of South Australia with a bachelor degree in accountancy in April 2003. She has extensive experience in a diversified range of corporate services and has been providing company secretarial services to various Hong Kong listed companies for about 14 years. Ms. Tsui is an associate member of The Hong Kong Institute of Chartered Secretaries and The Institute of Chartered Secretaries and Administrators in United Kingdom.

Mr. Yu Lun Fai Alex (余粦輝), aged 43, is the operations manager of the Group. He joined the Group in May 2012 and is primarily responsible for managing and leading the production operations. He graduated from the City University of Hong Kong with a bachelor's degree in engineering and a master's degree in manufacturing engineering with business management in November 1999. He further obtained a master's degree in science in electronic and information engineering in November 2006 from the City University of Hong Kong. Mr. Yu has 18 years of experience in manufacturing industry.

Mr. Wong Yuk Ming David (黃育明), aged 48, is the group sales and marketing manager of the Group. He joined the Group in December 2016 and is primarily responsible for the overall sales and marketing of the Group. Mr. Wong graduated from University of Bradford, the United Kingdom with a master's degree and a bachelor's degree in civil and structural engineering in July 1993. He gained his chartership in civil engineering in 1998 and gained his chartership in biomedical engineering in 2014. He is an advisor of the Innovation and Technology Support Programme Assessment Panel of the Innovation and Technology Fund, Innovation and Technology Commission. Also, he served as the vice chairman of the biomedical division of the Hong Kong Institute of Engineers for the term from 2014 to 2015 and from 2017 to 2018. He also serves as a professional assessor and member of the accreditation committee for the Hong Kong Institute of Engineers.

Mr. Wong has over 14 years of experience in developing, manufacturing and global distribution of medical devices industry. Majority of his experience has been specialised in laparoscopy and endoscopy surgical instrumentation with a strong clinical network.

Mr. Lee Ching Chiu Lewis (李正釗), aged 48, is the group quality assurance & regulatory affair manager of the Group. He joined the Group in April 2018 and is primarily responsible for the overall quality and regulatory compliance of the Group. He obtained a bachelor's degree (honor) of engineering in July 1994 and a professional diploma in July 1999 in electrical engineering from The Hong Kong Polytechnic University. He further obtained a master's degree of business in practicing accounting from Monash University, Australia in November 2007.

Mr. Lee is the certified Six Sigma Black Belt by SSI (Six Sigma Institutes) the IRCA (International Register of Certified Auditors) certified lead auditor; and the certified trainer of CPAP, BiPAP for COPD patient, invasive and non-invasive ventilators, oxygen concentrator, ALICE diagnostic system by Respironics (Philips), vital signs/patient monitors by BCI (Smiths Medical). He obtained various advance certificates in the areas of risk assessment, sterility assurance, manufacturing excellence and process validation. He also achieved senior professional recognition in medical device industries by human resources and social security bureau in Zhejiang Province of the PRC.

Mr. Lee is the senior professional with 20 years of experience in establishment and management of quality assurance and regulatory affairs functions for multi-national companies in the Asia Pacific region. Major strengths in sterilization of medical devices, compliance for medical device and pharmaceutical industries.

Ms. Tsui Wing Kwan (徐詠琨), aged 38, is the corporate development and investor relations manager of the Group. Ms. Tsui joined the Group in October 2016 and is responsible for matters relating to corporate development, investor relations and assists in strategic planning and execution of investment projects for the Group. She obtained a bachelor of social science degree in journalism and communications in December 2003 and a master of science degree in finance in December 2009 from The Chinese University of Hong Kong. Prior to joining the Group, Ms. Tsui worked in a number of Hong Kong and Singapore listed companies. She has more than 12 years of experience in financial communications, investor relations and corporate finance.

Mr. Zhang Changqing (張長青), aged 47, is the sales and marketing manager of the Group. He is also a member of the Risk Management Committee. Mr. Zhang is primarily responsible for overseeing sales and business development in the PRC. He has over 13 years of experience in trading of medical devices since he joined the Group as marketing manager in March 2004.

Mr. Xu Jiebing (徐結兵), aged 44, is the research and development manager of the Group. He joined the Group in December 1998 and is responsible for initiating research and development of products. He graduated from the mechanical engineering programme of Hefei University of Technology* (合肥工業大學) in July 1995 and from the online course of business administration of Xiamen University* (廈門大學) in January 2016. He attended various training courses relating to the regulation and standardisation of medical devices and protection of intellectual property rights between the period of October 2001 and July 2013. Mr. Xu is a member of the Respiratory Disease Professional Equipment Commission* (呼吸病學專業裝備委員會) of the China Association of Medical Equipment* (中國醫學裝備協會).

* *For identification purpose only.*

The Board is pleased to present to the Shareholders their annual report together with the audited consolidated financial statements of the Group for the year ended 31 December 2018.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The Group is principally engaged in manufacturing and sale of medical devices focusing on respiratory products, imaging contrast media power injector disposables, and orthopaedic and rehabilitation products for the customers in the OEM segment and developing, manufacturing and sale of our own "Inspired Medical" brand of respiratory equipment and disposable products and orthopaedic and rehabilitation products (also under "Hand of Hope" and "Hypnus™" brands) in the OBM segment.

The principal activities of the principal subsidiaries of the Company are set out in Note 39 to the consolidated financial statements of this Annual Report. The segment information of the operations of the Group for the year is set out in Note 10 to the consolidated financial statements.

BUSINESS AND FINANCIAL REVIEW

A fair review of the Group's business and financial, and the analysis of the Group's performance for the year as well as the prospects of the Group's business, are provided in the sections "Chairman's Statement" on pages 10 and 12 and "Management Discussion & Analysis" on pages 13 to 20 of this Annual Report.

PRINCIPAL RISKS AND UNCERTAINTIES

The business operations and results of the Group may be affected by various factors, some of which are external causes and some are inherent to the business. The Board is aware that the Group is exposed to the following principal risks and uncertainties facing the Company's business:

(a) Customer Concentration

The Group generated 66.9% of revenue from the top five customers for the year. Customer concentration exposes the Group to risks and factors affecting the performance of major customers and may subject us to fluctuations or decline in the Group's revenue. It may also result in difficulty for the Group to negotiate with such customers for satisfactory prices for the products and commercial terms. These risks result in a lack of predictability about the Group's sales, and any reduction in the order from and termination of business relationship with the major customers will have material adverse effect on the Group's business and results of operations.

(b) Product Development Risks

The actual timing of the introduction of each of the future products to the market could vary significantly due to a number of factors, many of which are outside the Group's control, including but not limited to, the difficulties and failures in R&D process, the availability of funds and the competition within medical device market. In addition, clinical trials and product registration are inherently a lengthy and expensive process and there can be no assurance that the future products will meet the standards required to pass all necessary clinical trials. Failure to develop, obtain registration or approval for or commercialise the pipeline products could materially and adversely affect the Group's business and results of operation.

(c) Labour Costs and Shortage

In recent years, average labour costs in the PRC have increased due to the PRC government's policies to impose more stringent requirements on employers such as minimum wage and maximum working hours. Furthermore, there has been a growing shortage of labour, especially skilled labour in the PRC. The utilisation of production facilities may be limited by the ability to recruit sufficiently skilled labour. Accordingly, any shortage of labour or significant increase in labour cost to the extent that the Group is unable to offset such increase by reducing other costs or passing it on to the Group's customers, the Group's business, financial condition and results of operations may be materially and adversely affected.

(d) Intellectual Property Infringement

The Group operates in an industry in which the Group and its competitors or customers may utilise or own similar technologies and product designs. Consequently, both the Group, its competitors or customers may claim intellectual property rights over the technologies and product designs used in the products. Legal proceedings involving intellectual property rights can be expensive and time-consuming, and their outcomes are uncertain. Successful infringement claims by third parties against the Group could materially and adversely harm the Group's business and reputation.

(e) Change of Laws and Regulations

The medical device industry is highly regulated and each country or territory in which the Group sells its products is subject to its own robust legal and regulatory regime. Any change in the applicable laws, regulations, standards or import policies of overseas countries may prevent or restrict the Group from conducting certain aspects of its current business. There can be no guarantee the Group will be able to retain its certificates and other licences required to sell its products. If such loss were to occur, it would restrict the Group's ability to service its customers or sell certain medical devices which could have an adverse impact on its business, prospects and financial condition.

(f) Product Quality

The Group operates manufacturing facilities. Poor product quality could affect customer or public safety. Incidents of this nature could lead to product recall costs, legal liability, and reputational damage.

(g) Financial Risks

The Group's principal business activities are exposed to a variety of financial risks including foreign currency risk, credit risk, liquidity risk and interest rate risk. Details of the aforesaid key risks and risk mitigation measures are elaborated in Note 6 "Financial Risk Management" to the consolidated financial statements of this Annual Report.

RELATIONSHIPS WITH ITS KEY STAKEHOLDERS

The success of the Group also depends on the support from key stakeholders which comprise customers, suppliers, employees and the Shareholders.

Customers

The customers of the Group comprise generally the OEM customers (include major international medical device companies), distributors and medical equipment manufacturers for our OBM products. The Group have been devoted to providing good customer service with the purpose of maintaining a stable and long-term cooperative relationship, increasing sales and improving profitability.

Suppliers

Strong relationship with the Group's major suppliers constitutes one of the essential elements of the Group's success. To achieve positive business growth, the Group maintains close relationship with its major suppliers to ensure stability of supply, and leveraging on large volume of purchase which provides the Group with significant bargaining power to purchase raw materials at competitive prices.

The principal raw materials used for products are resin, plastic parts and tubings. The Group purchase raw materials only from approved suppliers which meet the Group's evaluation criteria and are listed on the Group's approved supplier list. The Group select its major suppliers based on their technological capacity, quality control system, business reputation and production scale and regularly assess them based on their product quality, price and delivery time. For OEM segment , the Group are often required to purchase the relevant raw materials from suppliers as specified by the OEM customers.

Employees

Employees are the most valuable asset of the Group. The Group strives to create a harmonious and safe working environment to all employees. The key objective of the Group's human resource management is to recognise and reward performing staff by providing competitive remuneration packages, granting share options and implementing an effective performance appraisal system with appropriate incentives.

Shareholders

The Company considers that effective communication with the Shareholders is essential. Apart from transparent and timely disclosure of corporate information in the websites of the Company and the Stock Exchange, the senior management maintains regular dialogue with institutional investors through one-on-one meetings and conference calls. The Company considers stable and sustainable returns to the Shareholders to be the goal and endeavours to maintain its dividend policy. The Group will focus on its core business for achieving sustainable profit growth and rewarding the Shareholders with dividend after taking into account the business development needs and financial condition of the Group.

DISCLOSURES ON RISK MANAGEMENT AND ENVIRONMENTAL POLICIES

Details of disclosures on risk management and environmental policies are set out in the "Corporate Governance Report" on pages 46 to 61 and the "Environmental, Social and Governance Report" on pages 62 to 73 of this Annual Report.

USE OF PROCEEDS FROM THE GLOBAL OFFERING

The net proceeds from the Global Offering (the "**Net Proceeds**") received by the Company after deducting underwriting fees and estimated expenses was HK$94.6 million. Unutilised Net Proceeds as at 31 December 2018 amounted to HK$4.2 million and is deposited in a licensed bank in Hong Kong as short-term deposits. The Company intends to use the remaining Net Proceeds in accordance with the purposes set out in the Prospectus.

	Net Proceeds HK$' million	**Utilised amount** HK$' million	**Unutilised amount** HK$' million
Expansion and upgrading of production facility from 2016 to 2018	47.3	43.1	4.2
Development of pipeline and planned products from 2016 to 2018	25.5	25.5	–
Sales and marketing from 2016 to 2018	17.1	17.1	–
General corporate purposes and working capital	4.7	4.7	–

RESULTS AND DIVIDENDS

The results of the Group for the year are set out in the consolidated statement of profit or loss and consolidated statement of profit or loss and other comprehensive income on pages 79 to 80 of this Annual Report.

A final dividend in respect of the year ended 31 December 2018 of HK1.60 cents per Share has been proposed by the Board. The proposed final dividend amounted to a total of HK$10.2 million with dividend payout ratio of 33.0% has to be approved by the Shareholders in the AGM to be held on 22 May 2019. These proposed dividends are not reflected as dividend payable in the consolidated statement of financial position as at 31 December 2018, but will be reflected as an appropriation of retained profits for the year ending 31 December 2019.

DIVIDEND POLICY

The Company has adopted the Dividend Policy during the year, pursuant to which the Company may declare and distribute dividends to the Shareholders, provided that the Group records a profit after tax and that the declaration and distribution of dividends does not affect the normal operations of the Group.

The recommendation of the payment of any dividend is subject to the absolute discretion of the Board, and any declaration of final dividend will be subject to the approval of the Shareholders. In proposing any dividend payout, the Board shall also take into account, inter alia, the Group's financial condition, results of operation, level of cash, statutory and regulatory restrictions in relation thereto, future prospects, and other factors that the Directors may consider relevant. The historical dividend distribution record may not be used as a reference or basis to determine the level of dividends that may be declared or paid by the Company in the future. The payment of dividend is also subject to any restrictions under the laws of the Cayman Islands and the Articles of Association.

The Company intends to pay a total dividend in respect of each financial year of not less than 30% of the Group's consolidated profit attributable to the Shareholders for the years thereafter, subject to the criteria set out in the Dividend Policy.

The Board will monitor the implementation of the Dividend Policy. Also, the Board will review the Dividend Policy on a regular basis to ensure its effectiveness, and will discuss and approve any revisions that may be required.

RESERVES

Movements in the reserves of the Company and of the Group during the year are set out in Note 28(b) to the consolidated financial statements and the consolidated statement of changes in equity on page 82 of this Annual Report.

DISTRIBUTABLE RESERVES

As at 31 December 2018, the Company's reserves available for distribution to the Shareholders amounted to HK$152.0 million comprising amount from share premium account.

Under the Cayman Companies Law and subject to the provisions of the Articles of Association, the Company's share premium account may be applied to pay distributions or dividends to the Shareholders provided that immediately following the date of distribution or dividend is proposed to be paid, the Company is able to pay its debts as they fall due in the ordinary course of business.

CLOSURE OF REGISTER OF MEMBERS

For determining the entitlement to attend and vote at the AGM to be held on Wednesday, 22 May 2019, the register of members of the Company will be closed from Friday, 17 May 2019 to Wednesday, 22 May 2019, both days inclusive, during which period no transfer of the Shares will be registered. In order to be eligible to attend and vote at the AGM, all transfer forms accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration no later than 4:30 p.m. on Thursday, 16 May 2019.

For determining the entitlement to the proposed final dividend (subject to the approval of the Shareholders at the AGM), the register of members of the Company will be closed from Monday, 3 June 2019 to Wednesday, 5 June 2019, both days inclusive, during which period no transfer of the Shares will be registered. In order to qualify for the proposed final dividend as stated, all transfers forms accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration no later than 4:30 p.m. on Friday, 31 May 2019.

FINANCIAL SUMMARY

A summary of the audited consolidated results and the assets, equity and liabilities of the Group for the last five financial years is set out on page 156 of this Annual Report.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property, plant and equipment of the Group during the year are set out in Note 17 to the consolidated financial statements of this Annual Report.

SHARE CAPITAL

Details of the movements in the Share capital of the Company during the year are set out in Note 27 to the consolidated financial statements of this Annual Report.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Articles of Association or the laws of Cayman Islands which would oblige the Company to offer new Shares on a pro rata basis to the existing Shareholders.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

On 3 January 2018, the Company repurchased 350,000 Shares on the Stock Exchange at approximately HK$228,000 with a purchase price of HK$0.65 per Share and these Shares were cancelled on 16 January 2018. Saved for the above, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the year.

DONATIONS

No charitable donations were made by the Group during the year.

MAJOR CUSTOMERS AND SUPPLIERS

For the year, the aggregate sales attributable to the Group's five largest customers was 66.9%. The sales attributable to the Group's largest customer during the year was 36.2%.

The aggregate purchases attributable to the Group's five largest suppliers during the year was 23.5%. The purchases attributable to the Group's largest supplier during the year was 7.6%.

None of the Directors or any of their close associates or any Shareholders (who to the knowledge of the Directors own more than 5% of the Company's issued Share capital) had an interest in any of the five largest suppliers or customers of the Group.

TAX RELIEF AND EXEMPTION OF HOLDERS OF LISTED SECURITIES

The Company is not aware of any tax relief or exemption available to the Shareholders by reason of their holding of the Company's securities.

DIRECTORS

The Directors for the year and up to the date of this Annual Report were as follows:

Executive Directors

Mr. Choi Man Shing *(Chairman)*
Mr. To Ki Cheung *(CEO)*
Mr. Koh Ming Fai
Mr. Fu Kwok Fu

Non-executive Directors

Ms. Liu Pui Ching (retired on 24 May 2018)
Mr. Guo Pengcheng

Independent Non-executive Directors

Mr. Chan Ling Ming
Mr. Mok Kwok Cheung Rupert
Mr. Au Yu Chiu Steven
Prof. Yung Kai Leung

Pursuant to Article 84(1) and (2) of the Articles of Association, one-third of the Directors for the time being (or, if their number is not a multiple of three, the number nearest to but not less than one-third) shall retire by rotation at each annual general meeting. A retiring Director shall be eligible for re-election and shall continue to act as a Director throughout the meeting at which he retires. The Directors to retire by rotation shall include any Director who wishes to retire and not to offer himself for re-election. In addition, code provision A.4.2 of the CG Code stipulates that each Director should be subject to retirement by rotation at least once every three years.

Mr. Guo Pengcheng, a non-executive Director, Mr. Mok Kwok Cheung Rupert and Mr. Au Yu Chiu Steven, both independent non-executive Directors, shall retire from office by rotation at the AGM and, being eligible, will offer themselves for re-election at the AGM.

The Company has received an annual confirmation of independence from each of the independent non-executive Directors in accordance with Rule 3.13 of the Listing Rules and considers each of the independent non-executive Directors to be independent.

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

Biographical details of the Directors and the senior management of the Group are set out on pages 21 to 24 of this Annual Report.

DIRECTORS' SERVICE AGREEMENTS

Each of the Directors has entered into a service agreement with the Company for an initial fixed term of three years. The service agreements may be terminated in accordance with the respective terms of the service agreements.

None of the Directors has entered or has proposed to enter into any service agreement with the Company or any member of the Group other than contracts expiring or terminable by the Company within one year without payment of compensation, other than statutory compensation.

PERMITTED INDEMNITY PROVISION

Subject to the Companies Ordinance, every Director is entitled under the Articles of Association to be indemnified and secured harmless out of the assets of the Company from and against all costs, charges, expenses, losses and liabilities which he may sustain or incur in or about the execution or discharge of his duties.

The Company has arranged Directors' and officers' liability insurance for all Directors and senior management of the Company, who subject to the applicable laws, will be indemnified against the costs, charges, expenses, losses and liabilities for legal action incurred by such Director or officer in the execution of his/her duties or otherwise in relation thereto.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND/OR SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY

As at 31 December 2018, to the best knowledge of the Directors and chief executives of the Company, the interests or short positions of the Directors and chief executives of the Company in the Shares, underlying Shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which had been notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO) or which were required to be disclosed pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required to be notified to the Company and the Stock Exchange, pursuant to the Model Code were as follows:

Interests in Shares and underlying Shares

Name of Director	Capacity/Type of interest	Number of Shares (L) *(Note 1)*	Approximate percentage of shareholding *(Note 6)*
Choi Man Shing	Beneficial owner/interest of controlled corporations	384,789,890 *(Note 2)*	60.34%
To Ki Cheung	Beneficial owner	19,024,110 *(Note 3)*	2.98%
Koh Ming Fai	Beneficial owner	6,970,000 *(Note 4)*	1.09%
Fu Kwok Fu	Beneficial owner	6,970,000 *(Note 5)*	1.09%
Chan Ling Ming	Beneficial owner	262,000	0.04%
Yung Kai Leung	Beneficial owner	1,200,000	0.19%

Notes:

1. The letter "L" denotes the person's long position in the Shares or the underlying Shares.

2. These interests represented:

   (a) 2,600,000 Shares held by Mr. Choi Man Shing ("**Mr. Choi**"), the chairman and an executive Director of the Company;

   (b) 381,939,890 Shares held by VRI. Mr. Choi holds 57.89% of the issued share capital of VRI. By virtue of the SFO, Mr. Choi is deemed to be interested in all the Shares in which VRI is interested; and

   (c) 250,000 Shares held by VRHK. VRI holds the entire issued share capital of VRHK and therefore by virtue of the SFO, Mr. Choi is deemed to be interested in all the Shares in which VRHK is interested.

3. These interests represented:

   (a) 16,497,778 Shares held by Mr. To Ki Cheung, the chief executive officer and executive Director of the Company;

   (b) 526,332 options granted to Mr. To Ki Cheung, which are subject to certain vesting conditions pursuant to the Pre-IPO Share Option Scheme of the Company, details of which are set out in the section headed "Share Option Schemes" in this Directors' Report; and

   (c) 2,000,000 options granted to Mr. To Ki Cheung, which are subject to certain vesting conditions pursuant to the Share Option Scheme of the Company, details of which are set out in the section headed "Share Option Schemes" in this Directors' Report.

4. These interests represented:

   (a) 4,941,166 Shares held by Mr. Koh Ming Fai, an executive Director;

   (b) 528,834 options granted to Mr. Koh Ming Fai, which are subject to certain vesting conditions pursuant to the Pre-IPO Share Option Scheme of the Company, details of which are set out in the section headed "Share Option Schemes" in this Directors' Report; and

   (c) 1,500,000 options granted to Mr. Koh Ming Fai, which are subject to certain vesting conditions pursuant to the Share Option Scheme of the Company, details of which are set out in the section headed "Share Option Schemes" in this Directors' Report.

5. These interests represented:

   (a) 4,941,166 Shares held by Mr. Fu Kwok Fu, an executive Director;

   (b) 528,834 options granted to Mr. Fu Kwok Fu, which are subject to certain vesting conditions pursuant to the Pre-IPO Share Option Scheme of the Company, details of which are set out in the section headed "Share Option Schemes" in this Directors' Report; and

   (c) 1,500,000 options granted to Mr. Fu Kwok Fu, which are subject to certain vesting conditions pursuant to the Share Option Scheme of the Company, details of which are set out in the section headed "Share Option Schemes" in this Directors' Report.

6. Approximate percentage calculated based on the 637,650,000 Shares in issue as at the date of this Annual Report.

Save as disclosed above and to the best knowledge of the Directors, as at 31 December 2018, none of the Directors or chief executives of the Company had any interests or short positions in the Shares, underlying Shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which 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 or short positions which they were taken or deemed to have under such provisions of the SFO) or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND/OR SHORT POSITIONS IN SHARES AND UNDERLYING SHARES OF THE COMPANY

As at 31 December 2018, so far as the Directors are aware, the following persons (other than the Directors or chief executives of the Company), were directly or indirectly, interested in 5% or more of the Shares or short positions in the Shares and the underlying Shares of the Company, which were required to be disclosed under provisions of Divisions 2 and 3 of Part XV of the SFO, or which were required, pursuant to Section 336 of the SFO, to be entered in the register referred to therein:

Interests in Shares

Name of Shareholder	Notes	Capacity/Type of interest	Number of Shares (L) *(Note 1)*	Approximate percentage of shareholding *(Note 5)*
Liu Pui Ching	2	Interest of spouse/interest of controlled corporations	384,789,890	60.34%
VRI	3	Beneficial owner/interest of a controlled corporation	382,189,890	59.94%
China Orient Asset Management Corporation	4	Interest of controlled corporations	33,000,000	5.18%
Dong Yin Development (Holdings) Limited	4	Interest of a controlled corporation	33,000,000	5.18%
Bright Way Enterprise Inc.	4	Beneficial owner	33,000,000	5.18%

Notes:

1. The letter "L" denotes the entity's long position in the Shares or the underlying shares.

2. These interests represented:

   (a) 2,600,000 Shares held by Mr. Choi. Mr. Choi is the spouse of Mr. Liu Pui Ching ("**Ms. Liu**"), a former non-executive Director who retired on 24 May 2018. By virtue of the SFO, Ms. Liu is deemed to be interested in all the Shares in which Mr. Choi is interested;

   (b) 381,939,890 Shares held by VRI. Ms. Liu holds 42.11% of the issued share capital of VRI. By virtue of the SFO, Ms. Liu is deemed to be interested in all the Shares in which VRI is interested; and

   (c) 250,000 Shares held by VRHK. VRI holds the entire issued share capital of VRHK and therefore by virtue of the SFO, Ms. Liu is deemed to be interested in all the Shares in which VRHK is interested.

3. These interests represented:

   (a) 381,939,890 Shares held by VRI; and

   (b) 250,000 Shares held by VRHK. VRI holds the entire issued share capital of VRHK and therefore by the virtue of the SFO, VRI is deemed to be interested in all the Shares held by VRHK.

4. China Orient Asset Management Corporation holds 100% interest of Dong Yin Development (Holdings) Limited, which in turns holds 100% interest of Bright Way Enterprise Inc. Therefore, each of China Orient Asset Management Corporation and Dong Yin Development (Holdings) Limited is deemed to be interested in the same 33,000,000 Shares held by Bright Way Enterprise Inc..

5. Approximate percentage calculated based on the 637,650,000 ordinary Shares of the Company in issue as at the date of this Annual Report.

Save as disclosed above, as at 31 December 2018, the Directors were not aware of any other corporation or individual (other than the Directors or chief executives of the Company) who had an interest or a short position in the Shares or underlying Shares of the Company as recorded in the register of interests required to be kept pursuant to Section 336 of the SFO.

DIRECTORS' RIGHT TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed in this Annual Report, at no time during the year were there rights to acquire benefits by means of the acquisition of Shares or debentures of the Company granted to any Director or their respective associates nor was the Company and any of its subsidiaries a party to any arrangement to enable the Directors or their respective associates to acquire such rights in any other body corporate.

SHARE OPTION SCHEMES

Pre-IPO Share Option Scheme adopted on 17 June 2016

The Pre-IPO Share Option Scheme was adopted by the Company on 17 June 2016. The purpose of the Pre-IPO Share Option Scheme is to recognise and acknowledge the contributions made by certain executives, Directors, employees and/or consultants of the Group to the growth of the Group by granting options to them as rewards and further incentives. The Pre-IPO Share Option Scheme will expire in 16 June 2026 and the remaining life of the Pre-IPO Share Option Scheme as at the date of this Annual Report is around 7 years.

Pursuant to the Pre-IPO Share Option Scheme, on 17 June 2016, the Company conditionally granted the options to subscribe for an aggregate of 19,684,000 Shares to a total of 91 grantees at exercise price of HK$0.80 per Share which is an amount equal to 80% of the final price (i.e. HK$1.00) for each offer share of the Global Offering. Save for the options which have been granted on 17 June 2016, no further options will be granted under the Pre-IPO Share Option Scheme.

For the year ended 31 December 2018, none of the above share options were exercised and a total of 1,120,000 share options were lapsed as a result of voluntary resignation of the relevant option holders. As at 31 December 2018, the maximum number of Shares which might be issued upon exercise of all outstanding options granted under the Pre-IPO Share Option Scheme was 16,788,000 Shares, representing approximately 2.6% of the Company's issued share capital as at 31 December 2018.

Details of the outstanding share options under the Pre-IPO Share Option Scheme during the year as follows:

Grantee	Date of grant	Vesting schedule	Exercise period	Outstanding as at 1 January 2018	Number of Shares underlying the share options granted Exercised during the year	Number of Shares underlying the share options granted Lapsed during the year	Outstanding as at 31 December 2018
Directors							
To Ki Cheung	17 June 2016	25% of options will vest on each of 13 July 2017, 2018, 2019 and 2020 respectively	25% of options will be exercisable from each of 13 July 2017, 2018, 2019 and 2020 respectively to 16 June 2026	526,332	–	–	526,332
Koh Ming Fai	17 June 2016	25% of options will vest on each of 13 July 2017, 2018, 2019 and 2020 respectively	25% of options will be exercisable from each of 13 July 2017, 2018, 2019 and 2020 respectively to 16 June 2026	528,834	–	–	528,834
Fu Kwok Fu	17 June 2016	25% of options will vest on each of 13 July 2017, 2018, 2019 and 2020 respectively	25% of options will be exercisable from each of 13 July 2017, 2018, 2019 and 2020 respectively to 16 June 2026	528,834	–	–	528,834
In aggregate				**1,584,000**	**–**	**–**	**1,584,000**
Consultant In aggregate	17 June 2016	25% of options will vest on each of 13 July 2017, 2018, 2019 and 2020 respectively	25% of options will be exercisable from each of 13 July 2017, 2018, 2019 and 2020 respectively to 16 June 2026	**528,000**	**–**	**–**	**528,000**
Senior management and other employees							
In aggregate	17 June 2016	25% of options will vest on each of 13 July 2017, 2018, 2019 and 2020 respectively	25% of options will be exercisable from each of 13 July 2017, 2018, 2019 and 2020 respectively to 16 June 2026	**15,796,000**	**–**	**(1,120,000)**	**14,676,000**
Total				**17,908,000**	**–**	**(1,120,000)**	**16,788,000**

Share Option Scheme adopted on 24 June 2016

The Share Option Scheme was adopted by the Company on 24 June 2016. The purpose of the Share Option Scheme is to recognise and acknowledge the contributions of eligible participants of the Share Option Scheme including any executive, Director, employee, advisor, consultant, professional, agent, contractor, customer, provider of goods and/or services or business or joint-venture partner to the Group (the "**Eligible Participant(s)**") by granting options to them as incentives or rewards. HK$1.00 is payable by an Eligible Participant upon acceptance of an offer of option. The Share Option Scheme will expire on 23 June 2026 and the remaining life of the Share Option Scheme as at the date of this Annual Report is around 7 years.

The exercise price per Share shall be determined by the Board and notified to the grantee at the time of offer of the options. The exercise price should at least be the highest of:

(i) the nominal value of the Shares;

(ii) the closing price of the Shares as stated in the Stock Exchange's daily quotations sheet on the date of offer, which must be a day on which the Stock Exchange is open for the business of dealing in securities (the "**Business Day**"); and

(iii) the average closing prices of the Shares as stated in the Stock Exchange's daily quotations sheets for the five Business Days immediately preceding the date of offer,

or (where applicable) such price as from time to time adjusted pursuant to the Share Option Scheme.

As at the date of this Annual Report, the total number of Shares which may be issued upon exercise of all options to be granted under the Share Option Scheme shall not in aggregate exceed 63,800,000 Shares, being 10% of the total number of Shares in issue at the time dealings in the Shares first commenced on the Stock Exchange. The total number of Shares issued and to be issued upon the exercise of the options granted or to be granted under the Share Option Scheme and any other schemes of the Company (including exercised, cancelled and outstanding options) to each Eligible Participant in any 12 consecutive months up to and including the date of grant shall not exceed 1% of the Shares in issue as at the date of grant.

Pursuant to the Share Option Scheme, on 28 May 2018, the Company conditionally granted the options to subscribe for an aggregate of 14,300,000 Shares to a total of 21 grantees, including Directors, executives and officers of the Group, at exercise price of HK$0.80 per Share which was determined by the Board and at least be the highest of (i) the closing price of HK$0.63 per Share as stated in the Stock Exchange's daily quotations sheet on 28 May 2018; (ii) the average closing price of HK$0.65 per Share as stated in the Stock Exchange's daily quotations sheets for the five trading days immediately preceding 28 May 2018; and (iii) the nominal value of the Share of HK$0.01 each.

For the year ended 31 December 2018, none of the above share options were exercised and a total of 1,800,000 share options were lapsed as a result of voluntary resignation of the relevant option holders. As at 31 December 2018, the maximum number of Shares which might be issued upon exercise of all outstanding options granted under the Share Option Scheme was 12,500,000 Shares, representing approximately 2.0% of the Company's issued share capital as at 31 December 2018.

Details of the outstanding share options under the Share Option Scheme during the year as follows:

Grantee	Date of grant	Vesting schedule	Exercise period	Outstanding as at 1 January 2018	Number of Shares underlying the share options granted: Granted during the year	Exercised during the year	Lapsed during the year	Outstanding as at 31 December 2018
Directors								
To Ki Cheung	28 May 2018	25% of options will vest on each of 28 May 2019, 2020, 2021 and 2022 respectively	25% of options will be exercisable from each of 28 May 2019, 2020, 2021 and 2022 respectively to 23 June 2026	–	2,000,000	–	–	2,000,000
Koh Ming Fai	28 May 2018	25% of options will vest on each of 28 May 2019, 2020, 2021 and 2022 respectively	25% of options will be exercisable from each of 28 May 2019, 2020, 2021 and 2022 respectively to 23 June 2026	–	1,500,000	–	–	1,500,000
Fu Kwok Fu	28 May 2018	25% of options will vest on each of 28 May 2019, 2020, 2021 and 2022 respectively	25% of options will be exercisable from each of 28 May 2019, 2020, 2021 and 2022 respectively to 23 June 2026	–	1,500,000	–	–	1,500,000
In aggregate				**-**	**5,000,000**	**-**	**-**	**5,000,000**
Senior management and other employees								
In aggregate	28 May 2018	25% of options will vest on each of 28 May 2019, 2020, 2021 and 2022 respectively	25% of options will be exercisable from each of 28 May 2019, 2020, 2021 and 2022 respectively to 23 June 2026	**-**	**9,300,000**	**-**	**(1,800,000)**	**7,500,000**
Total				**-**	**14,300,000**	**-**	**(1,800,000)**	**12,500,000**

Further details of the share options are set out in Note 30 to the consolidated financial statements of this Annual Report.

CONTRACTS WITH CONTROLLING SHAREHOLDERS

Save for the Directors' material interests in transactions, arrangements or contracts and the related party transactions as disclosed in Notes 14(b) and 38, respectively, to the consolidated financial statements of this Annual Report, no contracts of significance was entered into between the Company or any of its subsidiaries and any Controlling Shareholder or its subsidiaries subsisted during the year or at the end of the year.

DIRECTORS' MATERIAL INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS OF SIGNIFICANCE

Save for the Directors' material interests in transactions, arrangements or contracts and the related party transactions as disclosed in Notes 14(b) and 38, respectively, to the consolidated financial statements of this Annual Report, no other transaction, arrangement or contract of significance to which the Company or any of its subsidiaries was a party and in which any Director (or any entity connected with such Director) had a material interest, whether directly or indirectly, subsisted during or at the end of the year.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

During the year and up to the date of this Annual Report, none of the Directors and the directors of the Company's subsidiaries, or their respective associates had interests in businesses, other than being a director of the Company and/or its subsidiaries and their respective associates, which compete or are likely to compete, either directly or indirectly, with the businesses of the Company and its subsidiaries as required to be disclosed pursuant to the Listing Rules.

REMUNERATION POLICY

The remuneration policy of the Company is designed to encourage good performance and long-term commitment from all Directors and employees to the Company. Basic salary is reviewed annually, taking account of individual's experience and qualification, salary levels of similar positions in the human resources market and operating performance of the Company. The Company should provide a range of benefits and employee contributions in accordance to local regulations of relevant countries.

Annual salary adjustment and discretionary bonus are considered according to the operating results of the Company, environment of human resources market and performance of individual employee.

In compliance with the CG Code, the Company has established the Remuneration Committee to formulate remuneration policies. Directors' remunerations are subject to the Shareholders' approval at general meetings. Other emoluments are determined by the Board with reference to Directors' duties and responsibilities, the recommendations of the Remuneration Committee and the performance and results of the Group. Details of the remuneration of the Directors and the five highest paid individuals of the Group are set out in Notes 14(a) and 13(b) to the consolidated financial statements of this Annual Report.

CORPORATE GOVERNANCE

The Company's corporate governance principles and practices are set out in the Corporate Governance Report set out on pages 46 to 61 of this Annual Report.

MANAGEMENT CONTRACTS

Other than the service agreements entered into with the Directors as disclosed above, the Company has not entered into any contract with any individuals, firms or corporate entities to manage or regulate the whole or any substantial part of any business of the Company.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Board, the Company had maintained a sufficient public float of not less than 25% of its total issued Shares as required under the Listing Rules during the year and up to the date of this Annual Report.

DEED OF NON-COMPETITION

During the year, the Controlling Shareholders have confirmed to the Company of their compliance with the non-competition undertakings provided to the Company under a deed of non-competition entered into between the Controlling Shareholders and the Company dated 24 June 2016.

The independent non-executive Directors have reviewed the status of compliance and confirmed that all the undertakings under the deed of non-competition have been complied with by the Controlling Shareholders and duly enforced during the year.

INDEPENDENT AUDITOR

RSM Hong Kong will retire at the conclusion of the forthcoming AGM and be eligible to offer themselves for re-appointment. A resolution will be submitted to the AGM to be held on 22 May 2019 to seek the Shareholders' approval on the appointment of RSM Hong Kong as the Company's auditor until the conclusion of the next annual general meeting and to authorise the Board to fix their remuneration.

RELATED PARTY TRANSACTIONS

A summary of the significant related party transactions which were conducted in the ordinary course of business are set out in Note 38 to the consolidated financial statements of this Annual Report.

As mentioned in Note 38, the rental expenses paid to related companies and the metal supplies and processing service fee to a related company were continuing connected transactions contemplated under the Lease Agreements and the Plastic and Metal Services Agreement mentioned in paragraph (a) and (c) of the paragraph headed "Continuing Connected Transactions" below respectively.

As mentioned in Note 38, the purchases of goods from related companies and a joint venture, the consultancy fee to an associate and the catering service fee paid to a related company were continuing connected transactions which were exempt from reporting, annual review, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

The Company has complied with the applicable requirements under the Listing Rules for those related party transactions which constituted non-fully exempt and non-exempt continuing connected transactions under the Listing Rules. Other related party transactions either did not constitute connected transactions/continuing connected transactions, or constituted connected transactions/continuing connected transactions but were exempted from all disclosure and independent Shareholders' approval requirements under the Listing Rules.

CONTINUING CONNECTED TRANSACTIONS

During the year ended 31 December 2018, the Group had entered into certain transactions with entities which have become connected persons upon the Listing. These transactions have continued in the ordinary course of business and have constituted non-fully exempt and non-exempt continuing connected transactions as defined in Chapter 14A of the Listing Rules.

(a) Lease Agreements

The Group as tenants, have entered into the following lease agreements (the "**Leasing Agreements**"):

	HK lease agreement	1st PRC lease agreement	2nd PRC lease agreement	3rd PRC lease agreement	4th PRC lease agreement
Tenant	VMHK	VMDG	VRMD	VMDG	DVRD
Landlord	VRDL *(Note 1)*	VRDG *(Note 1)*	VRDG *(Note 1)*	VRDG *(Note 1)*	VRDG *(Note 1)*
Location of property	Flat B2, 7th Floor, Phase 2, Hang Fung Industrial Building, 2G Hok Yuen Street, Hung Hom, Kowloon, Hong Kong	Various sites of an industrial complex located at Qiaolong Shuiaotou Industrial Zone, Tangxia Town, Dongguan City, the PRC	4th Floor, 45-46 Qiaolong Shabu Industrial Zone, Tangxia Town, Dongguan City, the PRC	Factory 1 of Zone B industrial complex located at 45-46 Qiaolong Shabu Industrial Zone, Tangxia Town, Dongguan City, the PRC	Factory 2 of Zone B industrial complex located at 45-46 Qiaolong Shabu Industrial Zone, Tangxia Town, Dongguan City, the PRC
Size of property (GFA)	2,686.26 sq.ft.	24,608.53 sq.m.	1,500.00 sq.m.	4,230 sq.m.	4,960 sq.m.
Term	1 January 2016 to 31 December 2018	1 January 2016 to 31 December 2018	1 January 2016 to 31 December 2018	1 July 2017 to 31 December 2019	1 September 2017 to 31 December 2019
Rent payable	HK$456,000 per annum *(Note 2)*	RMB4,824,000 per annum *(Note 3)*	RMB288,000 per annum *(Note 3)*	RMB70,000 per calendar month *(Note 3)*	RMB81,000 per calendar month *(Note 3)*
Annual caps	HK$456,000	RMB4,824,000	RMB288,000	RMB840,000	RMB972,000
Use of property	Office	Production plant, warehouse, sterilization room, offices, staff quarters and canteen	Warehouse	Warehouse	Production plant and warehouse

Notes:

(1) VRDL is a direct wholly-owned subsidiary of VRI and VRDG is an indirect wholly-owned subsidiary of VRI, which is the Controlling Shareholder of the Company. Accordingly, VRDL and VRDG are connected persons of the Company under the Listing Rules.

(2) The rent is inclusive of management fees and rates.

(3) The rent is inclusive of management fees but exclusive of other operating outgoings.

During the year, VMHK paid HK$456,000 to VRDL pursuant to the HK lease agreement, VMDG, VRMD and DVRD paid RMB5,664,000, RMB288,000 and RMB972,000 partly including value added tax respectively to VRDG pursuant to all PRC lease agreements.

As the HK lease agreement, the 1st PRC lease agreement and the 2nd PRC lease agreement were expired on 31 December 2018, the Group has entered into (i) the HK lease renewal agreement with VRDL; and (ii) the PRC lease renewal agreements with VRDG on 12 December 2018 to continue to lease the respective leased properties for a term of three years from 1 January 2019 to 31 December 2021. For details, please refer to the Company's announcement dated 12 December 2018.

(b) Bayer Supplier Agreement

VMHK and VMDG (collectively the "**Suppliers**") have entered into the following supplemental agreement with Bayer Medical Care, Inc. or Bayer HealthCare LLC (with effect from 1 January 2018) and Imaxeon Pty Ltd. (the "**Bayer Companies**") to renew the supply agreement (the "**Bayer Supply Agreement**"), pursuant to which the Suppliers would manufacture and supply certain components, assemblies and related services to the Bayer Companies, for an initial term from 1 January 2018 to 31 December 2019:

Bayer Supply Agreement and Supplemental Agreement	
Parties *(Note 1)*	Suppliers: (1) VMHK (2) VMDG Customers: (1) Bayer HealthCare LLC *(Note 2)* (2) Imaxeon Pty Ltd.
Effective period	The Supplemental Agreement is for an initial term from 1 January 2018 to 31 December 2019 (the "**Initial Term**"). Thereafter, the Bayer Companies shall have the right to renew the Supplemental Agreement for one successive year period by giving the Suppliers written notice of such renewal at least 90 days prior to the expiration of the Initial Term. The Supplemental Agreement may be terminated in whole or in part at any time upon 60 days prior written notice by the Bayer Companies to the Suppliers.
Principal terms	The Suppliers would manufacture, assemble, test, package and sterilise (where applicable) and sell to the Bayer Companies plastic injection moulded components and assemblies (the "**Products**"). Certain components necessary for the manufacture of the Products (the "**Components**") are provided to the Suppliers from the Bayer Companies. In consideration for the performance by the Suppliers under the Bayer Supply Agreement, the Bayer Companies agree to lease equipment relating to the manufacture and supply of the Products, such as a syringe assembly line, a packaging line, moulding tools and other equipment and tools needed for the manufacture and supply of the Products (the "**Equipment**"), to the Suppliers. The Suppliers will be responsible for the maintenance and service of the Equipment. The Bayer Companies will pay and settle the invoices for the Products supplied under the Bayer Supply Agreement within 45 days of each monthly statement.

Bayer Supply Agreement and Supplemental Agreement	
Pricing basis	The price of each of the Products are agreed on the basis of the Suppliers' cost plus a profit margin, which margin varied and will continue to vary according to the requirements and specifications of each of the Products (the "**Pricing Basis**"). The price of each of the Products is negotiated between the Bayer Companies and the Group on an arm's length basis and determined based on the Pricing Basis, in the ordinary course of business, on normal commercial terms or on terms no less favourable to the Company than those provided to independent third parties. When determining the price for each of the Products, the Directors take into account (i) the complexity and technicality of the relevant project; and (ii) the estimated cost to the Group of leasing the Equipment from an independent third party or purchasing the Equipment from an independent third party and amortising the cost of such Equipment over the Equipment's estimated useful life. Specifically, the price of each of the Products are prepared by the sales teams of the Group and subject to the review and pre-approval of an executive Director (who does not have any material interests in the transactions). The executive Director will compare the gross profit margin of sales to the Bayer Companies to those of sales to other independent third party customers of the OEM business segment, given that the Bayer Companies are the Company's customers of the same business segment. In any event, the profit margin of the transaction under the Bayer Supply Agreement should be no less favourable than those applicable to the sales of other products by the Group to other independent third party customers of the OEM business.
Adjustment in pricing terms	The Bayer Companies and the Suppliers acknowledge and agree that the Suppliers are responsible for the sterilization of the Products and that the purchase price includes any sterilisation costs associated with the Products. The Bayer Companies and the Suppliers acknowledge and agree that the Suppliers shall deliver to the Bayer Companies sterilized Products.
Annual caps	Annual caps for the Products supplied by the Suppliers to the Bayer Companies for the year ended/ending 31 December: 2018: HK$200 million 2019: HK$220 million 2020: HK$242 million Annual caps for the purchase of the Components from the Bayer Companies for the year ended/ending 31 December: 2018: HK$4.4 million 2019: HK$4.8 million 2020: HK$5.3 million

Notes:

(1) Bayer Medical Care, Inc. holds 19.9% of the shares in VMHK, and therefore it is a connected person of the Company at the subsidiary level. As both Bayer Medical Care, Inc. and the Bayer Companies are indirect wholly-owned subsidiaries of Bayer AG, the Bayer Companies are the connected persons of the Company at the subsidiary level under the Listing Rules.

(2) Bayer HealthCare LLC has accepted and assumed all obligations of Bayer Medical Care, Inc. under the Bayer Supply Agreement.

During the year, the Suppliers manufactured the Products and supplied to the Bayer Companies amounted to approximately HK$176.6 million pursuant to the Bayer Supply Agreement. The Suppliers also purchased the Components from the Bayer Companies amounted to approximately HK$0.8 million pursuant to the Bayer Supply Agreement.

(c) Plastic and Metal Services Agreement

The Group have entered into the following plastic and metal supply and processing services framework agreement with VRDG (the "**Plastic and Metal Services Agreement**"):

Plastic and Metal Services Agreement	
Parties *(Note 1)*	VMDG as purchaser VRDG as supplier
Effective period	1 January 2016 to 31 December 2018
Nature of transaction	VRDG agreed to supply certain plastic and metal components and provide painting, embossing, repairing and moulding services to VMDG.
Principal terms	Either party to the Plastic and Metal Services Agreement may terminate the agreement by giving the other party not less than three months' notice.
Annual cap	HK$7.2 million

Note:

(1) VRDG is an indirect wholly-owned subsidiary of VRI, the Controlling Shareholder. Accordingly, VRDG is a connected person of the Company under the Listing Rules.

During the year, VMDG paid approximately HK$5.4 million to VRDG pursuant to the Plastic and Metal Services Agreement.

As the Plastic and Metal Services Agreement was expired on 31 December 2018, VMDG has entered into the plastic and metal services renewal agreement with VRDG on 12 December 2018 to continue the supply of certain plastic and metal components and provision of painting, embossing, repairing and moulding services to VRDG for a term of three years from 1 January 2019 to 31 December 2021. For details, please refer to the Company's announcement dated 12 December 2018.

Internal Control

In order to ensure the terms of the non-exempt continuing connected transactions are on normal commercial terms and fair and reasonable to the Company and the Shareholders and are no more favourable than those offered by the Group to the independent third parties, the Company has formulated the following internal control policies and adopted the following internal control measures for the year:

(i) the finance department of the Company has closely monitored the non-exempt continuing connected transactions to ensure that the transaction amount have not exceeded the annual cap, respectively;

(ii) the finance department of the Company has conducted regular random checks to review and assess whether the non-exempt continuing connected transactions are conducted on normal commercial terms, in accordance with the terms set out in the related agreements and whether the relevant contract terms are in the interest of the Company and the Shareholders as a whole;

(iii) Pursuant to Rule 14A.55 of the Listing Rules, the independent non-executive Directors have reviewed the non-exempt continuing connected transactions and confirmed that they have been entered into (i) in the ordinary and usual course of business of the Group; (ii) on normal commercial terms or better; and (iii) according to the agreements governing them on terms that are fair and reasonable and in the interests of the Company and the Shareholders as a whole; and

(iv) the Company's auditor, RSM Hong Kong, has conducted an annual review of the transactions entered into under the non-exempt continuing connected transactions to ensure that the transaction amount is within the annual cap and the transactions are in accordance with the terms set out in the related agreements, Also, pursuant to Rule 14A.56 of the Listing Rules, RSM Hong Kong was engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised) "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. RSM Hong Kong has issued the unqualified letter (a copy of which has been provided by the Company to the Stock Exchange) containing its findings and conclusions in respect of the continuing connected transactions disclosed above in accordance with Rule 14A.56 of the Listing Rules.

COMPLIANCE WITH THE SANCTIONS UNDERTAKING

As disclosed in the Prospectus, the Company has, amongst others, undertaken to the Stock Exchange that it would not use the proceeds from the Global Offering, or any other funds raised through the Stock Exchange, to finance or facilitate, directly or indirectly, activities or business with, or for the benefit of, any other government, individual or entity sanctioned country which are prohibited under international sanction laws and regulations or with any sanctioned person (the "**Sanctions Undertaking**"). To ensure compliance with the Sanctions Undertaking, the Company has adopted enhanced internal control and risk management measures in order to continuously monitor and evaluate the business and take measures to protect the interests of the Group and the Shareholder from economic sanctions risks.

During the year, the Risk Management Committee maintained the internal control and risk management policies and procedures, amongst others, to keep updating the sanctions countries list with customers periodically and to investigate customer background so as to ensure the nature and location of the activities or business, as well as the identity of the counterparties and the products involved, if necessary, etc., would not violate the Sanctions Undertaking. In the opinion of the Directors, the Company has complied with the Sanctions Undertaking for the year.

EVENTS AFTER THE REPORTING PERIOD

The Group had no significant events after the reporting period and up to the date of this Annual Report.

PUBLICATION OF ANNUAL REPORT

This Annual Report containing all the relevant information required by the Listing Rules and the relevant laws and regulations has been published on the websites of the Stock Exchange (http://www.hkexnews.hk) and the Company (http://www.vincentmedical.com).

By Order of the Board

Choi Man Shing
Chairman and Executive Director

Hong Kong, 22 March 2019

1. CORPORATE GOVERNANCE PRACTICES

The Board is committed to maintaining the highest possible standards of corporate governance, and strives to maintain transparent, responsible and value-driven management practices that will enhance and safeguard the interests of the Shareholders. The Board believes that effective and high quality corporate governance is an essential platform for creating value for the Shareholders. The Board is committed to continuously reviewing and improving the Group's corporate governance practices, and maintaining the highest standards of ethical corporate behaviour across the organisation.

The Company has adopted the CG Code as contained in Appendix 14 to the Listing Rules as its own code of corporate governance. The corporate governance principles of the Company emphasise a quality Board, sound internal controls and risk management, and transparency and accountability to all Shareholders.

In the opinion of the Directors, the Company has complied with the code provisions set out in the CG Code throughout the year.

2. MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code as its own code of conduct for dealing in securities of the Company by the Directors.

The Company requires any Director wishing to deal in the Shares to make a specific written notice of the proposed dealing, and to obtain approval from the Chairman. If the Chairman declares his intention of dealing in the Shares, he must first obtain approval from the CEO.

Having made specific enquiries with all Directors, all Directors confirmed that they have complied with the required standard set out in the Model Code regarding their transactions throughout the year and up to the date of this Annual Report.

3. BOARD OF DIRECTORS

3.1 Responsibilities of the Board

The Board has multiple responsibilities to the Company, including setting strategic goals, establishing long-term strategies, and ensuring that the necessary financial and human resources are in place for the Company to meet its business objectives. It is also tasked with establishing a framework of effective controls for managing risks, with the particular aim of safeguarding the Company's assets and the interests of the Shareholders. Further, the Board is responsible for reviewing the performance of the Company's management and, more generally, setting and consolidating the Company's values and standards. The Directors take decisions objectively in the interests of the Company.

The Board reserves for its decision all major matters relating to policy matters, strategies and budgets, internal control and risk management, material transactions (in particular those that may involve any conflict of interests), financial information and other significant operational matters of the Company. Responsibilities relating to implementing decisions of the Board, directing and coordinating the daily operations and management of the Company are delegated to the management.

Four Board committees, namely, the Audit Committee, the Nomination Committee, the Remuneration Committee and the Risk Management Committee, have also been established to oversee particular aspects of the Group's affairs. Details of these four Board committees are set out from pages 52 to 55 below.

The Directors can seek independent professional advice for performing their duties at the expense of the Company.

The Directors at all times have full access to information of the Group and they can also access to information from the senior management of the Company independently. The Board is provided with monthly operating information which contains the up-to-date performance of the Group and information of the Company to enable the Board as a whole and each Director to discharge their duties.

Other than the non-executive Directors (including independent non-executive Directors), all executive Directors are appointed on a full-time basis and have sufficient time to deal with the affairs of the Company. All Directors are required to fulfil their responsibilities as directors of the Company and their common law duties as directors.

3.2 Chairman and CEO

Mr. Choi Man Shing serves as the Chairman and Mr. To Ki Cheung serves as the CEO. The Chairman provides leadership and is responsible for effective functioning and leadership of the Board, while the CEO focuses on the Company's business development and daily management and operations generally.

There is a clear division of responsibilities between the Chairman and CEO to ensure that there is a balance of power and authority in the Group.

3.3 Board composition

The structure, size and composition of the Board are subject to review from time to time to ensure that the Board (i) has a balanced composition of skills and experience appropriate for the business of the Group; and (ii) provides adequate checks and balances among the Directors to safeguard the interests of the Shareholders and to enable the Board to exercise independent judgment.

As at the date of this Annual Report, the Board had a total of nine members, which comprised four executive Directors, one non-executive Director and four independent non-executive Directors. The composition of the Board and the Board Committees, and the individual attendance records of each Director at the Board meetings, Board committees' meetings and general meeting during the year are listed below:

	Meeting Attendance/Eligible to Attend					
Name of Directors	**Board meetings**	**Audit Committee meetings**	**Nomination Committee meeting**	**Remuneration Committee meetings**	**Risk Management Committee meetings**	**General meeting**
Executive Directors						
Mr. Choi Man Shing *(Chairman)*	5/5	N/A	1/1	2/2	N/A	1/1
Mr. To Ki Cheung *(CEO)*	5/5	N/A	N/A	N/A	N/A	1/1
Mr. Koh Ming Fai	5/5	N/A	N/A	N/A	2/2	1/1
Mr. Fu Kwok Fu	5/5	N/A	N/A	N/A	N/A	1/1
Non-executive Directors						
Ms. Liu Pui Ching (retired on 24 May 2018)	0/2	N/A	N/A	N/A	N/A	1/1
Mr. Guo Pengcheng	4/5	N/A	N/A	N/A	N/A	0/1
Independent Non-executive Directors						
Mr. Chan Ling Ming	5/5	4/4	1/1	2/2	N/A	1/1
Mr. Mok Kwok Cheung Rupert	5/5	4/4	1/1	2/2	N/A	1/1
Mr. Au Yu Chiu Steven	5/5	4/4	N/A	N/A	N/A	1/1
Prof. Yung Kai Leung	5/5	N/A	N/A	N/A	N/A	0/1

The Directors have extensive industry knowledge and experience in corporate management, strategic planning, accounting and financial matters. The Directors bring a good balance of skills and experience to the Company. All Directors are elected for a term of three years, subject to retirement by rotation and re-election at the AGM.

Biographical details of each of the Directors are set out in the "Biographical Details of Directors and Senior Management" section on pages 21 to 24 of this Annual Report. The information is also available on the Company's website. In addition, a list containing the names of the Directors and their roles and functions is posted on the websites of the Stock Exchange and the Company. Directors have disclosed the number and nature of their offices held in public companies or organisations and other significant commitments in their biographical information. They are also reminded to notify the Company in a timely manner and confirm bi-annually to the Company any change of such information so that the Company will set out the change and the updated information regarding such Directors in the next published annual report and interim report of the Company (as the case maybe).

The Company has arranged appropriate insurance coverage in respect of any legal action against the Directors and the senior management of the Group.

3.4 Board Diversity Policy

The Company has an official written policy relating to the diversity of Board members, which aims to set out the approach to achieve diversity on the Board. The Board diversity policy has been put on the Company's website.

Under this policy, the diversity of the Board has been considered from a number of aspects, including but not limited to gender, age, cultural and education background, ethnicity, professional experience, skills, knowledge and length of service in the Company. All Directors' appointments are based on meritocracy, and candidates will be considered against a set of objective criteria, having due regard to the benefits of diversity on the Board. Regular review of this Board diversity policy is the responsibility of the Nomination Committee.

The following tables further illustrate the diversity of the Board members as at the date of this Annual Report:

	Age Group			Educational Background		
Name of Directors	41-50	51-60	61-70	Accounting	Engineering	Others
Mr. Choi Man Shing			✓			✓
Mr. To Ki Cheung		✓		✓		
Mr. Koh Ming Fai	✓				✓	
Mr. Fu Kwok Fu	✓				✓	
Mr. Guo Pengcheng		✓			✓	
Mr. Chan Ling Ming		✓			✓	
Mr. Mok Kwok Cheung Rupert		✓			✓	
Mr. Au Yu Chiu Steven		✓		✓		
Prof. Yung Kai Leung			✓		✓	

Name of Directors	Professional Experience/Skills and Knowledge
Mr. Choi Man Shing	Manufacturing of medical devices
Mr. To Ki Cheung	Audit and Finance
Mr. Koh Ming Fai	Manufacturing of medical devices
Mr. Fu Kwok Fu	Manufacturing of medical devices
Mr. Guo Pengcheng	Investment management
Mr. Chan Ling Ming	Manufacturing of medical devices and corporate management
Mr. Mok Kwok Cheung Rupert	Administrative management, sales and marketing and R&D of medical devices
Mr. Au Yu Chiu Steven	Audit and Finance
Prof. Yung Kai Leung	Engineering

3.5 Directors Nomination Policy and Procedures

Directors nomination policy and procedures of the Company was formulated by the Nomination Committee and adopted by the Board during the year. This policy sets out the procedures, process and criteria for identifying and recommending candidates for election to the Board as follows:

(i) In undertaking its annual review of the Board, the Nomination Committee or the Board as the case may be will determine if a Director should be appointed to the Board either as an additional Director or to fill a vacancy.

(ii) The sufficient biographical details of a candidate (including but not limited to, qualifications and working experience) will be provided to the Nomination Committee for assessing his/her suitability which will be measured against the suitability criteria as set out in this policy which include but are not limited to:

- the extent to which the candidate meets the competencies for a Director outlined in this policy;
- the time commitment required to effectively discharge the duties to the Company balanced with the number of existing directorships and other commitments that may demand the attention of the candidate;
- any actual or perceived conflicts of interest; and
- diversity in the aspects, amongst others, of gender, age, cultural and education background, ethnicity, professional experience, skills, knowledge and length of service in the Company as set out in the Board diversity policy of the Company.

(iii) A candidate selected by the Nomination Committee will be approached by the Chairman or the CEO to determine his/her interest in joining the Board.

(iv) A candidate will be given information about the role, responsibility, contribution and time commitment the appointment will involve and the remuneration, terms and conditions of the appointment.

(v) A candidate for appointment as a non-executive Director (including an independent non-executive Director) must indicate that they have sufficient time to devote to the tasks the appointment will involve.

(vi) If the nominated candidate accepts an appointment, the Nomination Committee and the Remuneration Committee will consider the appointment and remuneration package, and recommend to the Board for approval.

During the year under review, no candidate was nominated for directorship.

3.6 Independent non-executive Directors

The Company has four independent non-executive Directors, who have brought a wide range of business and financial experiences to the Board. By their active participation in the Board meetings and their services on various Board committees, the independent non-executive Directors have made important contributions to the effective direction and strategic decision-making of the Group.

Throughout the year under review, the Board at all times fulfilled the requirement of Rules 3.10(1) and (2) and 3.10A of the Listing Rules relating to the appointment of at least three independent non-executive Directors (representing at least one-third of the Board) with at least one independent non-executive Director possessing appropriate professional qualifications or accounting or related financial management expertise.

The Board as well as the Nomination Committee have assessed the independence of all of the independent non-executive Directors and consider all of them to be independent having regard to (i) their respective annual confirmation on independence as required under Rule 3.13 of the Listing Rules; (ii) the absence of involvement in the daily management of the Company; and (iii) the absence of any financial, business or family or other material relationships with other members of the Board or circumstances which would interfere with the exercise of their independent judgment.

During the year, the Chairman, being an executive Director, held two meetings with independent non-executive Directors without the presence of other Directors.

3.7 Directors' induction and continuous professional development

The Directors keep abreast of responsibilities as a Director of the Company and of the conduct, business activities and development of the Company.

Every newly appointed Director will receive formal, comprehensive and tailored induction on appointment to ensure appropriate understanding of the business and governance policies and operations of the Group and full awareness of the Director's responsibilities and obligations under the Listing Rules and relevant statutory requirements. This understanding is deepened and continued by the Directors' participation in Board meetings and their work on various Board committees.

The Directors understand the need to continue to develop and refresh their knowledge and skills for making contributions to the Company. During the year, the Company has organized a directors' training with the topic of "Connected Transactions and the Updates" at the Company's expense to all Directors and encouraged the Directors to view the training webcast launched by the Stock Exchange. Also, the Directors attended the external seminars and read materials on topics relevant to their duties as Directors. The Directors have provided the Company with their respective training records on an annual basis pursuant to the CG Code, and such records are maintained by the Company Secretary.

3.8 Board and Board committees' meetings

The Company holds at least four Board meetings per year, with special Board meetings being scheduled as required to determine the overall strategic directions and objectives of the Group and approve interim and annual results and other significant matters. The Articles of Association allow the Board meetings to be conducted by means of a telephone conference or other communication equipment through which all persons participating in the meeting can communicate with each other. Also, a resolution in writing signed by all the Directors for the time being entitled to receive notices of Board meetings shall, provided such Directors would constitute a quorum at any meeting of the Board convened to consider the resolution, be valid and effectual.

At least fourteen (14) days' notice for regular meetings of the Board and at least seven (7) days' notice for regular meetings of the Board committees, and reasonable notice for non-regular meetings of the Board and the Board committees' were given to all Directors/committee members so as to ensure that each of them had an opportunity to attend the meetings. The Company Secretary assists the respective chairman of the Board and the Board committees in preparing the agenda for meetings and ensures that all applicable rules and regulations are complied with. The agenda and the accompanying meeting papers are sent in full to all Directors or the relevant committee members at least three (3) days before the date of meetings (or such other period as the members may agree). The Directors are allowed to include into the draft agenda any additional matters that they wish to discuss and resolve at the meetings.

After the Board and the Board committees' meetings, draft and final versions of minutes are sent to all Directors or the relevant committee members for their comment and records within a reasonable time after the meetings. All minutes are kept by the Company Secretary and available for inspection at any reasonable time on reasonable notice given by any Director or the relevant committee member.

If a matter to be considered by the Board involves a conflict of interests of any substantial Shareholder or the Controlling Shareholder of the Company or Director and if the Board considers that the matter is material, it would be dealt with by a physical meeting rather than a written resolution of the Directors.

The Board ensures that there are sufficient independent non-executive Directors (who, and whose close associates, have no material interests in the transaction) participating in discussing and voting on the resolution. A Director having material interests would abstain from deliberating and voting on the resolution to avoid any conflict of interests.

4. BOARD COMMITTEES

The Board has established four Board committees, namely the Audit Committee, the Nomination Committee, the Remuneration Committee and Risk Management Committee to oversee specific aspects of the Company's affairs and help it in the execution of its responsibilities. The Board committees are provided with sufficient resources to discharge their duties. The list of members of the four Board committees as at the date of this Annual Report are as follows:

	Board Committees' Composition			
Name of Board committee members	**Audit Committee**	**Nomination Committee**	**Remuneration Committee**	**Risk Management Committee**
Executive Directors				
Mr. Choi Man Shing *(Chairman)*	–	Chairman	Member	–
Mr. To Ki Cheung *(CEO)*	–	–	–	–
Mr. Koh Ming Fai	–	–	–	Chairman
Mr. Fu Kwok Fu	–	–	–	–
Non-executive Directors				
Mr. Guo Pengcheng	–	–	–	–
Independent non-executive Directors				
Mr. Chan Ling Ming	Member	Member	Chairman	–
Mr. Mok Kwok Cheung Rupert	Member	Member	Member	–
Mr. Au Yu Chiu Steven	Chairman	–	–	–
Prof. Yung Kai Leung	–	–	–	–
Employees				
Mr. Kwok Kam Ming *(Quality assurance manager)*	–	–	–	Member
Ms. Hu Fang *(Sales and marketing manager)*	–	–	–	Member
Mr. Zhang Changqing *(Sales and marketing manager)*	–	–	–	Member

Each Board committee has its written terms of reference which clearly outline its authority, duties and the requirement to report back on its decisions or recommendations to the Board. Independent non-executive Directors play an important role in these committees, ensuring that independent and objective views are expressed.

4.1 Audit Committee

The Company established the Audit Committee with its written terms of reference in compliance with the Listing Rules. The written terms of reference of the Audit Committee are available on the websites of the Stock Exchange and the Company.

The functions of the Audit Committee are included but not limited to:

(a) ensuring that the Company has an effective financial reporting, risk management and internal control system;

(b) overseeing the integrity of the financial statements of the Company;

(c) selecting and assessing the independence and qualifications of the Company's external auditor; and

(d) ensuring effective communication between the Directors, internal and external auditor.

During the year, the Audit Committee had performed the following works:

- reviewed the audited annual financial statements for the year ended 31 December 2017;
- reviewed the unaudited interim financial statements for the six months ended 30 June 2018;
- made recommendations to the Board for approval the above-mentioned financial statements respectively;
- reviewed and approved the audit closing memorandum presented by the external auditor;
- discussed with the management and the external auditor about the issues concerning the accounting policies and practices which may affect the Group, along with financial reporting matters;
- reviewed the risk management and internal control systems;
- recommended to the Board on the re-appointment of the external auditor;
- determined the interim review and annual audit fees of the external auditor; and
- reviewed the amendments to the terms of reference of the Audit Committee in compliance with the amendments to the CG Code and approved for submission to the Board's adoption.

Apart from the regular Audit Committee meetings, the Audit Committee also held a meeting with the external auditor without the presence of management.

This Annual Report for the year ended 31 December 2018 has been reviewed by the Audit Committee.

4.2 Nomination Committee

The Company established the Nomination Committee with its written terms of reference in compliance with the Listing Rules. The written terms of reference of the Nomination Committee are available on the websites of the Stock Exchange and the Company.

The functions of the Nomination Committee are included but not limited to, (i) identify, screen and recommend to the Board appropriate candidates to serve as the Directors; (ii) oversee the process for evaluating the performance of the Board; and (iii) develop, recommend to the Board and monitor nomination guidelines for the Company.

During the year, the Nomination Committee had performed the following works:

- reviewed the existing structure, size, composition and diversity (including but not limited to gender, age, cultural, education background, ethnicity, professional experience, skills, knowledge and length of service in the Company) of the Board;
- reviewed the Board diversity policy of the Company;
- assessed the independence of the independent non-executive Directors;
- recommended to the Board on the re-election of retiring Directors; and
- formulated the nomination of directors policy and procedures for adoption by the Board.

4.3 Remuneration Committee

The Company established the Remuneration Committee with its written terms of reference in compliance with the Listing Rules. The written terms of reference of the Remuneration Committee are available on the websites of the Stock Exchange and the Company.

The functions of the Remuneration Committee are included but not limited to assist the Board in (i) determining the policy and structure of the remuneration packages of the Directors and the senior management; (ii) reviewing incentive schemes and Directors' service contracts; and (iii) fixing the remuneration packages for the Directors and the senior management.

During the year, the Remuneration Committee had performed the following works:

- reviewed the remuneration policy and structure of the Group;
- discussed and recommended the remuneration packages of the Directors and senior management for the Board's approval; and
- considered the grant of share options under the Share Option Scheme and recommended to the Board for approval.

The fees of the Directors and the emolument of the senior management are determined with reference to their respective duties and responsibilities, expertise and experience in the industry, the performance and profitability of the Group as well as remuneration benchmarks from other companies and prevailing market conditions. Whilst the Board retains its power to determine the remuneration of non-executive Directors, the responsibility for reviewing and determining the remuneration packages of individual executive Directors and senior management of the Company is delegated to the Remuneration Committee.

The remuneration paid to the members of senior management (excluding the Directors) by bands for the year is set out below:

Emolument Band	Number of individuals
Nil to HK$1,000,000	6
HK$1,000,001 to HK$1,500,000	4

The details of the fees and other emoluments paid or payable to the Directors are set out in details in Note 14(a) to the consolidated financial statements of this Annual Report.

4.4 Risk Management Committee

The Company established the Risk Management Committee with its written terms of reference in compliance with the Listing Rules. The functions of the Risk Management Committee are including but not limited to, oversee the implementation of the Group's internal control and compliance policies and to manage the Group's exposure to risks.

During the year, the Risk Management Committee held two meetings and the individual attendance records of each member of the Risk Management Committee are listed below:

Name of members	Meeting Attendance/ Eligible to Attend
Mr. Koh Ming Fai *(Executive Director)*	2/2
Mr. Kwok Kam Ming *(Quality assurance manager)*	2/2
Ms. Hu Fang *(Sales and marketing manager)*	2/2
Mr. Zhang Changqing *(Sales and marketing manager)*	2/2

During the year, the Risk Management Committee had performed the following works:

- reviewed the business transactions to manage the Group's exposure to risks, including but not limited to sanctions risk, anti-corruptions and anti-fraud risks and patent infringement risk;

- reviewed the business operation to manage the Group's exposure to risks, including but not limited to the environmental, health and safety risk, financial risk and data security risk;

- conducted periodic checks on the implementation of the Group's internal control, compliance and risk management policies and procedures to ensure that they can be implemented effectively and efficiently; and

- discussed and considered whether the Group's internal control, compliance and risk management policies and procedures are adequate, effective and efficient in monitoring the Group's risks and, where necessary, make recommendations to the Board to improve and enhance the internal control, compliance and risk management policies and procedures of the Group.

Details of its main responsibilities within risk management and internal control structural framework are set out in the section headed "Risk Management and Internal Control Structural Framework" below.

5. CORPORATE GOVERNANCE FUNCTIONS

The Board recognises that the Directors should be collectively responsible for the corporate governance duties. Such duties are included but not limited to:

(i) to develop and review the Company's policies and practices on corporate governance and make recommendations to the Board;

(ii) to review and monitor the training and continuous professional development of Directors and senior management;

(iii) to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;

(iv) to develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees and directors; and

(v) to review the Company's compliance with the CG Code and its disclosure requirements in this Annual Report.

During the year and up to the date of this Annual Report, the Board has reviewed and performed the abovesaid corporate governance functions.

6. RISK MANAGEMENT AND INTERNAL CONTROL

The Board recognises that it has the overall responsibility to establish and maintain sound and effective risk management and internal control systems to ensure the smooth running of operations, to safeguard the Group's assets and the Shareholders' interest as well as to ensure the reliability of financial statements in compliance with applicable laws and regulations. In devising internal controls, the Group has regard to the nature and extent of the risk, the likelihood of it crystallizing, and the cost of controls. Systems of risk management and internal control are designed to manage, but not eliminate, the risk of failure to achieve business objectives and can only provide reasonable but not absolute, assurance against the risk of material misstatement, fraud or loss.

6.1 Risk Management and Internal Control Structural Framework

The Company has set up an internal audit division within the Group during the year and maintained an organisation structure with defined levels of responsibility in the Company's risk management and internal control system. It was decided that the Board would be directly responsible for internal control of the Group and for reviewing its effectiveness. The Board has delegated its responsibilities of risk management and internal control to the Audit Committee and the Risk Management Committee as well as internal audit division. The Audit Committee oversees the financial reporting, risk management and internal control systems and provides advice for improvement. The Risk Management Committee as well as the internal audit division of the Group (i) oversee the management of each business department in the design, implementation and monitoring of the risk management and internal control systems; and (ii) determine and evaluate the associated financial, operation, reporting and compliance risks and their corresponding mitigation plans. The entire process and its outcome are documented and reviewed by the Risk Management Committee twice a year.

The Group's risk management and internal control structural framework is summarised below:

Board

- Evaluate and determine the nature and extent of the risks taken by the Group to achieve its strategic business objectives;

- review and maintain the risk management and internal control structural framework and their responsibilities; and

- through the Audit Committee and the Risk Management Committee, regularly review and monitor the effectiveness of the risk management and internal control systems and monitor the corporate governance practices and compliance procedures on an ongoing basis.

Audit Committee

- Review the systems of the Company on financial controls, internal control and risk management regularly;

- monitor the implementation of the action plans and the effectiveness and adequacy of the internal control and risk management systems; and

- report directly to the Board on its findings, decisions and/or recommendations.

Risk Management Committee

- Assist the Board and the Audit Committee to perform its responsibilities of risk management and internal control systems;

- review the effectiveness of the Group's risk management and internal control systems at least half a year, and such review should cover all material controls including financial, operational and compliance control;

- discuss the risk management and internal control systems with the internal audit division and management of each business development to ensure that management has performed its duty to have effective and efficient control systems so as to ensure the adequacy of resources, staff qualifications and experience, and training programmes; and

- report directly to the Board and the Audit Committee on its findings, decisions and/or recommendations.

Internal Audit Division

- Oversee the Group's risk management and internal control systems on an ongoing basis;

- oversee the operation of each business department and evaluate the associated financial, operation and compliance risks and their corresponding mitigation plans; and

- report directly to the Risk Management Committee on its findings, decisions and/or recommendations.

Management of each business development

- Design, implement and maintain appropriate and effective risk management and internal control systems;

- identify, evaluate and manage the risks that may potentially impact the major processes of the operations;

- monitor risks and take measures to mitigate risks in day-to-day operations;

- give prompt responses to, and follow up the findings on risk management and internal control matters; and

- report directly to the Risk Management Committee and the internal audit division on its findings, decisions and/or recommendations.

6.2 Processes adopted to Identify, Evaluate and Manage Risks

The processes adopted by the Group to identify, evaluate and manage risks associated with the business of the Group, the industry and market are summarised as follows:

Risk Identification

- Identify the risks that may potentially affect the Group's business and operations.

Risk Assessment

- Assess the risks identified by using the assessment criteria developed by the management; and

- access the likelihood of their occurrence and the potential impact on the business and results of the Group.

Risk Response

- Determine the risk management strategies and internal control processes to prevent, avoid or mitigate the risks.

Risk Monitoring and Reporting

- Perform ongoing and periodic monitoring of the risk and ensure that appropriate risk management and internal control processes are in place and effective;

- review and revise the risk management strategies and internal control processes in case of any significant change of situation; and

- report the findings, decisions and recommendations of risk monitoring within the risk management and internal control structural framework regularly.

The Board, through the Audit Committee and the Risk Management Committee as well as internal audit division, conducted an annual review on the Group's risk management and internal control systems and considers that the systems are adequate and effective during the year. The Board is satisfied that the Group has fully complied with the code provisions on risk management and internal controls as set out in the CG Code.

6.3 Disclosure of Inside Information

The Group acknowledges its responsibilities under the Listing Rules and the SFO and the overriding principle that inside information should be announced as soon as reasonably practical when it is the subject of a decision. The procedures and internal controls for handling and dissemination of inside information are as follows:

(i) The Group conducts its affairs with close regard to the disclosure requirement under the Listing Rules as well as the "Guidelines on Disclosure of Inside Information" published by the Securities and Futures Commission of Hong Kong in June 2012;

(ii) The Group has implemented and disclosed its policy on fair disclosure by pursuing broad, non-exclusive distribution of information to the public through channels such as financial reporting, public announcements and the Company's website;

(iii) The Group has strictly prohibited the unauthorised use of confidential or inside information and reinforced the awareness to the obligations in preserving confidentiality of inside information within the Group;

(iv) sending blackout period and securities dealing restrictions notification to the relevant Directors and employees regularly; and

(v) The Group has implemented procedures for responding to external enquiries about the Group's affairs, so that only the executive Directors as well as the Company Secretary and the head of investor relations of the Company are authorized to communicate with parties outside the Group.

7. EXTERNAL AUDITOR AND AUDITOR'S REMUNERATION

The Audit Committee reviews and monitors the external auditor's independence and objectivity and effectiveness of the audit process. The Audit Committee receives each year the engagement letter from the external auditor of the Company confirming their independence and objectivity and holds meetings with representatives of the external auditor to consider the scope of its audit, approve its fees, and the scope and appropriateness of non-audit services, if any, to be provided by it. The Audit Committee also makes recommendations to the Board on the appointment and retention of the external auditor.

The remuneration paid or payable to RSM Hong Kong, being the external auditor of the Company, in respect of the audit services related to the audit for the year ended 31 December 2018 and the review of the interim results for the six months ended 30 June 2018 amounted to approximately HK$1.7 million.

The remuneration paid or payable to RSM Hong Kong and its related entities in respect of the services related to other permissible non-audit services amounted to approximately HK$0.05 million.

8. DIRECTORS' AND AUDITOR'S RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for the preparation of the consolidated financial statements of the Group which give a true and fair view of the state of affairs of the Group. In preparing such consolidated financial statements, it is fundamental that appropriate accounting policies are selected and applied consistently. The statement of the external auditor of the Company about its reporting responsibilities on the consolidated financial statements is set out in the independent auditor's report on pages 74 to 78 of this Annual Report.

9. COMPANY SECRETARY

The Company Secretary, Ms. Tsui Lai Ki Vicki, is responsible to the Board for ensuring that the Board procedures are followed and the Board activities are efficiently and effectively conducted. These objectives are achieved through the adherence to proper Board procedures and the timely preparation and dissemination of meeting agendas and papers to the Directors. Minutes of all Board and Board committees' meetings are prepared and maintained by the Company Secretary in sufficient details of the matters considered and decisions reached by the Board or the Board committees. All draft and final minutes of the Board and the Board committees' meetings are sent to the Directors and committee members, respectively, for their comments and are available for inspection by any Director or committee member upon request.

The Company Secretary is responsible for ensuring that the Board is fully apprised of all legislative, regulatory and corporate governance developments relating to the Group and that the Board takes these into consideration when making decisions for the Group.

The Company Secretary is also directly responsible for the Group's compliance with all obligations under the Listing Rules and The Codes on Takeovers and Mergers and Share Repurchases, including the preparation, publication and despatch of annual reports and interim reports as required in the Listing Rules and other applicable laws, rules and regulations.

Furthermore, the Company Secretary advises the Directors on their obligations, among others, for disclosure of interests and dealings in the Group's securities, connected transactions and inside information and ensures that the standards and disclosures required by the Listing Rules and all applicable laws, rules and regulations are complied with and, where required, reported in the annual report and/or interim report of the Company.

The appointment and removal of the Company Secretary is subject to the Board's approval in accordance with the Articles of Association. All members of the Board have access to the advice and service of the Company Secretary. Ms. Tsui joined the Group in April 2016 and was appointed as the Company Secretary in May 2017. She has day-to-day knowledge of the Group's affairs. During the year under review, Ms. Tsui confirmed that she had taken no less than 15 hours of relevant professional training to update her skills and knowledge.

10. INVESTOR RELATIONS AND SHAREHOLDERS' RIGHTS

To uphold high standards of corporate governance, the Company maintains effective communications with the Shareholders and other stakeholders by disseminating information in a timely and accurate manner. The Board has established a Shareholders' communication policy which aims to promote effective communication between the Company and the Shareholders and other stakeholders and to enable the Shareholders to exercise their rights as shareholders effectively in an informed manner. The Shareholders' communication policy has been put on the Company's website and will be reviewed by the Board on a regular basis to ensure its effectiveness.

Senior management maintains regular dialogue with institutional investors through one-on-one meetings and conference calls. The Company is committed to complying with disclosure rules and regulations stipulated by the relevant regulatory bodies, and to communicating the Company's business strategies, development and goals to investors.

To address a wider investment community, the corporate website (www.vincentmedical.com) contains comprehensive information about the Company. Under the Investor Relations page, viewers can find the financial reports, announcements and circulars and other corporate information of the Company published on the website of the Stock Exchange.

The general meeting is an effective platform that allows effective communication between the Board members, the senior management and the Shareholders. The Company encourages participation of the Shareholders in annual general meetings and other general meetings. The Company sends notice to the Shareholders for annual general meetings at least 20 clear business days before the meeting and at least 10 clear business days for all other general meetings.

Mechanisms for enabling the Shareholders' participation in general meetings of the Company will be reviewed on a regular basis by the Board to encourage the highest level of participation.

10.1 Convening an Extraordinary General Meeting by the Shareholders

In accordance with Article 58 of the Articles of Association, an extraordinary general meeting can be convened on the requisition of any one or more Shareholders holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the Company Secretary, to require an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition; and such meeting shall be held within two months after the deposit of such requisition.

10.2 Procedures for Making Proposals at General Meetings and Putting forward Enquiries to the Board

There are no provisions in the Articles of Association or the Cayman Companies Law for the Shareholders to move new resolutions at general meetings. The Shareholders who wish to move a resolution may request the Company to convene a general meeting in accordance with the procedures set out in the preceding paragraph.

Apart from participating in the Company's general meetings, the Shareholders may send their specific enquiries requiring the Board's attention to the Company Secretary. Other general enquiries can be directed through the Company's Investor Relations contacts.

Address:	Vincent Medical Holdings Limited Flat B2, 7/F., Phase 2, Hang Fung Industrial Building, 2G Hok Yuen Street, Hung Hom, Hong Kong (For the attention to the Company Secretary)
Telephone:	(852) 2365 5688
Fax:	(852) 2765 8428
Email:	investors@vincentmedical.com

For the avoidance of doubt, the Shareholders must deposit and send the original duly signed written requisition, notice or statement, or enquiry (as the case may be) to the above address and provide their full name, contact details and identification in order to give effect thereto. Shareholders' information may be disclosed as required by law.

10.3 Articles of Association

During the year, the Company has not made any amendment to its Articles of Association. An up-to-date version of the Articles of Association is available on the website of the Company and the Stock Exchange respectively.

INTRODUCTION

The Group adheres firmly to the core values of providing innovative, quality and reliable medical devices to the market. The Group has longed for the pursuit of sustainability by incorporating environmental and societal initiatives into business and to enhance its competitiveness within the industry. To acknowledge the significance of corporate environmental and social responsibilities of the Group, the Board launched its third Environment, Social and Governance Report with pleasure to demonstrate sustainability performance of the Group.

In compliance with the requirements as set out in the Environmental, Social and Governance Reporting Guide stated in Appendix 27 of the Listing Rules, the Group reports its commitments and practices on the environmental, social and governance (ESG) performance for the year ended 31 December 2018. The scope of this ESG report primarily covers all operated sites, including the head office in Hong Kong and operating facilities at Dongguan and Shenzhen. Guangzhou division has commenced operation in 2018 and its relevant ESG information is also included in this report.

STAKEHOLDERS ENGAGEMENT

The Group knows it is important to understand the stakeholders' needs and expectations. Better still, stakeholders' opinion can help the Group identifies as well as prioritizes strategic development. Therefore, there are communication channels have been set up to engage different stakeholders on a regular basis.

ENVIRONMENT

The Group is aware that the present business is depleting the resources of the future generation which poses environmental impacts in certain extents. The Group is classified as a low emission industry by the Dongguan Tangxia Environmental Protection Department (東莞塘廈環保分局) and has upheld the principle of sustainability in operation. The Group is aware that it had complied with all environmental laws and regulations, and prohibited to all relevant illegal and violating activities. During the year, there was no environmental non-compliance resulting in fines or prosecution.

EMISSIONS

The major greenhouse gases (GHG) emission of the Group is generated from purchased electricity and fossil fuel used by company vehicles. Starting from the year of 2018, the Group continues along its pursuit of sustainable development by starting to monitor (Scope 3) GHG emission on business travel with a view of disclosing further information on carbon emission.

Indicator	Units	Total emissions in 2018
Total GHG emission (Scope 1, 2, 3)	CO_2e tonnes	10,886
Scope 1	CO_2e tonnes	14
Scope 2	CO_2e tonnes	10,855
Scope 3	CO_2e tonnes	17
Air pollutants		
Nitrogen Oxides (NOx)	g	8,624
Sulfur Oxides (SOx)	g	91
Particulate Matter (PM)	g	751

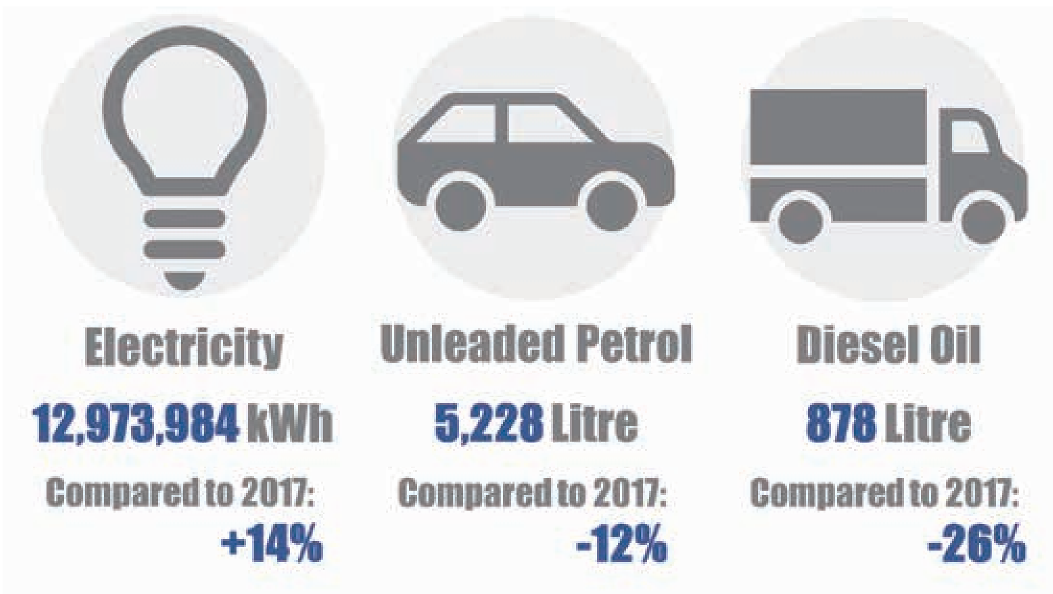
The total GHG emission during the year (10,886 CO_2e tonnes) is higher than that in 2017 (10,246 CO_2e tonnes), this is because Scope 3 emission is newly added, and the total amount of electricity consumed is increased by 14% as compared to that of 2017. Notwithstanding our production volume during the year has risen to more than 57.0 million pieces of products, the air pollutants emission including NOx, SOx and PM are declined by 28%, 14% and 28%, respectively, as compared to that in 2017. The decrease in pollutants emission is a result of the lower transportation needed. For measures of energy saving and paper reduction, please refer to the next section "Use of Resources".

USE OF RESOURCES

Energy Consumption

It is unavoidable to consume energy in daily operation, yet the Group takes energy saving as a long-term objective and strives to reduce energy consumption every year. In view of that, the Group has implemented the following energy measures to lower energy consumption.

- Established an energy management centre to analyse and monitor energy usage regularly;
- Installed a solar powered water heating system in office and dormitory;
- Replaced conventional lightings with LED lights or T5 fluorescent tube;
- Purchased two environmentally friendly electrical forklifts;
- Limited unnecessary use of company vehicles;
- Turned off lighting, personal computer and air-conditioners during non-office hours;
- Switched off idling engines when not in use;
- Used video conferencing or phone calls for the meetings;
- Maintained air indoor room temperature at 24 to 26 Degree Celsius at the office; and
- Placed energy saving reminders at pantry, office and dormitory.



Water Consumption

Due to the business nature, water consumption of the Group is mainly from office and household use. Production of medical devices do not substantially consume a large amount of water, but the Group is devoted to reducing the use of water. Reminders are placed at pantries and toilets to remind employees to save water. Moreover, the Group has adopted water flow controllers and water efficient taps to lower water consumption. A total of 91,124 litres of water were consumed during the year.

In addition to water consumption, wastewater handling is also a concern in the operation of the Group. The Group has installed a system to separate rainwater and sewage. All wastewater is properly treated and governed by the local regulator. Regular monitoring and inspection are carried out to ensure the discharge obeys the discharge caps set out by the government. Corrective and preventative actions will be taken in response to abnormal situations.

The total electricity and water consumption during the year increased by 14% and 23%, respectively, as compared to that in 2017. Contributing reasons include the Group operated one more manufacturing site in Guangzhou, and the total amount of production volume in 2018 is greater than that in 2017. For continuous improvement purposes, the Group will proactively seek opportunities to advocate energy and water saving throughout the operation to fellow colleagues.

Waste and Packaging Materials Management

The business of the Group entails the use of natural resources. The Group, therefore, actively encourages employees to reduce waste at the source. For example, over the years, implemented an Office Automation (OA) System and the SAP planning software, set duplex-printing as default and communicated among employees via electronic means to minimize paper usage. It is encouraging to see a downward trend in total waste disposal in 2018 when compared to the same period in 2017.

The Group also strictly follows the guidelines and regulations to handle, manage and discharge hazardous waste. For instance, waste is sorted in accordance with the National Hazardous Waste List and stored properly in a designated container with covers in designated area to avoid leakage and misuse. All hazardous waste such as wasted organic solvent such as thinner, waste oil, wasted compact fluorescent lamps, exhausted cartridges and toners are collected and recycled by licensed contractors. They shall not only obtain the Hazardous Waste Operation Permit and the Road Transportation Operation Permit issued by the authorities but also shall demonstrate their abilities to handle hazardous waste and follow laws and compliances to avoid the secondary environmental pollution.

Furthermore, the Group understands materials used in production can be harmful to the environment. Meanwhile, providing durable and reliable medical devices is the core business of the Group, therefore, choosing environmentally responsible suppliers and contractors are of great importance to the Group. Please refer to the section headed "Supplier Chain Management" below for information.

In the concern of packaging materials, as packaging plays a vital role in keeping products in good quality without damage, the Group mainly employs paper boxes and plastic in the delivery and transportation process. In fact, all the materials are being reused. The Group should get rid of using plastic in phases because plastic has a detrimental effect on the environment. Hence, the alternative is being adopted. The Group uses fabric instead to lessen the amount of plastic waste. During the year, 1,144 tonnes of materials including plastics and paper has been used.

Category of Packaging Materials	Total discharge in 2018 (calculated in tonnes)
Carton boxes	990
Plastic	147
Paper	7

THE ENVIRONMENT AND NATURAL RESOURCES

Exhaust Gas Emission

Because of the business nature, the Group does not emit a significant amount of exhaust gas throughout the operation. The only possible source of exhaust gas emitted from the operating site would be motor vehicles, particularly diesel vehicles. They emit a large amount of PM and NOx. At present, the Group has been working to control the emission, such as to closely monitor the emissions of company vehicles and to conduct proper engine repair and maintenance on a regular basis. In the future, the Group is seeking for initiatives to adopt cleaner alternatives to diesel vehicles where practicable, promote eco-driving habits as well as install devices that trap pollutants.

Environmental Education

The Group relies on the employees' support for environmental protection. Newcomers are aware of the Group's environmental policies towards water, energy and waste through the newcomers' training. Refresher training covering the topics of environment, health and safety as well as smoking cessation is also provided to all employees to refresh and reinforce the knowledge. The Group and employees work diligently to protect the environment by actions as well as foster the community to adopt environmental initiatives. Employees and their families are welcome to join in clean-up campaign and other environmental activities during the year.

Employees participated in cleaning activity in 2018

SOCIAL

The Group attaches great importance to the employees. Their countless contributions are the key to the Group's continuing success in business. This drives the Group to build and maintain a harmonious, fair and safe working environment to them and strive to enhance corporate social responsibility.

Employment

The Group formulated fair and equal employment and recruitment procedures according to the Labour Law in Hong Kong and the PRC to hire and promote employees. The Group appreciates the cultural diversity in the workplace. Hence, recruitment is simply based on candidates' experiences, abilities and business needs, regardless of race, gender, age, marital status, pregnancy, family status, sexual orientation, religion and nationality. All talented employees can be promoted and obtained relevant training to meet business needs and personal career development. During the year, there was no case of non-compliance regarding compensation and dismissal, recruitment and promotion, equal opportunities, diversity, as well as discrimination.

Benefits and Welfares

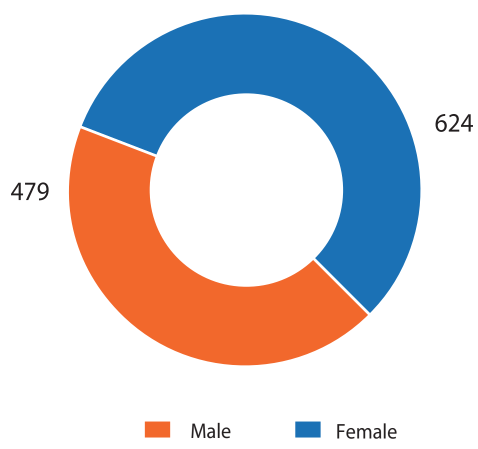
The Group pays "Five Social Insurances and One Housing Fund", namely endowment insurance, medical insurance, unemployment insurance, employment injury insurance, maternity insurance and housing provident fund, to employees in the PRC as well as the Mandatory Provident Fund (MPF) scheme to employees in Hong Kong as required. All employees are entitled to various statutory holidays and paid leave such as marriage leave and maternity leave. Better still, 178 days of maternity leave has taken effect in the PRC in 2018. To better understanding the employees' opinion, the Group has formed a labour union whereby all employees are welcomed to join. They can also raise their opinions through monthly meetings with the Group's representatives, emails, hotlines, face-to-face meetings or WeChat.

Additionally, the local government offers its assistance in providing education placement to employees' descendants coming from other cities. Other than that, the Group also provides welfares to the employees. For instance, organizing team-building activities to employees and distributing gifts, food or beverages during festivals like the Mid-Autumn Festival and Lunar New Year.

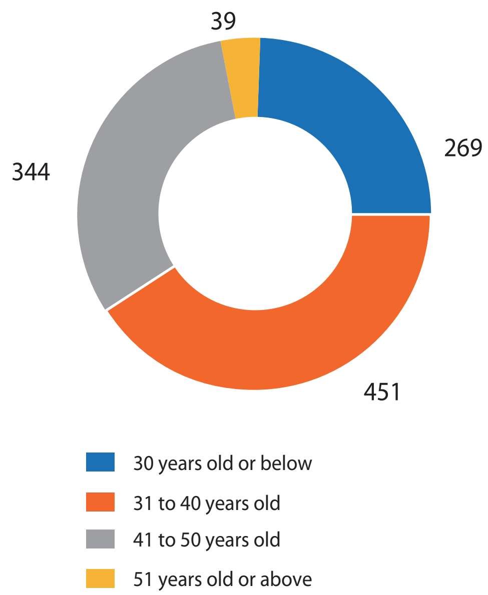
Other than the aforementioned benefit and welfares, the Group will benchmark employees' salary against industry norms and standards to maintain a competitive remuneration package to recruit talented employees. The Group also realizes the importance of work-life balance, additional welfares such as social activities and entertainment facilities are offered to our employees. The operating site of the Group at Dongguan are ordered in a greener and eco-friendly manner with plantations. Recreation facilities are also provided. As at 31 December 2018, the Group has a total of 1,103 employees, in which general staff occupies around 96% (1,061 employees) of the total workforce. The remaining 42 employees are management. Almost all of the employees are being recruited in a full-time mode to ensure high quality of products and services.

For the distribution of employees as at 31 December 2018 based on gender, age and geographical location, please refer to the below charts.

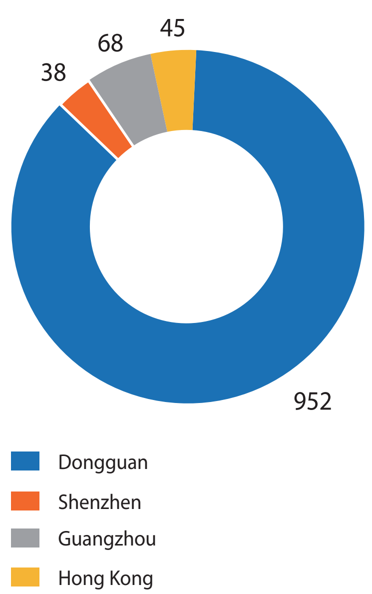
By gender



By age



By geographical location

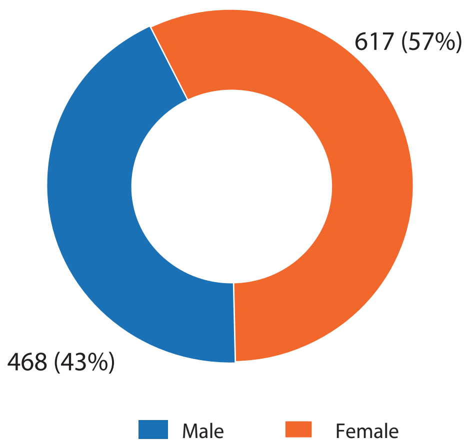


Because of the Group's conscientious efforts on improving the remunerable package, the employees' turnover rate during the year was 6% which was slightly lowered as compared to that in 2017. The turnover rate of 30 years old or below has an significant enhancement by over 20% from 70% to 49%. (Male/Female: 54%/46%; the PRC/Hong Kong: 98%/2%; Aged 30 or below/31-40/41-50/51 or above: 49%/32%/18%/1%). Each individual will be invited to attend an exit interview for the Group to understand their reasons to resign and address their opinion.

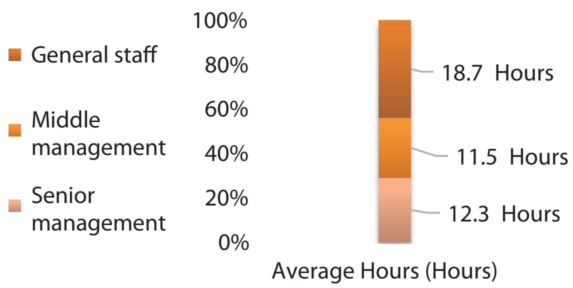
Training and Development

The Group actively encourages its employees attending training to equip themselves for the change and challenge the Group is facing nowadays. Human Resources Department will conduct a survey to stipulate a training schedule for employees. Training topics not only cover technical know-how but also laws and compliance, product safety and responsibility are included in the training plan. In 2018, the Group has organized quality management training on ISO 13485:2016 to employees. During the year, a total of 19,653 training hours were provided for employees.

Total employees trained by gender



Average training hours by employee category



Total employees trained	Number of employees	Number of hours	Average hours
General Staff	989	18,539	18.7
Middle Management	87	1,003	11.5
Senior Management	9	111	12.3

An appraisal is adopted annually with an aim to review employees' performance and discuss their needs and expectations to meet the business growth of the Group. Plus, the Group makes use of this opportunity to identify outstanding performers and offers them the best suit of a job to retain talents. Internal employees are first considered for filling job vacancies if applicable.

Occupational Health and Safety

Employees are an important part of the Group. In view of the need to eliminate potential hazards and lessen the danger at the workplace, a safety committee, comprising safety managers from different business units, is formed. The committee is responsible for establishing safety strategies and procedures as well as identifying any potential risks in workplace. Relevant controls and preventive actions are formulated afterwards. For example, the Group formulated noise control and fire alarm policies. Two fire drills were scheduled annually. In addition, the Group offered suitable and adequate personal protective equipment (PPE), regular safety checks and inspection towards machines so as to ensure all machines are in proper functioning.

Furthermore, the production facilities are kept in a highly sanitary environment as the Group has an extremely high standard of hygiene requirement of the products. All employees are required to conduct medical check up regularly to ensure that they are physically fit for work. For those who failed the check up will be suspended from their existing works or arranged to a suitable job duty. A ventilation system is newly installed to improve indoor air quality and last but not least regular cleaning at production sites are scheduled.

There were no work-related fatalities happened in the Group. While the Group had injuries occurred in the operating sites, the situation has vastly improved when compared to that of 2017. During the year, a total of 51 days, whereas 336 days in 2017, were lost due to such events during the year. The Group provided prompt and appropriate assistance to the injured employees and an intensive investigation was carried out to examine the root cause of accidents. Warning signs are placed at the prominent area and PPE is provided to minimize the possibility of employees to get hurt. More importantly, the Group understands education and training are effective ways of preventing accidents. Therefore, all newcomers must attend safety trainings including emergency handling, cardiopulmonary resuscitation (CPR) trainings, and health training of disease prevention. These measures aimed to assure all employees are fully aware of the working procedures and the corresponding safety and health measures.

Labour Practices

No children are allowed to work in the Group. Identity check is a must in the recruitment process to guarantee no underage employment exists in the Group. The Group also wholeheartedly believes the importance of work-life balance result in low productivity and high risks of accidents. Consequently, the Group has always been meticulous about the production schedule to avoid overtime work. The workflow will be reviewed in the matter of overtime work needed.

Operating Practices

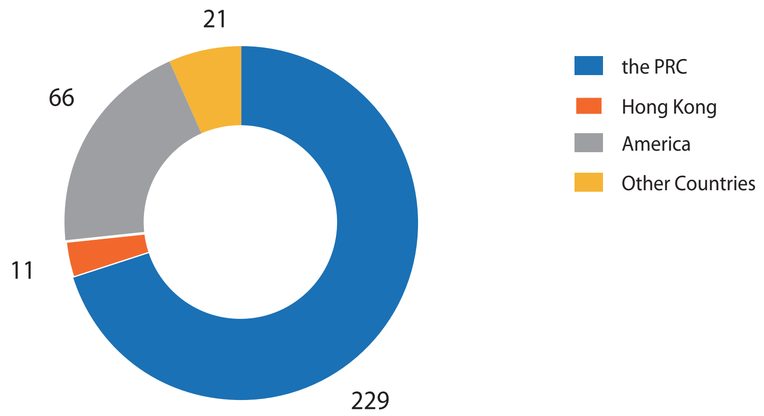
Supply Chain Management

Trust, cooperation, honesty and mutual respect are the bedrock of the operation of the Group. It believes the sincere and honest attitude can bring positive influence throughout the supply chain. Building a stable long-term relationship with the suppliers and contractors can be beneficial to the Group to achieve its goals. To make us in line with the same working principles and values, the Supplier Corporate Social Responsibility Code of Conduct, including five main social responsibilities (refer to the chart below), is disseminated to the suppliers and contractors.

Five elements of suppliers code of conduct

A detailed supply chain management procedure is set up to guide employees what they do with respect to operating practices. The Group has stipulated policies such as Evaluation & Approval of Supplier Procedure, and Incoming Inspection to manage the supply chain. The Group sources materials and services globally. In the selection process, price is not the only selection criteria, quality and on-time delivery are also key performance indicators. For the services suppliers, the Group will also examine their ability to handle abnormality. Priority will be given to the suppliers with quality management system certification. Prior to decision making, a supplier evaluation team with quality and engineering department will conduct an onsite audit to assess the potential suppliers' quality of standards, achievements on environmental protection and social responsibilities. Suppliers are required to submit quality management system certificates, certificating document for qualified products when necessary for verification. Qualified suppliers are registered in "Approved Vendor List" once approved by the department manager. An evaluation is also carried out regularly to make certain that suppliers' performance meets tender requirements. Suppliers who are unable to meet the requirements and criteria will be removed from the vendor list.

Distribution of suppliers by geographical region (as at 31 December 2018)



PRODUCT RESPONSIBILITY

Quality Assurance

Irreversible and harmful consequences can be caused to users resulting from defective products. As a result, the Group takes particularly good care of product quality. The Group not only fully complied with the related laws and regulations, but also it successfully attained Certifications on Medical Device Quality Management System ISO 13485, and Risk Management for Medical Device EN ISO 14971. The Group will try its utmost to review necessary processes for improvement, strengthen the risk management framework and quality control system. Ultimately, this enables the Group to adopt a proactive and structural approach to risks management from the conceptual stage to after-sales services.

Given the significance of quality assurance of the medical devices, the Group has got to be meticulous in raw materials selection, manufacturing, and exporting. Quality System Procedure has been adopted to guide employees properly performs quality assurance. All suppliers are required to provide testing reports and certificates to prove the quality and harmlessness of the products. Quality department is responsible for verifying and validating different types of purchased materials in accordance with the "Incoming Inspection Procedure or Monitoring" and "Measuring for Product Procedure". Also, the Quality Assurance department conduct random checks in the whole production chain. All validating report are well-documented and filed.

Particularly, some of the products are manufactured under a high sanitary environment. It is necessary for the Group to maintain a standard level of hygiene and control other instability as much as it can. As such, production facilities are specially designed. Employees must strictly follow the Production Environmental Control Procedure to ensure the cleanliness and environment control of the operating sites. The operating sites are classified as four classes according to the "Cleanroom Contamination Control". Temperature, humidity, pressure and ventilation of each cleanroom is well monitored. All cleanrooms are operating according to the NMPA and ISO 14644 standard requirement. The Group also emphasizes to employees to be aware of keeping good personal hygiene.

Product Recall and Complaint Handling

Clients' feedbacks are the engine of value creation for the business of the Group. The Group has stipulated a procedure to standardize customer complaint handling. In 2018, the Group manufactured more than 57.0 million of products. In one hand, the Group is pleased to note that there was no product recalls and reportable events because of safety or malfunction of devices issues during the year. On the other hand, however, the Group still received clients' enquiries about the products quality quite often throughout the year. The Group believes that showing respect for customers' opinions and treating them courteously are beneficial to business growth. Therefore, every enquiry will be addressed in a timely manner and recorded in detail in accordance with the prescribed procedures. An investigation will be carried out immediately and come up with improvements and suggestions for the captioned problem.

Intellectual Property Rights

The Group respects the privacy of personal data and of course intellectual property rights. Product design and development have great value to the business. "Inspired Medical", "Hand of Hope" and "Hypnus" are self-owned OBM business brands. Unauthorized use of a brand name can harm business and brand image. As a precaution, therefore, the Group applied trademarks for own designs and products. As at 31 December 2018, the Group cumulatively has 64 trademarks. With endeavour, the Group is willing to communicate with business partners about intellectual property rights protection and acknowledge laws and regulations can protect the Group's rights.

Data Privacy

In addition to intellectual property rights protection, the Group fully understands that personal data privacy is another critical issue concerned by either clients or suppliers. Precisely because they have trusted the Group with their data, the Group is obligated to take good care of it. A procedure is established in the Group to guide employees to handle personal data. Besides, the Group refuses to use any outdated and unauthorized software to avoid data leakage and enhance cybersecurity. Designated personnel are also assigned to take care of personal data and confidential information. Privacy awareness and refresher training is provided quarterly to the employees. IT department encrypted the data regularly and organized cybersecurity training to enhance the employees' awareness. Under no circumstances, the Group discloses personal data and confidential information to the third parties or the public without clients' consent.

Anti-Corruption

Integrity can affect brand image and performance profoundly. The Group is bound by rigid laws as well as compliances. The Group has to enforce the PRC and Hong Kong laws and regulations in the business operation as updated from time to time. Any form of bribery, extortion, fraud and money laundering are prohibited, and anti-corruption policies are applied to all employees, no one is exceptional.

The Audit Committee and the Risk Management Committee as well as internal audit division are responsible for monitoring the overall performance of the Group. A couple of refresher training is scheduled, especially for those employees with high risk in corruption, to enhance their awareness on anti-corruption. Employees can remain anonymous to report any suspicious cases to the Group and penalties are clearly defined. The Group will not condone any unlawful acts and corruption. During the year, there was no suspected case of bribery, extortion, fraud and money laundering.

Community Investment

The Group recognises its operation may cause inconvenience and disturbance to the communities in which the Group operates, the Group is obligated to shoulder responsibility for the support of the underprivileged in the community by utilizing the Group's resources. With the aim to address community concerns, the Group forms a corporate volunteer team and in collaboration with local charities organizing a wide range of activities such as blood donation and cleaning activities. During the year, the Group offered approximately 2,438 hours in-kinds supports to the needy.

Employees participated in blood donation activity in 2018

RSM

To the shareholders of Vincent Medical Holdings Limited
(Incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of Vincent Medical Holdings Limited (the "**Company**") and its subsidiaries (the "**Group**") set out on pages 79 to 155, which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated statement of profit or loss, consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 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 (the "**HKICPA**") and have been properly prepared in compliance with the Hong Kong Companies Ordinance.

BASIS FOR OPINION

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

KEY AUDIT MATTERS

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

Key Audit Matter	How our audit addressed the Key Audit Matter
Impairment assessment of goodwill and other intangible assets in relation to Rehab-Robotics Company Limited ("RRCL") and Guangzhou Hypnus Healthcare Technology Co., Limited ("GZ Hypnus")	
Refer to Notes 18 and 19 to the consolidated financial statements, Note 4(y) of significant accounting policies and Note 5(c) of key sources of estimation uncertainty. The Group has goodwill and other intangible assets with carrying amounts of approximately HK$9,591,000 (before impairment) and approximately HK$13,109,000 respectively as at 31 December 2018 in relation to RRCL acquired in December 2015. The Group has goodwill and other intangible assets with carrying amounts of approximately HK$970,000 (before impairment) and approximately HK$14,349,000 respectively as at 31 December 2018 in relation to GZ Hypnus acquired in August 2017. RRCL and GZ Hypnus incurred losses for the year ended 31 December 2018. This has increased the risk that the carrying amounts of goodwill and other intangible assets may be impaired. Management performed an impairment assessment of goodwill and other intangible assets in RRCL and GZ Hypnus and concluded that an impairment loss on goodwill of approximately HK$2,600,000 and HK$Nil should be recognised respectively. This conclusion was based on a value in use model that required significant management judgement with respect to the discount rate and the assumptions underlying the forecast cash flows.	Our procedures in relation to management's impairment assessment included: – Assessing the integrity of the valuation model; – Challenging the reasonableness of key assumptions based on our knowledge of the business and industry; – Reconciling input data to supporting evidence, including approved budgets and considering the accuracy of previous management budgets; and – Evaluating the appropriateness of the discount rate by benchmarking to external sources of market data with the assistance of our internal valuation experts.

OTHER INFORMATION

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

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

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

RESPONSIBILITIES OF DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

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

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

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, 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.

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.

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

RSM Hong Kong
Certified Public Accountants

Hong Kong
22 March 2019

Consolidated Statement of Profit or Loss

For the year ended 31 December 2018

	Note	2018 HK$'000	2017 HK$'000
Revenue	8	**488,030**	446,302
Cost of sales		**(332,422)**	(295,999)
Gross profit		**155,608**	150,303
Other income, other gains and losses	9	**4,443**	(21,746)
Selling and distribution expenses		**(27,708)**	(23,067)
Administrative expenses		**(89,058)**	(84,613)
Profit from operations		**43,285**	20,877
Finance costs – interest on borrowings		**(810)**	(361)
Share of losses of associates		**(2,782)**	(1,003)
Share of (losses)/profits of joint ventures		**(1,562)**	104
Profit before tax		**38,131**	19,617
Income tax expense	11	**(3,928)**	(8,163)
Profit for the year	12	**34,203**	11,454
Attributable to:			
Owners of the Company		**30,943**	13,155
Non-controlling interests		**3,260**	(1,701)
		34,203	11,454
Earnings per share	16		
Basic		**HK4.85 cents**	HK2.06 cents
Diluted		**n/a**	HK2.06 cents

Consolidated Statement of
Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2018

	2018 HK$'000	2017 HK$'000
Profit for the year	**34,203**	11,454
Other comprehensive income:		
Items that will not be reclassified to profit or loss:		
Fair value changes of equity investments at fair value through other comprehensive income (FVTOCI)	**(19,081)**	–
Items that may be reclassified to profit or loss:		
Exchange differences on translating foreign operations	**(9,328)**	9,393
Exchange differences reclassified to profit or loss on deemed disposal of an associate	**1,516**	–
Share of other comprehensive income of associates and joint ventures	**(170)**	17
	(7,982)	9,410
Other comprehensive income for the year, net of tax	**(27,063)**	9,410
Total comprehensive income for the year	**7,140**	20,864
Attributable to:		
Owners of the Company	**5,662**	20,600
Non-controlling interests	**1,478**	264
	7,140	20,864

Consolidated Statement of Financial Position

At 31 December 2018

	Note	2018 HK$'000	2017 HK$'000
ASSETS			
Non-current assets			
Property, plant and equipment	17	53,594	47,190
Goodwill	18	1,670	4,270
Other intangible assets	19	31,987	26,333
Investments in associates	20	12,024	4,760
Investments in joint ventures	21	20,833	22,988
Available-for-sale financial assets	22	–	48,640
Equity investments at FVTOCI	22	64,304	–
Deferred tax assets	31	1,935	–
Total non-current assets		186,347	154,181
Current assets			
Inventories	23	95,550	97,439
Trade receivables	24	109,953	115,443
Contract assets	8	17,177	–
Prepayments, deposits and other receivables	25	47,109	41,826
Current tax assets		–	3,277
Bank and cash balances	26	81,141	112,993
Total current assets		350,930	370,978
TOTAL ASSETS		537,277	525,159
EQUITY AND LIABILITIES			
Share capital	27	6,377	6,380
Reserves	29(a)	368,074	358,805
Equity attributable to owners of the Company		374,451	365,185
Non-controlling interests		59,742	49,766
Total equity		434,193	414,951
Non-current liabilities			
Deferred tax liabilities	31	5,082	2,395
Current liabilities			
Trade payables	32	40,814	43,276
Other payables and accruals	33	31,398	46,156
Borrowings	34	17,244	9,824
Current tax liabilities		8,546	8,557
Total current liabilities		98,002	107,813
TOTAL EQUITY AND LIABILITIES		537,277	525,159
Net current assets		252,928	263,165
Total assets less current liabilities		439,275	417,346

Approved by the Board of Directors on 22 March 2019 and are signed on its behalf by:

CHOI Man Shing **TO Ki Cheung**

Consolidated Statement of Changes in Equity

For the year ended 31 December 2018

	Attributable to owners of the Company									
	Share capital HK$'000	Share premium account HK$'000	Share-based payments reserve HK$'000	Merger reserve HK$'000	Foreign currency translation reserve HK$'000	FVTOCI reserve HK$'000	Retained profits HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total equity HK$'000
At 1 January 2017	6,380	171,317	2,714	12,094	(8,057)	–	166,624	351,072	50,404	401,476
Total comprehensive income for the year	–	–	–	–	7,445	–	13,155	20,600	264	20,864
Capital contribution from non-controlling shareholders	–	–	–	–	–	–	–	–	1,884	1,884
Share-based payments	–	–	3,083	–	–	–	–	3,083	–	3,083
Dividend paid	–	(9,570)	–	–	–	–	–	(9,570)	–	(9,570)
Dividend paid to non-controlling shareholders	–	–	–	–	–	–	–	–	(2,786)	(2,786)
Changes in equity for the year	–	(9,570)	3,083	–	7,445	–	13,155	14,113	(638)	13,475
At 31 December 2017	6,380	161,747	5,797	12,094	(612)	–	179,779	365,185	49,766	414,951
At 1 January 2018	6,380	161,747	5,797	12,094	(612)	–	179,779	365,185	49,766	414,951
Adjustments on initial application of										
– HKFRS 9 *(Note 3 (a))*	–	–	–	–	–	12,758	–	12,758	–	12,758
– HKFRS 15 *(Note 3 (a))*	–	–	–	–	–	–	3,976	3,976	988	4,964
Restated balance at 1 January 2018	6,380	161,747	5,797	12,094	(612)	12,758	183,755	381,919	50,754	432,673
Total comprehensive income for the year	–	–	–	–	(6,200)	(19,081)	30,943	5,662	1,478	7,140
Repurchase of shares *(Note 27)*	(3)	(225)	–	–	–	–	–	(228)	–	(228)
Capital contribution from non-controlling shareholders	–	–	–	–	–	–	–	–	50	50
Share-based payments	–	–	2,717	–	–	–	–	2,717	–	2,717
Dividend paid *(Note 15)*	–	(9,565)	–	–	–	–	–	(9,565)	–	(9,565)
Capitalisation of loan from non-controlling shareholders	–	–	–	–	–	–	–	–	1,406	1,406
Loss on deemed acquisition of non-controlling interests *(Note 39(a))*	–	–	–	–	–	–	(2,359)	(2,359)	2,359	–
Purchase of non-controlling interests *(Note 39(d))*	–	–	–	–	71	–	(3,766)	(3,695)	3,695	–
Changes in equity for the year	(3)	(9,790)	2,717	–	(6,129)	(19,081)	24,818	(7,468)	8,988	1,520
At 31 December 2018	6,377	151,957	8,514	12,094	(6,741)	(6,323)	208,573	374,451	59,742	434,193

Consolidated Statement of Cash Flows

For the year ended 31 December 2018

	2018 HK$'000	2017 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before tax	**38,131**	19,617
Adjustments for:		
Allowance for inventories	**2,697**	448
Amortisation	**1,751**	1,829
Depreciation	**13,086**	10,814
Finance costs	**810**	361
Interest income	**(182)**	(132)
Impairment of goodwill	**2,600**	6,291
Impairment of investment in an associate	**–**	11,629
Impairment of trade receivables	**192**	110
Share-based payments	**2,717**	3,083
Share of losses of associates	**2,782**	1,003
Share of losses/(profits) of joint ventures	**1,562**	(104)
Write back of other payables	**(3,859)**	–
Write off of inventories	**359**	–
Write off of property, plant and equipment	**328**	543
Write off of trade receivables	**72**	–
Operating profit before working capital changes	**63,046**	55,492
Increase in inventories	**(14,191)**	(10,297)
Decrease/(increase) in trade receivables	**5,226**	(40,330)
Decrease in contract assets	**645**	–
Increase in prepayments, deposits and other receivables	**(5,283)**	(11,958)
(Decrease)/increase in trade payables	**(2,462)**	10,410
Decrease in other payables and accruals	**(11,557)**	(10,443)
Cash generated from/(used in) operations	**35,424**	(7,126)
Net income tax paid	**(199)**	(10,097)
Interest paid	**(152)**	(361)
Net cash generated from/(used in) operating activities	**35,073**	(17,584)

	2018 HK$'000	2017 HK$'000
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	182	132
Purchases of property, plant and equipment	(21,361)	(15,382)
Purchases of available-for-sale financial assets	–	(48,640)
Purchases of equity investments at FVTOCI	(21,987)	–
Additions of other intangible assets	(7,855)	(5,636)
Capital injection/acquisition of associates	(10,242)	–
Acquisition of joint ventures	–	(17,036)
Cash inflow from acquisition of a subsidiary	–	400
Net cash used in investing activities	(61,263)	(86,162)
CASH FLOWS FROM FINANCING ACTIVITIES		
Repurchase of shares	(228)	–
Borrowings raised	11,406	2,282
Repayment of borrowings	(2,195)	(3,167)
Capital contribution from non-controlling shareholders	50	1,884
Dividend paid to owners of the Company	(9,565)	(9,570)
Dividend paid to non-controlling shareholders	–	(2,786)
Net cash used in financing activities	(532)	(11,357)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(26,722)	(115,103)
Effect of foreign exchange rate changes	(5,130)	5,890
CASH AND CASH EQUIVALENTS AT 1 JANUARY	112,993	222,206
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	81,141	112,993
ANALYSIS OF CASH AND CASH EQUIVALENTS		
Bank and cash balances	81,141	112,993

1. GENERAL INFORMATION

Vincent Medical Holdings Limited (the "**Company**") was incorporated as an exempted company in the Cayman Islands under the Companies Law of the Cayman Islands on 19 November 2015. The address of its registered office is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, the Cayman Islands. The address of its principal place of business is Flat B2, 7/F., Phase 2, Hang Fung Industrial Building, 2G Hok Yuen Street, Hung Hom, Kowloon, Hong Kong. The Company's shares are listed on the main board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**").

The Company is an investment holding company. The principal activities of its subsidiaries are set out in Note 39 to the consolidated financial statements.

In the opinion of the directors of the Company, Vincent Raya International Limited ("**VRI**"), a company incorporated in the British Virgin Islands (the "**BVI**"), is the ultimate parent. Mr. Choi Man Shing ("**Mr. Choi**") and Ms. Liu Pui Ching ("**Ms. Liu**") are the ultimate controlling parties of the Company.

2. BASIS OF PREPARATION

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

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

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

(a) Application of new and revised HKFRSs

The HKICPA has issued a number of new and revised HKFRSs that are first effective for annual periods beginning on or after 1 January 2018. Of these, the following developments are relevant to the Group's consolidated financial statements:

(i) HKFRS 9 Financial Instruments; and

(ii) HKFRS 15 Revenue from Contracts with Customers.

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

HKFRS 9 Financial Instruments

HKFRS 9 replaces the provisions of HKAS 39 that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting.

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

(a) Application of new and revised HKFRSs (continued)

HKFRS 9 Financial Instruments (continued)

The adoption of HKFRS 9 from 1 January 2018 resulted in changes in accounting policies and adjustments to the amounts recognised in the financial statements. As permitted by the transitional provisions of HKFRS 9, the Group was elected not to restate comparative figures. Any adjustments to the carrying amounts of financial assets and liabilities at the date of transition were recognised in the opening retained profits of the current year.

The adoption of HKFRS 9 resulted in the following changes to the Group's accounting policies.

(a) Classification

From 1 January 2018, the Group classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value through other comprehensive income ("**FVTOCI**") or fair value through profit or loss ("**FVTPL**"); and

- those to be measured at amortised cost.

The classification depends on the Group's business model for managing the financial assets and the contractual terms of the cash flows.

Financial assets are not reclassified subsequent to their initial recognition, except if and in the period the Group changes its business model for managing financial assets.

For assets measured at fair value, gains and losses will either be recorded in profit or loss or other comprehensive income. For investments in equity instruments that are not held for trading, this will depend on whether the Group has made an irrevocable election at the time of initial recognition to account for the equity investment at FVTOCI.

The Group classifies its financial assets at amortised cost only if both of the following criteria are met:

- the asset is held within a business model with the objective of collecting the contractual cash flows; and

- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding.

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

(a) Application of new and revised HKFRSs (continued)

HKFRS 9 Financial Instruments (continued)

(b) Measurement

A financial asset (unless it is a trade receivable without a significant financing component) is initially measured at fair value plus, in the case of financial asset not at FVTPL, transactions costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVTPL are expensed in profit or loss. A trade receivable without a significant financing component is initially measured at the transaction price.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

The Group subsequently measures all equity investments at fair value. Where the Group's management has elected to present fair value gains and losses on equity investments in other comprehensive income, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment. Dividends from such investments continue to be recognised in profit or loss as other income when the Group's right to receive payments is established.

Changes in the fair value of financial assets at FVTPL are recognised in other gains/(losses) in the statement of profit or loss as applicable. Impairment losses (and reversal of impairment losses) on equity investments measured at FVTOCI are not reported separately from other changes in fair value.

(c) Impairment

From 1 January 2018, the Group assesses on a forward looking basis the expected credit losses associated with its financial assets carried at amortised cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

Expected credit losses are a probability-weighted estimate of credit losses (i.e. the present value of all cash shortfalls) over the expected life of the financial assets.

For trade receivables and contract assets, the Group applies the simplified approach permitted by HKFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the assets.

Impairment on other receivables are measured as either 12-month expected credit losses or lifetime expected credit losses, depending on whether there has been a significant increase in credit risk since initial recognition. If a significant increase in credit risk of a receivable has occurred since initial recognition, then impairment is measured as lifetime expected credit losses.

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

(a) Application of new and revised HKFRSs (continued)

HKFRS 9 Financial Instruments (continued)

Set out below is the impact of the adoption of HKFRS 9 on the Group.

The following table and the accompanying note below explain the original measurement categories under HKAS 39 and the new measurement categories under HKFRS 9 for each class of the Group's financial assets as at 1 January 2018:

Financial assets	Classification under HKAS 39	Classification under HKFRS 9	Carrying amount under HKAS 39 HK$'000	Carrying amount under HKFRS 9 HK$'000
Equity investments *(Note)*	Available-for-sale	FVTOCI	48,640	61,398
Trade and other receivables and bank and cash balances	Loans and receivables	Amortised cost	236,812	236,812

The impact of these changes on the Group's equity is as follows:

	Effect on FVTOCI reserve HK$'000	Effect on retained profits HK$'000
Opening balance – HKAS 39	–	179,779
Reclassify non-trading equity investments from available-for-sale to financial assets at FVTOCI	12,758	–
Opening balance – HKFRS 9	12,758	179,779

Note:

These unlisted equity investments represent investments that the Group intends to hold for the long term for strategic purposes. Before adoption of HKFRS 9, these equity investments were measured at cost less impairment loss. As permitted by HKFRS 9, the Group has designated these investments at the date of initial application as measured at FVTOCI. As a result, these equity investments were reclassified from available-for-sale financial assets to financial assets at FVTOCI with fair value gain of approximately HK$12,758,000 credited to the FVTOCI reserve on 1 January 2018. Unlike HKAS 39, the accumulated fair value reserve related to these investments will never be reclassified to profit or loss.

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

(a) Application of new and revised HKFRSs (continued)

HKFRS 15 Revenue from Contracts with Customers

HKFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaced HKAS 18 Revenue, HKAS 11 Construction Contracts and related interpretations.

The Group has adopted HKFRS 15 using the cumulative effect method with the effect of initially applying this standard recognised at the date of initial application. Accordingly, the information presented for 2017 has not been restated, i.e. it is presented, as previously reported, under HKAS 18, HKAS 11 and related interpretations.

Under HKFRS 15, revenue is recognised when or as the control of promised goods or services is transferred to the customer. Depending on the terms of the contract and the laws that apply to the contract, control of promised goods or services may be transferred over time or at a point in time. Control of the promised goods or services is transferred over time if the Group's performance:

- provides all of the benefits received and consumed simultaneously by the customer;
- creates and enhances an asset that the customer control as the Group performs; or
- does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

If control of the promised goods or services transfers over time, revenue is recognised over the period of the contract by reference to the progress towards complete satisfaction of the performance obligation. Otherwise, revenue is recognised at a point in time when the customer obtains control of the promised goods or services.

The progress towards complete satisfaction of the performance obligation is measured based on one of the following methods that best depict the Group's performance in satisfying the performance obligation:

- the direct measurements of the value of assets transferred by the Group to customer; or
- The Group's efforts or inputs to the satisfaction of the performance obligations.

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

(a) Application of new and revised HKFRSs (continued)

HKFRS 15 Revenue from Contracts with Customers (continued)

In prior reporting periods, revenue from the sales of OEM and OBM products is generally recognised when the risk and rewards of ownership have passed to the customers.

The adoption of HKFRS 15 resulted in the following changes to the Group's accounting policies on revenue recognition.

(a) Revenue from the sales of OEM products

Under HKFRS 15, OEM products that have no alternative use to the Group and when the Group has an enforceable right to payment from the customers for performance completed to date, the Group recognises revenue as the performance obligation is satisfied over time in accordance with the input method, by reference to the costs incurred to date over the total expected costs. Otherwise, sales are recognised when control of the products has transferred, being when the products are delivered to the customer. Delivery occurs when the products have been delivered to the designated location prescribed by the customer.

When either party to a contract has performed, the Group presents the contract in the consolidated statement of financial position as a contract asset or a contract liability, depending on the relationship between the entity's performance and the customer's payment.

If a customer pays consideration or the Group has a right to an amount of consideration that is unconditional, before the Group transfers goods to the customer, the Group presents the contract as a contract liability when the payment is made or a receivable is recorded (whichever is earlier). A contract liability is the Group's obligation to transfer goods to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer.

A receivable is recorded when the Group has an unconditional right to consideration. A right to consideration is unconditional if only the passage of time is required before payment of that consideration is due.

(b) Revenue from the sales of OBM products

Under HKFRS 15, the sales of OBM products are recognised when control of the products has transferred, being when the products are delivered to the customer. Delivery occurs when the products have been shipped to the specific location, the risks of obsolescence and loss have been transferred to the customer, and either the customer has accepted the products in accordance with the sales contract, the acceptance provisions have lapsed, or the Group has objective evidence that all criteria for acceptance have been satisfied.

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

(a) Application of new and revised HKFRSs (continued)

HKFRS 15 Revenue from Contracts with Customers (continued)

Set out below is the impact of the adoption of HKFRS 15 on the Group.

The following table summarises the impact on the Group's opening retained profits and non-controlling interests as at 1 January 2018 is as follows:

	HK$'000
Sales of OEM products transferred over time	5,560
Related tax	(596)
Adjustment to retained profits and non-controlling interests from adoption of HKFRS 15 on 1 January 2018	4,964
Attributable to:	
Owners of the Company	3,976
Non-controlling interests	988
	4,964

The impact on the Group's financial position by the application of HKFRS 15 as compared to HKAS 18, HKAS 11 and related interpretations that was previously in effect before the adoption of HKFRS 15 is as follows:

Consolidated statement of financial position (extract)	Previously stated as at 31 December 2017 HK$'000	Adjustments under HKFRS 15 HK$'000	Restated as at 1 January 2018 HK$'000
Inventories	97,439	(12,262)	85,177
Contract assets	–	17,822	17,822
Current tax assets	3,277	(596)	2,681
Retained profits	179,779	3,976	183,755
Non-controlling interests	49,766	988	50,754

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

(a) Application of new and revised HKFRSs (continued)

HKFRS 15 Revenue from Contracts with Customers (continued)

The amount by each financial statements line items affected in the current period and period to date by the application of HKFRS 15 as compared to HKAS 18, HKAS 11 and related interpretations that was previously in effect before the adoption of HKFRS 15 is as follows:

Consolidated statement of financial position as at 31 December 2018 (extract)	As reported HK$'000	Effect of the adoption of HKFRS 15 HK$'000	Amounts without adoption of HKFRS 15 HK$'000
Inventories	95,550	11,702	107,252
Contract assets	17,177	(17,177)	–
Current tax liabilities	8,546	(587)	7,959
Retained profits	208,573	(3,915)	204,658
Non-controlling interests	59,742	(973)	58,769

Consolidated statement of profit of loss for the year ended 31 December 2018 (extract)	As reported HK$'000	Effect of the adoption of HKFRS 15 HK$'000	Amounts without adoption of HKFRS 15 HK$'000
Revenue	488,030	645	488,675
Cost of sales	332,422	560	332,982
Income tax expense	3,928	9	3,937

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

The Group has not early applied new and revised HKFRSs that have been issued but are not yet effective for the financial year beginning 1 January 2018. These new and revised HKFRSs include the following which may be relevant to the Group.

	Effective for accounting periods beginning on or after
HKFRS 16 Leases	1 January 2019
HK(IFRIC) 23 Uncertainty over Income Tax Treatments	1 January 2019
Annual Improvements to HKFRSs 2015 -2017 Cycle	1 January 2019
Amendments to HKAS 28 Long-term Interest in Associates and Joint Ventures	1 January 2019

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

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

The Group is in the process of making an assessment of what the impact of these amendments and new standards is expected to be in the period of initial application. So far the Group has identified some aspects of HKFRS 16 which may have a significant impact on the consolidated financial statements. Further details of the expected impacts are discussed below. While the assessment has been substantially completed for HKFRS 16, the actual impacts upon the initial adoption of the standards may differ as the assessment completed to date is based on the information currently available to the Group, and further impacts may be identified before the standards are initially applied in the Group's interim financial report for the six months ended 30 June 2019. The Group may also change its accounting policy elections, including the transition options, until the standards are initially applied in that interim financial report.

HKFRS 16 Leases

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

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

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

As disclosed in Note 37, the Group's future minimum lease payments under non-cancellable operating leases for its office and factory premises amounted to approximately HK$36,417,000 as at 31 December 2018. These leases are expected to be recognised as lease liabilities, with corresponding right-of-use assets, once HKFRS 16 is adopted. The amounts will be adjusted for the effects of discounting and the transition reliefs available to the Group.

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.

4. SIGNIFICANT ACCOUNTING POLICIES

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

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

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

(a) Consolidation

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

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

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

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

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(a) Consolidation (continued)

Changes in the Company's ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions (i.e. transactions with owners in their capacity as owners). The carrying amounts of the controlling and non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiary. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to the owners of the Company.

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

(b) Business combination and goodwill

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

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

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) Associates

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

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

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

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

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

(d) Joint arrangements

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

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(d) Joint arrangements (continued)

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

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

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

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

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

(e) Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "**functional currency**"). The consolidated financial statements are presented in Hong Kong dollars ("**HKD**"), which is the Company's functional and presentation currency.

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

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

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(e) Foreign currency translation (continued)

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

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

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

(iii) Translation on consolidation

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

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

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

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

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

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

(f) Property, plant and equipment

Property, plant and equipment are stated in the consolidated statement of financial position at cost, less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

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

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) Property, plant and equipment (continued)

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

Furniture and fixtures	20% – 33%
Plant and machinery	20%
Leasehold improvements	20% – 33%
Moulds	20% – 33%
Motor vehicles	20%

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

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

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

(g) Operating leases

The Group as lessee

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

(h) Other intangible assets

Use right

Use right is stated at cost less accumulated amortisation and impairment losses. Amortisation is calculated on a straight-line basis over their estimated useful lives.

Patents

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

License right

License right is stated at cost less accumulated amortisation and impairment losses. Amortisation is calculated on a straight-line basis over the license period.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(h) Other intangible assets (continued)

Internally-generated intangible assets – research and development expenditure

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

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

Internally generated intangible assets are stated at cost less accumulated amortisation and impairment losses. Amortisation is calculated on a straight-line basis over their estimated useful lives. Where no internally generated intangible asset can be recognised, development expenditure is recognised in profit or loss in the period in which it is incurred.

(i) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average basis. The cost of finished goods and work in progress comprises raw materials, direct labour and an appropriate proportion of all production overhead expenditure, and where appropriate, subcontracting charges. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale.

(j) Contract assets and contract liabilities

Contract asset is recognised when the Group recognises revenue before being unconditionally entitled to the consideration under the payment terms set out in the contract. Contract assets are assessed for expected credit losses (“**ECL**”) in accordance with the policy set out in Note 4(z) and are reclassified to receivables when the right to the consideration has become unconditional.

A contract liability is recognised when the customer pays consideration before the Group recognises the related revenue. A contract liability would also be recognised if the Group has an unconditional right to receive consideration before the Group recognises the related revenue. In such cases, a corresponding receivable would also be recognised.

For a single contract with the customer, either a net contract asset or a net contract liability is presented. For multiple contracts, contract assets and contract liabilities of unrelated contracts are not presented on a net basis.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(k) Recognition and derecognition of financial instruments

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

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

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

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

(l) Financial assets

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

Equity investments

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

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(l) Financial assets (continued)

Policy prior to 1 January 2018

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

The Group classifies its financial assets in the following categories: loans and receivables and available-for-sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

Loans and receivables

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

Available-for-sale financial assets

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

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

(m) Trade and other receivables

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

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

(n) Cash and cash equivalents

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

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(o) Financial liabilities and equity instruments

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

(p) Borrowings

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

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

(q) Trade and other payables

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

(r) Equity instruments

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

(s) Revenue recognition

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

OEM products that have no alternative use to the Group and when the Group has an enforceable right to payment from the customers for performance completed to date, the Group recognises revenue as the performance obligation is satisfied over time in accordance with the input method, by reference to the costs incurred to date over the total expected costs. Otherwise, sales are recognised when control of the products has transferred, being when the products are delivered to the customer. Delivery occurs when the products have been delivered to the designated location prescribed by the customer.

Revenue from the sales of OBM products are recognised when control of the products has transferred, being when the products are delivered to the customer. Delivery occurs when the products have been shipped to the specific location, the risks of obsolescence and loss have been transferred to the customer, and either the customer has accepted the products in accordance with the sales contract, the acceptance provisions have lapsed, or the Group has objective evidence that all criteria for acceptance have been satisfied.

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

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(s) Revenue recognition (continued)

Policy prior to 1 January 2018

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

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

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

(t) Employee benefits

(i) Employee leave entitlements

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

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

(ii) Pension obligations

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

(iii) Termination benefits

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

(u) Share-based payments

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(v) Borrowing costs

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

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

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

(w) Government grants

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

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

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

(x) Taxation

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

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(x) Taxation (continued)

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

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

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

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

(y) Impairment of non-financial assets

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

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

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

(z) Impairment of financial assets and contracts assets

The Group assesses on a forward looking basis the expected credit losses associated with its assets carried at amortised cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk. Note 6(b) details how the Group determines whether there has been a significant increase in credit risk.

Expected credit losses are a probability-weighted estimate of credit losses (i.e. the present value of all cash shortfalls) over the expected life of the financial assets.

For trade receivables and contract assets, the Group applies the simplified approach permitted by HKFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the assets.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(z) Impairment of financial assets and contracts assets (continued)

Impairment on other receivables are measured as either 12-month expected credit losses or lifetime expected credit losses, depending on whether there has been a significant increase in credit risk since initial recognition. If a significant increase in credit risk of a receivable has occurred since initial recognition, then impairment is measured as lifetime expected credit losses.

Policy prior to 1 January 2018

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

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

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

Only for trade receivables, the carrying amount is reduced through the use of an allowance account and subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

For all other financial assets, the carrying amount is directly reduced by the impairment loss.

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

(aa) Provisions and contingent liabilities

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

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

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(bb) Events after the reporting period

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

5. CRITICAL JUDGEMENTS AND KEY ESTIMATES

Critical judgements in applying accounting policies

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

(a) Equity pick up of entity of less than 20% equity interest

Although the Group holds less than 20% of the voting power of Celsius Medical, S.L. ("**Celsius**"), the directors considered that the Group has significant influence over Celsius because the Group is entitled to appoint one director out of the five directors of Celsius.

(b) Joint control assessment

*Guangzhou 100ecare Technology Co. Limited ("**100ecare**")*

The Group entered into a share subscription agreement with 100ecare and its existing shareholders, pursuant to which, the Group has agreed to subscribe for 10% of the registered capital of 100ecare at a consideration of RMB8.0 million.

The board of directors of 100ecare is composed of five directors, three of them are appointed by the founders, and the remaining two directors are appointed by the Group and another investor respectively. In accordance with the shareholders' agreement, directors' resolution in relation to the relevant activities of 100ecare could not be passed without the agreement of the director appointed by the Group. Therefore, the Group considers to have joint control together with the founders over 100ecare and the Group classified 100ecare as a joint venture.

*Avalon Photonics Holdings Limited ("**Avalon**")*

The Group entered into a share subscription agreement with Avalon and its existing shareholders, pursuant to which, the Group has agreed to subscribe for 20% of the registered capital of Avalon at a consideration of USD1.7 million.

The board of directors of Avalon is composed of five directors, four of them are appointed by the founders, and the remaining director is appointed by the Group. In accordance with the shareholders' agreement, directors' resolution in relation to the relevant activities of Avalon could not be passed without the agreement of the director appointed by the Group. Therefore, the Group considers to have joint control together with the founders over Avalon and the Group classified Avalon as a joint venture.

5. CRITICAL JUDGEMENTS AND KEY ESTIMATES (CONTINUED)

Key sources of estimation uncertainty

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

(a) Property, plant and equipment and depreciation

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

The carrying amount of property, plant and equipment as at 31 December 2018 was approximately HK$53,594,000 (2017: HK$47,190,000).

(b) Income taxes

The Group is subject to income taxes in several jurisdictions. Significant estimates are required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made. During the year, income tax of approximately HK$3,928,000 (2017: HK$8,163,000) was charged to profit or loss based on the estimated profit.

(c) Impairment of goodwill and other intangible assets

Determining whether goodwill and other intangible assets are impaired requires an estimation of the value in use of the CGU to which goodwill and other intangible assets have been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the CGU and a suitable discount rate in order to calculate the present value.

The carrying amounts of goodwill and other intangible assets as at 31 December 2018 were approximately HK$1,670,000 (2017: HK$4,270,000) and HK$31,987,000 (2017: HK$26,333,000) respectively after an impairment loss of approximately HK$2,600,000 (2017: HK$6,291,000) was recognised during the year. Details of the impairment loss calculation are provided in Note 18 to the consolidated financial statements.

(d) Impairment of trade receivables and contract assets

Prior to the adoption of HKFRS 9 on 1 January 2018, the management of the Group assesses at the end of each reporting period whether there is any objective evidence that trade receivables are impaired. The provision policy for bad and doubtful debts of the Group is based on the evaluation of collectability and aging analysis of accounts and on management's judgement. A considerable amount of judgement is required in assessing the ultimate realisation of trade receivables, including the current creditworthiness and the past collection history of each customer. If the financial conditions of customers of the Group were to deteriorate, resulting in an impairment of their ability to make payments, additional allowance may be required.

As at 31 December 2017, the carrying amount of trade receivables was approximately HK$115,443,000 (net of allowance for doubtful debts of approximately HK$110,000).

5. CRITICAL JUDGEMENTS AND KEY ESTIMATES (CONTINUED)

Key sources of estimation uncertainty (continued)

(d) Impairment of trade receivables and contract assets (continued)

Since the adoption of HKFRS 9 on 1 January 2018, the management of the Group estimates the amount of impairment loss for ECL on trade receivables and contract assets based on the credit risk of trade receivables and contract assets. The amount of the impairment loss based on ECL model is measured as the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive, discounted at the effective interest rate determined at initial recognition. Where the future cash flows are less than expected, or being revised downward due to changes in facts and circumstances, a material impairment loss may arise.

As at 31 December 2018, the carrying amount of trade receivables and contract assets was approximately HK$127,130,000 (net of allowance for doubtful debts of approximately HK$192,000).

(e) Allowance for slow-moving inventories

Allowance for slow-moving inventories is made based on the ageing and estimated net realisable value of inventories. The assessment of the allowance amount involves judgement and estimates. Where the actual outcome in future is different from the original estimate, such difference will impact the carrying value of inventories and allowance charge/write-back in the period in which such estimate has been changed. During the year, allowance for slow-moving inventories of approximately HK$2,697,000 (2017: HK$448,000) and were made.

(f) Fair value of investments in unlisted equity securities

Prior to the adoption of HKFRS 9 on 1 January 2018, the unlisted equity securities are measured at cost less impairment losses. As permitted by HKFRS 9, the Group has designated these investments at the date of initial application as measured at FVTOCI. As a result, on 1 January 2018, these equity investments are reclassified from available-for-sale financial assets to financial assets at FVTOCI.

In the absence of quoted market prices in an active market, the Group appointed independent professional valuer to assess the fair value of these equity investments. In determining the fair value, the valuer has utilised a method of valuation which involves certain estimates made by the Group.

As at 31 December 2018, the carrying amount of these equity investments was approximately HK$64,304,000.

(g) Impairment of investments in associates and joint ventures

Determining whether investments in associates and joint ventures are impaired requires an estimation of the recoverable amount of the investments in associates and joint ventures, when indicators of potential impairment are identified.

As at 31 December 2018, the carrying amount of the investments in associates and joint ventures was approximately HK$12,024,000 (2017: HK$4,760,000) (net of accumulated impairment losses of HK$Nil (2017: HK$11,629,000)) and HK$20,833,000 (2017: HK$22,988,000) (net of accumulated impairment losses of HK$Nil (2017: HK$Nil)), respectively.

6. FINANCIAL RISK MANAGEMENT

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

(a) Foreign currency risk

The Group has certain exposure to foreign currency risk as some of its business transactions, assets and liabilities are denominated in currencies other than the functional currency of respective Group entities such as United States dollars ("**USD**") and Renminbi ("**RMB**"). The directors have assessed the impact of foreign currency risk and considered that it is insignificant to the Group. The Group currently does not have a foreign currency hedging policy in respect of foreign currency transactions, assets and liabilities. The Group monitors its foreign currency exposure closely and will consider hedging significant foreign currency exposure should the need arise.

(b) Credit risk

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Group is exposed to credit risk in relation to its trade and other receivables, contract assets and cash and bank balances.

The Group has policies in place to ensure that sales are made to customers with an appropriate credit history. In order to minimise credit risk, the directors have delegated a team to be responsible for the determination of credit limits and credit approvals. It also has other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the directors review the recoverable amount of each individual trade debt regularly to ensure that adequate impairment losses are recognised for irrecoverable debts. In this regard, the directors consider that the Group's credit risk is significant reduced.

As at 31 December 2018, there were 2 (2017: 2) customers which individually contributed over 10% of the Group's trade receivables and contract assets. The aggregate amounts of trade receivables and contract assets from these customers amounted to 65% (2017: 64%) of the Group's total trade receivables and contract assets as at 31 December 2018.

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

The Group considers the probability of default upon initial recognition of asset and whether there has been a significant increase in credit risk on an ongoing basis throughout each reporting period. To assess whether there is a significant increase in credit risk, the Group compares the risk of a default occurring on the asset as at the reporting date with the risk of default as at the date of initial recognition. It considers available reasonable and supportive forwarding-looking information. Especially the following indicators are incorporated:

- external credit rating (as far as available)
- actual or expected significant adverse changes in business, financial or economic conditions that are expected to cause a significant change to the counterparty's ability to meet its obligations
- actual or expected significant changes in the operating results of the counterparty
- significant expected changes in the performance and behaviour of the counterparty, including changes in the payment status of counterparties in the Group and changes in the operating results of the counterparty

6. FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) Credit risk (continued)

A default on a financial asset is when the counterparty fails to make contractual payments when they fall due.

Financial assets are written off when there is no reasonable expectation of recovery.

(i) Trade receivables and contract assets

The Group applies the simplified approach to providing for expected credit losses prescribed by HKFRS 9, which permits the use of the lifetime expected loss provision for all trade receivables and contract assets. The expected loss rate of current trade receivables and contract assets are assessed to be nearly 0%. As at 31 December 2018, the loss allowance provision for these balances was not material.

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

	2018 **HK$'000**	2017 HK$'000
At 1 January	**110**	–
Impairment losses recognised for the year	**192**	110
Amounts written off during the year	**(110)**	–
At 31 December	**192**	110

(ii) Other receivables

The Group has assessed that the expected credit losses for other receivables are not material under the 12-month expected losses method. No loss allowance provision was recognised during the year.

6. FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) Liquidity risk

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

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

	On demand or within 1 year HK$'000	Between 1 and 2 years HK$'000	Between 2 and 5 years HK$'000	Total HK$'000
At 31 December 2018				
Trade payables	**40,814**	**–**	**–**	**40,814**
Other payables and accruals	**25,529**	**–**	**–**	**25,529**
Borrowings	**17,244**	**–**	**–**	**17,244**
At 31 December 2017				
Trade payables	43,276	–	–	43,276
Other payables and accruals	37,333	–	–	37,333
Borrowings	9,841	–	–	9,841

For bank loan which contains a repayment on demand clause which can be exercised at the bank's sole discretion, the above maturity analysis shows the cash outflow based on the earliest period in which the entity can be required to pay, that is if the lender was to invoke its unconditional rights to call the loan with immediate effect.

Taking into account the Group's financial position, the directors do not consider that it is probable that the bank will exercise its discretion to demand immediate repayment. The directors believe that such bank loan will be repaid in accordance with the scheduled repayment dates set out in the loan agreement.

The maturity analysis of the bank loan with a repayment on demand clause based on agreed scheduled repayment set out in the loan agreement is as follows:

	Less than 1 year HK$'000	Between 1 and 2 years HK$'000	Between 2 and 5 years HK$'000	Over 5 years HK$'000	Total HK$'000
At 31 December 2018	**2,123**	**2,123**	**5,485**	**–**	**9,731**
At 31 December 2017	–	–	–	–	–

6. FINANCIAL RISK MANAGEMENT (CONTINUED)

(d) Interest rate risk

The Group's exposure to interest-rate risk mainly arises from its bank deposits, bank loan and other loans. Bank deposits and bank loan bear interests at variable rates varied with the then prevailing market condition. Other loans bear interest at fixed interest rate and therefore is subject to fair value interest value risk.

The effect of changes in interest rates is not significant to the consolidated financial statements. Except as stated above, the Group has no other significant interest-bearing assets and liabilities, the Group's income and operating cash flows are substantially independent of changes in market interest rates.

(e) Categories of financial instruments at 31 December 2018

	2018 HK$'000	2017 HK$'000
Financial assets:		
Financial assets at amortised cost	196,023	–
Loans and receivables (including cash and cash equivalents)	–	236,812
Financial assets measured at FVTOCI		
– equity instruments	64,304	–
Available-for-sale financial assets	–	48,640
Financial liabilities:		
Financial liabilities at amortised cost	83,587	90,433

(f) Fair values

As at 31 December 2018, the carrying amount of the Group's financial assets and financial liabilities as reflected in the consolidated statement of financial position approximate their respective fair values.

As at 31 December 2017, except as disclosed in Note 22 to the consolidated financial statements, the carrying amount of the Group's financial assets and financial liabilities as reflected in the consolidated statement of financial position approximate their respective fair values.

7. FAIR VALUES MEASUREMENT

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The following disclosures of fair value measurements use a fair value hierarchy that categorises into three levels the input to valuation techniques used to measure fair value:

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

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

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

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

Disclosures of level in fair value hierarchy at 31 December 2018:

Description	Fair value measurement using: Level 1 HK$'000	 Level 2 HK$'000	 Level 3 HK$'000	Total 2018 HK$'000
Recurring fair value measurement:				
Financial assets at FVTOCI				
– Unlisted equity securities	**–**	**–**	**64,304**	**64,304**

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

	2018 HK$'000	2017 HK$'000
At 1 January	**–**	–
Initial application of HKFRS 9 *(Note)*	**61,398**	–
Purchases	**21,987**	–
Total gains or losses recognised in other comprehensive income	**(19,081)**	–
At 31 December	**64,304**	–

The total gains or losses recognised in other comprehensive income are presented in fair value changes of equity investments at FVTOCI in the consolidated statement of profit or loss and other comprehensive income.

Note:

Before adoption of HKFRS 9, these unlisted equity securities were measured at cost less impairment losses. As permitted by HKFRS 9, the Group has designated these investments at the date of initial application as measured at FVTOCI. As a result, these equity securities were reclassified from available-for-sale financial assets to financial assets at FVTOCI with fair value of approximately HK$61,398,000 at 1 January 2018.

7. FAIR VALUES MEASUREMENT (CONTINUED)

Disclosure of valuation process used by the Group and valuation techniques and inputs used in fair value measurements at 31 December 2018:

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

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

Level 3 fair value measurements

Description	Valuation technique	Unobservable inputs	Range	Effect on fair value for increase input	Fair value at 31 December 2018 HK$'000
Unlisted equity securities classified as financial assets at FVTOCI	Discount cash flow	Weighted average cost of capital	34% – 50%	Decrease	64,304
		Discount for lack of marketability	20% – 25%	Decrease	
		Long-term growth rate	2%	Increase	

There were no changes in the valuation techniques used.

8. REVENUE

The Group's revenue is derived from contracts with customers.

In the following table, revenue is disaggregated by product category, geographical market and timing of revenue recognition.

	OEM		OBM		Total	
	2018 HK$'000	2017 HK$'000	**2018 HK$'000**	2017 HK$'000	**2018 HK$'000**	2017 HK$'000
By product category						
Respiratory products	**95,664**	87,002	**88,203**	70,192	**183,867**	157,194
Imaging disposable products	**170,548**	165,748	**–**	–	**170,548**	165,748
Orthopaedic and rehabilitation products	**69,828**	65,842	**10,035**	10,140	**79,863**	75,982
Other products	**53,752**	47,378	**–**	–	**53,752**	47,378
	389,792	365,970	**98,238**	80,332	**488,030**	446,302
By geographical market						
United States	**311,317**	312,974	**8,296**	2,826	**319,613**	315,800
The People's Republic of China (the "**PRC**")	**–**	–	**53,671**	44,197	**53,671**	44,197
Netherlands	**27,599**	16,611	**–**	–	**27,599**	16,611
Australia	**25,405**	14,821	**1,001**	975	**26,406**	15,796
Japan	**12,679**	11,803	**2,211**	1,914	**14,890**	13,717
Others	**12,792**	9,761	**33,059**	30,420	**45,851**	40,181
	389,792	365,970	**98,238**	80,332	**488,030**	446,302
By timing of recognition						
Products transferred at a point in time	**219,244**	365,970	**98,238**	80,332	**317,482**	446,302
Products transferred over time	**170,548**	–	**–**	–	**170,548**	–
	389,792	365,970	**98,238**	80,332	**488,030**	446,302

The Group has initially applied HKFRS 15 using the cumulative effect method. Under this method, the comparative information is not restated and was prepared in accordance with HKAS 18.

8. REVENUE (CONTINUED)

The following table provides information about receivables and contract assets from contracts with customers:

	31 December 2018 HK$'000	1 January 2018 HK$'000
Receivables, which included in "trade receivables"	**109,953**	115,443
Contract assets	**17,177**	17,822

Contract assets primarily consist of unbilled amount resulting from sales of OEM products transferred over time. Contract assets are transferred to receivables when the rights become unconditional. This usually occurs when the Group issues an invoice to the customer.

There were no significant changes in the contract assets balances during the reporting period.

9. OTHER INCOME, OTHER GAINS AND LOSSES

	2018 HK$'000	2017 HK$'000
Other income		
Government subsidies *(Note)*	**3,781**	–
Interest income	**182**	132
Sundry income	**900**	552
	4,863	684
Other gains and losses		
Exchange loss, net	**(1,087)**	(3,857)
Impairment of goodwill	**(2,600)**	(6,291)
Impairment of investment in an associate	**–**	(11,629)
Impairment of trade receivables	**(192)**	(110)
Write back of other payables	**3,859**	–
Write off of property, plant and equipment	**(328)**	(543)
Write off of trade receivables	**(72)**	–
	(420)	(22,430)
Total	**4,443**	(21,746)

Note:

Government subsidies mainly related to the subsidies received from the local government authorities for the achievements accomplished by the Group.

10. SEGMENT INFORMATION

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

Directors of the Group review the internal reporting of the Group in order to assess performance and allocate resources. From business model perspective, management assesses the performance of two operating segments, which are OEM and OBM.

- OEM represents "original equipment manufacturing", whereby products are manufactured in accordance with the customer's specification for sale under the customer's or third party's brand.

- OBM represents "original brand manufacturing", comprises research, development, manufacturing, marketing and sales of medical devices under "Inspired Medical", "Hand of Hope" and "Hypnus™" brands.

The accounting policies of the operating segments are the same as those described in Note 4 to the consolidated financial statements. Segment profits or losses do not include interest income, interest expenses, share-based payments, share of losses of associates, share of losses/profits of joint ventures, write back of other payables, impairment of investment in an associate, corporate income and corporate expenses.

Segment assets and liabilities of the Group are not reported to the directors of the Group regularly. As a result, reportable segment assets and liabilities have not been presented in the consolidated financial statements.

Information about reportable segment profit or loss:

	OEM HK$'000	OBM HK$'000	Total HK$'000
Year ended 31 December 2018			
Revenue from external customers	**389,792**	**98,238**	**488,030**
Segment profit/(loss)	**69,781**	**(23,852)**	**45,929**
Depreciation and amortisation	**7,936**	**6,901**	**14,837**
Impairment of goodwill	**–**	**2,600**	**2,600**
Impairment of trade receivables	**166**	**26**	**192**
Write off of trade receivables	**72**	**–**	**72**
Research and development expenditure	**–**	**14,631**	**14,631**

10. SEGMENT INFORMATION (CONTINUED)

Information about reportable segment profit or loss (continued):

	OEM HK$'000	OBM HK$'000	Total HK$'000
Year ended 31 December 2017			
Revenue from external customers	365,970	80,332	446,302
Segment profit/(loss)	66,383	(26,664)	39,719
Depreciation and amortisation	7,864	4,761	12,625
Impairment of goodwill	–	6,291	6,291
Impairment of trade receivables	–	110	110
Research and development expenditure	–	11,828	11,828

Reconciliation of reportable segment revenue and profit or loss:

	2018 HK$'000	2017 HK$'000
Revenue		
Total revenue of reportable segments	**488,030**	446,302
Profit or loss		
Total profit or loss of reportable segments	**45,929**	39,719
Interest income	**182**	132
Interest expenses	**(810)**	(361)
Share-based payments	**(2,717)**	(3,083)
Share of losses of associates	**(2,782)**	(1,003)
Share of (losses)/profits of joint ventures	**(1,562)**	104
Write back of other payables	**3,859**	–
Impairment of investment in an associate	**–**	(11,629)
Corporate income	**900**	552
Corporate expenses	**(4,868)**	(4,814)
Consolidated profit before tax	**38,131**	19,617

10. SEGMENT INFORMATION (CONTINUED)

Geographical information:

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

	Revenue	
	2018	2017
	HK$'000	HK$'000
United States	**319,613**	315,800
The PRC	**53,671**	44,197
Netherlands	**27,599**	16,611
Australia	**26,406**	15,796
Japan	**14,890**	13,717
Others	**45,851**	40,181
	488,030	446,302

	Non-current assets	
	2018	2017
	HK$'000	HK$'000
Hong Kong	**39,590**	36,676
The PRC	**76,425**	68,865
Spain	**4,093**	–
	120,108	105,541

Revenue from major customers:

	2018	2017
	HK$'000	HK$'000
OEM segment		
Customer A	**176,557**	169,032
Customer B	**89,146**	76,009

11. INCOME TAX EXPENSE

	2018 HK$'000	2017 HK$'000
Current tax – Hong Kong Profits Tax		
Provision for the year	**4,523**	5,408
(Over)/under-provision in prior years	**(1,311)**	6
	3,212	5,414
Current tax – the PRC		
Provision for the year	**1,721**	2,732
(Over)/under-provision in prior years	**(1,781)**	37
	(60)	2,769
Deferred tax *(Note 31)*	**776**	(20)
Income tax expense	**3,928**	8,163

Hong Kong Profits Tax has been provided at a rate of 16.5% (2017: 16.5%) on the estimated assessable profit for the year.

On 21 March 2018, the Inland Revenue (Amendment) (No. 7) Bill 2017, which introduces a two-tiered profits tax regime, was substantively enacted. Under the two-tiered profits tax regime, the first HK$2.0 million of assessable profits of qualifying corporations will be taxed at 8.25% with effect from the year assessment 2018/2019. Profits above HK$2.0 million will continue to be subject to the tax rate of 16.5%.

Under the Corporate Income Tax Law of the PRC which became effective from 1 January 2008, the standard corporate income tax rate is 25% except Vincent Medical (Dongguan) Mfg. Co. Ltd. (東莞永勝醫療製品有限公司) ("**VMDG**") which is qualified as High and New Tech Enterprise and would be entitled to a reduced corporate income tax rate of 15%. The relevant tax rates of the Company's PRC subsidiaries range from 15% to 25%.

11. INCOME TAX EXPENSE (CONTINUED)

The reconciliation between the income tax expense and the product of profit before tax multiplied by the Hong Kong Profits Tax rate is as follows:

	2018 HK$'000	2017 HK$'000
Profit before tax	38,131	19,617
Tax at Hong Kong Profits Tax rate of 16.5% (2017: 16.5%)	6,292	3,237
Tax effect of share of losses of associates	459	165
Tax effect of share of losses/(profits) of joint ventures	258	(17)
Tax effect of income that is not taxable	(27,766)	(19,635)
Tax effect of expenses that are not deductible	26,137	21,411
Tax effect of temporary difference not recognised	(404)	(316)
Tax effect of tax loss not recognised	4,801	3,397
Tax effect of change of tax rate	(165)	–
Effect of different tax rates of subsidiaries	(645)	(122)
Tax concession	(1,635)	–
Others	(312)	–
(Over)/under-provision in prior years	(3,092)	43
Income tax expense	3,928	8,163

12. PROFIT FOR THE YEAR

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

	2018 HK$'000	2017 HK$'000
Allowance for inventories (included in cost of inventories sold)	2,697	448
Amortisation	1,751	1,829
Auditor's remuneration	1,605	1,655
Cost of inventories sold	332,422	295,999
Depreciation	13,086	10,814
Equity-settled share-based payments	2,717	3,083
Impairment of goodwill (included in other gains and losses)	2,600	6,291
Impairment of investment in an associate (included in other gains and losses)	–	11,629
Impairment of trade receivables (included in other gains and losses)	192	110
Operating leases charges – land and buildings	13,265	10,143
Research and development expenditure	25,960	19,147
Write back of other payables (included in other gains and losses)	(3,859)	–
Write off of inventories (included in cost of inventories sold)	359	–
Write off of property, plant and equipment (included in other gains and losses)	328	543
Write off of trade receivables (included in other gains and losses)	72	–

12. PROFIT FOR THE YEAR (CONTINUED)

Cost of inventories sold include staff costs of approximately HK$72,639,000 (2017: HK$63,663,000), depreciation of approximately HK$9,085,000 (2017: HK$7,371,000), and operating lease charges of approximately HK$5,688,000 (2017: HK$3,788,000), which are included in the amounts disclosed separately.

Research and development expenditure include staff costs of approximately HK$9,798,000 (2017: HK$5,846,000), depreciation of approximately HK$345,000 (2017: HK$530,000), and operating lease charges of approximately HK$1,186,000 (2017: HK$943,000), which are included in the amounts disclosed separately.

13. EMPLOYEE BENEFITS EXPENSE

	2018 HK$'000	2017 HK$'000
Salaries, bonuses and allowances	**108,798**	98,729
Retirement benefits scheme contributions	**6,994**	6,305
Other benefits	**6,952**	5,218
Equity-settled share-based payments	**2,717**	2,976
	125,461	113,228

(a) Pensions – defined contribution plans

Contributions of approximately HK$179,000 (2017: HK$171,000) were payable to the fund at the year-end. The amount of forfeited contributions utilised for the year ended 31 December 2018 was approximately HK$69,000 (2017: HK$13,000).

(b) Five highest paid individuals

The five highest paid individuals in the Group during the year included three (2017: four) directors whose emoluments are reflected in the analysis presented in Note 14(a) to the consolidated financial statements.

The emoluments of the remaining two (2017: one) individuals during the year was as follows:

	2018 HK$'000	2017 HK$'000
Salaries and allowances	**2,028**	1,200
Bonuses	**–**	20
Retirement benefits scheme contributions	**60**	18
Equity-settled share-based payments	**175**	–
	2,263	1,238

The emoluments fell within the following band:

	2018	2017
Nil to HK$1,000,000	**–**	–
HK$1,000,001 to HK$1,500,000	**2**	1

During the year, no emoluments were paid by the Group to any of the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

14. BENEFITS AND INTERESTS OF DIRECTORS

(a) Directors' emoluments

The remuneration of every director is set as below:

	Emoluments paid or receivable in respect of a person's services as a director, whether of the Company or its subsidiary undertaking								
	Fees HK$'000	Salaries HK$'000	Discretionary bonus HK$'000	(Note i) Estimated money value of other benefits HK$'000	Employer's contribution to a retirement benefit scheme HK$'000	Remunerations paid or receivable in respect of accepting office as director HK$'000	Housing allowance HK$'000	Emoluments paid or receivable in respect of director's other services in connection with the management of the affairs of the Company or its subsidiary undertaking HK$'000	Total HK$'000
Name of director									
Mr. Choi	-	1,140	-	-	105	-	-	-	1,245
Mr. To Ki Cheung	-	1,307	-	178	61	-	-	-	1,546
Mr. Koh Ming Fai	-	1,063	-	149	49	-	-	-	1,261
Mr. Fu Kwok Fu	-	892	-	149	41	-	-	-	1,082
Ms. Liu *(Note (ii))*	-	-	-	-	-	-	-	-	-
Mr. Chan Ling Ming	189	-	-	-	-	-	-	-	189
Mr. Mok Kwok Cheung Rupert	189	-	-	-	-	-	-	-	189
Mr. Au Yu Chiu Steven	189	-	-	-	-	-	-	-	189
Mr. Guo Pengcheng	189	-	-	-	-	-	-	-	189
Prof. Yung Kai Leung	189	-	-	-	-	-	-	-	189
Total for 2018	945	4,402	-	476	256	-	-	-	6,079
Name of director									
Mr. Choi	-	1,123	166	-	104	-	-	-	1,393
Mr. To Ki Cheung	-	1,260	93	115	58	-	-	-	1,526
Mr. Koh Ming Fai	-	951	137	115	44	-	-	-	1,247
Mr. Fu Kwok Fu	-	836	124	115	39	-	-	-	1,114
Ms. Liu	-	-	-	-	-	-	-	-	-
Mr. Amir Gal Or *(Note (iii))*	102	-	-	-	-	-	-	-	102
Mr. Poon Lai Yin Michael *(Note (iii))*	-	-	-	-	-	-	-	-	-
Mr. Chan Ling Ming	180	-	-	-	-	-	-	-	180
Mr. Mok Kwok Cheung Rupert	180	-	-	-	-	-	-	-	180
Mr. Au Yu Chiu Steven	180	-	-	-	-	-	-	-	180
Mr. Guo Pengcheng *(Note (iv))*	165	-	-	-	-	-	-	-	165
Prof. Yung Kai Leung *(Note (iv))*	165	-	-	-	-	-	-	-	165
Total for 2017	972	4,170	520	345	245	-	-	-	6,252

Notes:

(i) Estimated money values of other benefits include rent paid, share options, insurance premium, etc.

(ii) Retired on 24 May 2018.

(iii) Resigned and ceased on 25 July 2017.

(iv) Appointed on 1 February 2017.

14. BENEFITS AND INTERESTS OF DIRECTORS (CONTINUED)

(a) Directors' emoluments (continued)

Neither the chief executive nor any of the directors waived any emoluments during the year (2017: Nil).

During the year, no emoluments were paid by the Group to any of the directors as an inducement to join or upon joining the Group or as compensation for loss of office.

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

During the year the Group entered into the following transactions:

Name of parties contracted with	Nature of transactions	Amount HK$'000	Interested directors
Vincent Raya (Dongguan) Electronics Co. Ltd. 永勝(東莞)電子有限公司	Purchases of goods Catering service fee Rental expenses Metal supplies and processing service fee	382 1,058 7,580 5,445	Mr. Choi and Ms. Liu (retired on 24 May 2018) have beneficial interests in the contracting party
Vincent Raya Co., Limited	Purchases of goods	70	Mr. Choi and Ms. Liu (retired on 24 May 2018) have beneficial interests in the contracting party
Vincent Raya Development Limited	Rental expenses	456	Mr. Choi and Ms. Liu (retired on 24 May 2018) have beneficial interests in the contracting party

Save for contracts amongst group companies and the aforementioned transactions, no other significant transactions, arrangements and contracts to which the Company was a party and in which a director of the Company and other director's connected party had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

15. DIVIDEND

	2018 HK$'000	2017 HK$'000
2017 Final of HK1.5 cents (2017: 2016 Final of HK1.5 cents) per ordinary share	**9,565**	9,570

Subsequent to the end of the reporting period, final dividend in respect of the year ended 31 December 2018 of HK1.6 cents per share has been proposed by the directors and is subject to approval by the shareholders at the forthcoming annual general meeting to be held on 22 May 2019.

16. EARNINGS PER SHARE

The calculation of basic and diluted earnings per share attributable to owners of the Company is based on the following data.

	2018 HK$'000	2017 HK$'000
Earnings		
Profit attributable to owners of the Company	30,943	13,155

	'000	'000
Number of shares		
Weighted average number of ordinary shares for the purpose of calculating basic earnings per share	637,653	638,000
Effect of dilutive potential ordinary shares arising from share options issued by the Company *(Note)*	n/a	1,751
Weighted average number of ordinary shares for the purpose of calculating diluted earnings per share	637,653	639,751

Note:

The effects of all potential ordinary shares are anti-dilutive for the year ended 31 December 2018.

17. PROPERTY, PLANT AND EQUIPMENT

	Furniture and fixtures HK$'000	Plant and machinery HK$'000	Leasehold improvements HK$'000	Moulds HK$'000	Motor vehicles HK$'000	Construction in progress HK$'000	Total HK$'000
Cost							
At 1 January 2017	11,585	41,089	24,933	24,175	1,473	831	104,086
Additions	1,581	6,830	397	2,347	245	3,982	15,382
Write off	(624)	(63)	(95)	(12)	–	(292)	(1,086)
Acquisition of a subsidiary	23	–	–	–	–	–	23
Transfer from inventories	–	69	–	–	–	–	69
Transfer	–	–	2,085	379	–	(2,464)	–
Exchange differences	692	3,198	1,831	1,768	79	117	7,685
At 31 December 2017 and 1 January 2018	13,257	51,123	29,151	28,657	1,797	2,174	126,159
Additions	1,714	5,817	289	2,059	1,084	10,398	21,361
Write off	(22)	(1)	(1,609)	–	–	(33)	(1,665)
Transfer from inventories	–	925	–	–	–	–	925
Transfer	–	–	5,958	218	–	(6,176)	–
Exchange differences	(546)	(2,502)	(1,457)	(1,340)	(91)	(224)	(6,160)
At 31 December 2018	14,403	55,362	32,332	29,594	2,790	6,139	140,620
Accumulated depreciation							
At 1 January 2017	7,336	24,380	19,731	11,856	652	–	63,955
Charge for the year	1,647	4,910	2,319	1,639	299	–	10,814
Write off	(446)	(41)	(45)	(11)	–	–	(543)
Exchange differences	435	1,941	1,462	859	46	–	4,743
At 31 December 2017 and 1 January 2018	8,972	31,190	23,467	14,343	997	–	78,969
Charge for the year	1,775	5,831	3,315	1,852	431	–	13,204
Write off	(18)	–	(1,319)	–	–	–	(1,337)
Exchange differences	(365)	(1,603)	(1,118)	(678)	(46)	–	(3,810)
At 31 December 2018	10,364	35,418	24,345	15,517	1,382	–	87,026
Carrying amount							
At 31 December 2018	4,039	19,944	7,987	14,077	1,408	6,139	53,594
At 31 December 2017	4,285	19,933	5,684	14,314	800	2,174	47,190

18. GOODWILL

	2018 HK$'000	2017 HK$'000
Cost		
At 1 January	10,561	9,591
Arising on acquisition of a subsidiary	–	970
At 31 December	10,561	10,561
Accumulated impairment loss		
At 1 January	6,291	–
Impairment loss recognised in the current year	2,600	6,291
At 31 December	8,891	6,291
Carrying amount		
At 31 December	1,670	4,270

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

	2018 HK$'000	2017 HK$'000
Development of "Hand of Hope" robotic hand training devices		
Rehab-Robotics Company Limited ("**RRCL**")	700	3,300
Manufacturing and trading of "Hypnus™" branded continuous positive airway pressure ("CPAP") equipment		
Guangzhou Hypnus Healthcare Technology Co., Limited ("**GZ Hypnus**")	970	970
	1,670	4,270

18. GOODWILL (CONTINUED)

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

The Group prepares cash flow forecasts derived from the most recent financial budgets approved by the directors for the next five years with the residual period using the growth rate of 3% (2017: 3%) and 2% (2017: 3%) for development of "Hand of Hope" robotic hand training devices business and manufacturing and trading of "Hypnus™" branded CPAP equipment respectively. These rates do not exceed the average long-term growth rate for the relevant markets.

The rate used to discount the forecast cash flows from the Group's development of "Hand of Hope" robotic hand training devices business and manufacturing and trading of "Hypnus™" branded CPAP equipment are 26.8% (2017: 21.5%) and 24.5% (2017: 20%) respectively.

At 31 December 2018, before impairment testing, goodwill of approximately HK$3,300,000 was allocated to RRCL under the development of "Hand of Hope" robotic hand training devices business. Due to the delay in customer orders for "Hand of Hope" and the delay in development of new version of "Hand of Hope", the Group has revised its cash flow forecasts for this CGU. The recoverable amount of this CGU was reduced by approximately HK$2,600,000 and an impairment loss on goodwill of approximately HK$2,600,000 was recognised.

19. OTHER INTANGIBLE ASSETS

	Use right HK$'000	Patents HK$'000	License right HK$'000	Product development costs HK$'000	Total HK$'000
Cost					
At 1 January 2017	14,953	–	–	1,293	16,246
Acquisition of a subsidiary	–	7,676	–	–	7,676
Additions	–	–	4,136	1,500	5,636
Exchange differences	–	233	–	–	233
At 31 December 2017 and 1 January 2018	14,953	7,909	4,136	2,793	29,791
Additions	–	2,745	–	5,965	8,710
Exchange differences	–	(433)	–	(167)	(600)
At 31 December 2018	14,953	10,221	4,136	8,591	37,901
Accumulated amortisation					
At 1 January 2017	1,618	–	–	–	1,618
Amortisation for the year	1,610	219	–	–	1,829
Exchange differences	–	11	–	–	11
At 31 December 2017 and 1 January 2018	3,228	230	–	–	3,458
Amortisation for the year	1,610	738	–	140	2,488
Exchange differences	–	(32)	–	–	(32)
At 31 December 2018	4,838	936	–	140	5,914
Carrying amount					
At 31 December 2018	10,115	9,285	4,136	8,451	31,987
At 31 December 2017	11,725	7,679	4,136	2,793	26,333

Use right

The use right represents the right to use the technology for the purpose of manufacturing, marketing and distribution of products for "Hand of Hope" robotic hand training devices. The remaining amortisation period of the use right is 6.38 years (2017: 7.38 years).

Patents

The patents are mainly used for the manufacturing and trading of "Hypnus™" branded CPAP equipment. The average remaining amortisation period of the patents is 9.18 years (2017: 4.73 years).

19. OTHER INTANGIBLE ASSETS (CONTINUED)

License right

On 8 September 2017, the Group entered into a license agreement, pursuant to which, the Group has granted a right of 10 years (exclusive rights for the first 5 years) to produce and sell the licensed goods in the licensed territory as specified in the license agreement after obtaining the relevant products registration.

As at 31 December 2018, the products registration is in progress. Amortisation of license right will be commenced after completion of registration.

Product development costs

The product development costs are generated internally for the development of certain OBM products. Amortisation begins when the relevant products are available for sales. The estimated average useful lives of the product development costs are 5 years.

20. INVESTMENTS IN ASSOCIATES

	2018 HK$'000	2017 HK$'000
Unlisted investments:		
Share of net assets	**4,679**	1,942
Goodwill	**7,345**	2,818
	12,024	4,760

Details of the Group's associates as at 31 December 2018 are as follows:

Name	**Place of incorporation and operation**	**Particulars of issued and paid up capital**	**Percentage of ownership interest/ voting power/profit sharing 2018**	**2017**	**Principal activities**
Retraction Limited ("**Retraction**")	Hong Kong	100 ordinary shares and 80 preference shares	40%	20%	Design, development and commercialisation of retractors for minimally invasive surgery
Celsius	Spain	9,000 ordinary shares and 1,000 preference shares	10%	n/a	Design, development and commercialisation of air and fluid warning systems
Ventific Holdings Pty Ltd ("**Ventific**") *(Note)*	Australia	54,720,000 ordinary shares of AUD$0.1827 each	13.3%	20%	Design, development and distribution of obstructive sleep apnea treatment devices and accessories

Note:

During the year, the Group reclassified its investment in Ventific as equity investment at FVTOCI as the Group did not have significant influence in Ventific.

20. INVESTMENTS IN ASSOCIATES (CONTINUED)

The following table shows information on the associates that are material to the Group. These associates are accounted for in the consolidated financial statements using the equity method. The summarised financial information presented is based on the HKFRS financial statements of the associates.

Name	Retraction		Celsius	
	2018	2017	**2018**	2017
Principal place of business/country of incorporation	**Hong Kong**	Hong Kong	**Spain**	Spain
% of ownership interests/voting rights held by the Group	**40%/40%**	20%/20%	**10%/10%**	n/a
	HK$'000	HK$'000	**HK$'000**	HK$'000
At 31 December:				
Non-current assets	**5,970**	10,941	**26,320**	n/a
Current assets	**2,251**	1,265	**8,888**	n/a
Non-current liabilities	**–**	–	**(6,680)**	n/a
Current liabilities	**(2,514)**	(2,493)	**(4,562)**	n/a
Net assets	**5,707**	9,713	**23,966**	n/a
Group's share of net assets	**2,282**	1,942	**2,397**	n/a
Goodwill	**5,649**	2,818	**1,696**	n/a
Group's share of carrying amount of interests	**7,931**	4,760	**4,093**	n/a
Year ended 31 December:				
Revenue	**1,173**	1,805	**6,768**	n/a
Loss for the year	**(4,678)**	(4,885)	**(775)**	n/a
Other comprehensive income	**–**	–	**(402)**	n/a
Total comprehensive income	**(4,678)**	(4,885)	**(1,177)**	n/a
Dividends received from associates	**–**	–	**–**	n/a

21. INVESTMENTS IN JOINT VENTURES

	2018 HK$'000	2017 HK$'000
Unlisted investments:		
Share of net assets	**9,351**	11,169
Goodwill	**11,482**	11,819
	20,833	22,988

Details of the Group's joint ventures as at 31 December 2018 are as follows:

Name	Place of incorporation and operation	Particulars of issued and paid up capital	Percentage of ownership interest/voting power/profit sharing	Principal activities
100ecare	The PRC	Registered capital of RMB10,022,898	10%	Design, development, sales and operation of wearable devices
Avalon	The BVI	50,000 ordinary shares of US$1 each	20%	Investment holding
Avalon Photonics (HK) Limited ("**Avalon HK**") *(Note)*	Hong Kong	10,000 ordinary shares	20%	Design, development and distribution of kanga-care products
Avalon Medical Devices (Chongqing) Co., Limited ("**Avalon PRC**") *(Note)*	The PRC	Registered capital of RMB10,000,000	20%	Manufacturing of kanga-care products

Note:

Avalon HK and Avalon PRC are the wholly-owned subsidiaries of Avalon.

21. INVESTMENTS IN JOINT VENTURES (CONTINUED)

The following table shows information on the joint ventures that are material to the Group. These joint ventures are accounted for in the consolidated financial statements using the equity method. The summarised financial information presented is based on the HKFRS financial statements of the joint ventures.

Name	100ecare		Avalon and its subsidiaries	
	2018	2017	2018	2017
Principal place of business/country of incorporation	The PRC	The PRC	The BVI	The BVI
% of ownership interests/voting rights held by the Group	10%/10%	10%/10%	20%/20%	20%/20%
	HK$'000	HK$'000	HK$'000	HK$'000
At 31 December:				
Non-current assets	10,734	9,452	22,848	25,708
Current assets	15,350	16,436	13,785	17,737
Non-current liabilities	–	–	(2,063)	(317)
Current liabilities	(1,400)	(302)	(161)	(77)
Net assets	24,684	25,586	34,409	43,051
Group's share of net assets	2,468	2,559	6,883	8,610
Goodwill	7,010	7,347	4,472	4,472
Group's share of carrying amount of interests	9,478	9,906	11,355	13,082
Cash and cash equivalents included in current assets	9,062	8,893	7,854	12,051
Current financial liabilities (excluding trade and other payables and provisions) included in current liabilities	–	–	–	–
Non-current financial liabilities (excluding trade and other payables and provisions) included in non-current liabilities	–	–	–	–
Year ended 31 December:				
Revenue	14,767	10,380	459	–
Depreciation and amortisation	(1,068)	(595)	(2,477)	(518)
Interest income	121	10	13	1
Income tax expense	–	(70)	–	–
Profit/(loss) for the year	356	3,260	(7,988)	(1,076)
Other comprehensive income	–	–	(650)	84
Total comprehensive income	356	3,260	(8,638)	(992)
Dividends received from joint ventures	–	–	–	–

21. INVESTMENTS IN JOINT VENTURES (CONTINUED)

As at 31 December 2018, the bank and cash balances of the Group's joint ventures in the PRC denominated in RMB amounted to approximately HK$10,102,000 (2017: HK$12,701,000). Conversion of RMB into foreign currencies is subject to the PRC's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations.

22. EQUITY INVESTMENTS AT FVTOCI (2017: AVAILABLE-FOR-SALE FINANCIAL ASSETS)

	2018 HK$'000	2017 HK$'000
Unlisted equity securities	**64,304**	48,640
Analysed as:		
Non-current assets	**64,304**	48,640

At 31 December 2018, the unlisted equity securities were measured at fair value using the method of valuation by an independent external valuation expert.

At 31 December 2017, the unlisted equity securities were carried at cost as they do not have a quoted market price in an active market.

Equity investments at FVTOCI (2017: Available-for-sale financial assets) are denominated in USD.

23. INVENTORIES

	2018 HK$'000	2017 HK$'000
Raw materials	**59,418**	55,464
Work in progress	**23,089**	22,646
Finished goods	**13,043**	19,329
	95,550	97,439

24. TRADE RECEIVABLES

	2018 HK$'000	2017 HK$'000
Trade receivables	**110,145**	115,553
Less: allowance for doubtful debts	**(192)**	(110)
	109,953	115,443

24. TRADE RECEIVABLES (CONTINUED)

The general credit terms of the Group granted to its customers range from 30 to 90 days. The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by the directors.

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

	2018 HK$'000	2017 HK$'000
0 to 30 days	49,235	39,925
31 to 60 days	25,258	27,348
61 to 90 days	20,005	22,249
Over 90 days	15,455	25,921
	109,953	115,443

As of 31 December 2018, trade receivables of approximately HK$34,427,000 (2017: HK$44,195,000) were past due but not impaired. The ageing analysis of these trade receivables is as follows:

	2018 HK$'000	2017 HK$'000
Overdue by:		
Up to 3 months	29,204	40,019
Over 3 months	5,223	4,176
	34,427	44,195

Overdue balances related to a number of independent customers that have good track record with the Group. The Group does not hold any collateral over these balances.

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

	2018 HK$'000	2017 HK$'000
HKD	474	1,133
RMB	12,440	12,885
USD	97,039	101,425
	109,953	115,443

25. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2018 HK$'000	2017 HK$'000
Deposits for investments	–	1,855
Deposits for purchases of property, plant and equipment	13,043	10,521
Deposits for purchases of goods	19,161	14,945
Prepaid expenses	4,432	2,552
Rental and other deposits	4,168	6,487
Other receivables	6,305	5,466
	47,109	41,826

26. BANK AND CASH BALANCES

The carrying amounts of the Group's bank and cash balances are denominated in the following currencies:

	2018 HK$'000	2017 HK$'000
HKD	23,395	66,318
RMB	14,294	10,192
USD	39,952	36,435
Others	3,500	48
	81,141	112,993

As at 31 December 2018, the bank and cash balances of the Group denominated in RMB and kept in the PRC amounted to approximately HK$10,178,000 (2017: HK$7,289,000). Conversion of RMB into foreign currencies is subject to the PRC's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations.

27. SHARE CAPITAL

	2018 HK$'000	2017 HK$'000
Authorised		
10,000,000,000 ordinary shares of HK$0.01 each	**100,000**	100,000
Issued and fully paid		
637,650,000 (2017: 638,000,000) ordinary shares of HK$0.01 each	**6,377**	6,380

A summary of the movements in the issued share capital of the Company is as follows:

	Number of shares	Nominal value of shares issued HK$'000
At 1 January 2017, 31 December 2017 and 1 January 2018	638,000,000	6,380
Repurchase of shares	(350,000)	(3)
At 31 December 2018	**637,650,000**	**6,377**

On 3 January 2018, the Company repurchased 350,000 ordinary shares at approximately HK$228,000 and these shares were cancelled on 16 January 2018.

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

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

The Group regards total equity other than non-controlling interests as capital, for management purpose. The amount of capital as at 31 December 2018 amounted to approximately HK$374,451,000 (2017: HK$365,185,000), in which the Group considers as optimal have considered the projected capital expenditures and the projected investment opportunities.

The only externally imposed capital requirement for the Group is in order to maintain the Listing, it has to have a public float of at least 25% of the shares. Based on the information that is publicly available to the Company and within the knowledge of the directors, the Company has maintained sufficient public float as required by the Listing Rules. As at 31 December 2018, over 25% (2017: over 25%) of the shares were in public hands.

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

(a) Statement of financial position of the Company

	Note	2018 HK$'000	2017 HK$'000
ASSETS			
Non-current assets			
Investments in subsidiaries		**152,793**	–*
Current assets			
Due from subsidiaries		**8,697**	95,822
Prepayments, deposits and other receivables		**238**	280
Bank and cash balances		**1,547**	50,849
Total current assets		**10,482**	146,951
TOTAL ASSETS		**163,275**	146,951
EQUITY AND LIABILITIES			
Share capital	27	**6,377**	6,380
Reserves	28(b)	**123,951**	137,407
Total equity		**130,328**	143,787
Current liabilities			
Due to subsidiaries		**32,231**	2,490
Other payables and accruals		**716**	674
Total current liabilities		**32,947**	3,164
TOTAL EQUITY AND LIABILITIES		**163,275**	146,951

* Represent the amount less than HK$1,000

Approved by the Board of Directors on 22 March 2019 and are signed on its behalf by:

CHOI Man Shing **TO Ki Cheung**

28. STATEMENT OF FINANCIAL POSITION AND RESERVE MOVEMENT OF THE COMPANY (CONTINUED)

(b) Reserve movement of the Company

	Share premium account HK$'000	Share-based payments reserve HK$'000	Merger reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1 January 2017	171,317	2,714	–*	(27,029)	147,002
Loss for the year	–	–	–	(3,108)	(3,108)
Dividend paid	(9,570)	–	–	–	(9,570)
Share-based payments	–	3,083	–	–	3,083
At 31 December 2017 and 1 January 2018	161,747	5,797	–*	(30,137)	137,407
Loss for the year	–	–	–	(6,383)	(6,383)
Repurchase of shares	(225)	–	–	–	(225)
Dividend paid	(9,565)	–	–	–	(9,565)
Share-based payments	–	2,717	–	–	2,717
At 31 December 2018	151,957	8,514	–*	(36,520)	123,951

* Represent the amount less than HK$1,000

29. RESERVES

(a) Group

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

(b) Nature and purpose of reserves

(i) Share premium account

Under the Companies Law of the Cayman Islands, the funds in the share premium account of the Company are distributable to the shareholders of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as they fall in the ordinary course of business.

(ii) Share-based payments reserve

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

29. RESERVES (CONTINUED)

(b) Nature and purpose of reserves (continued)

(iii) Merger reserve

The merger reserve of the Company represents the difference between the costs of investments in subsidiaries pursuant to the reorganisation over the nominal value of the share capital of the Company issued in exchange therefor.

The merger reserve of the Group represents the difference between the nominal value of shares of Vincent Healthcare Products Limited ("**VHPL**") and Vincent Medical Manufacturing Co., Limited ("**VMHK**") acquired pursuant to the reorganisation over the nominal value of the share capital of the Company issued in exchange therefor.

(iv) Foreign currency translation reserve

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

(v) FVTOCI reserve

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

30. SHARE OPTIONS

Pre-IPO share option scheme adopted on 17 June 2016

A pre-IPO share option scheme (the "**Pre-IPO Share Option Scheme**") was approved and adopted on 17 June 2016. The purpose of the Pre-IPO Share Option Scheme is to recognise and acknowledge the contributions made by certain executives, directors, employees and/or consultants of the Group to the growth of the Group by granting options to them as rewards and further incentives. The Pre-IPO Share Option Scheme will expire on 16 June 2026.

Each Option granted under the Pre-IPO Share Option Scheme is subject to the following vesting schedule:

Tranche	Vesting Date	Percentage of an option vested
First	First anniversary of the Listing Date	25%
Second	Second anniversary of the Listing Date	25%
Third	Third anniversary of the Listing Date	25%
Fourth	Fourth anniversary of the Listing Date	25%

Each vested tranche of an option is exercisable during a period from and including the vesting date of the relevant tranche to and including the business day immediately preceding the tenth anniversary of the date of grant of the option.

The subscription price per share shall be HK$0.80. On 17 June 2016, 19,684,000 options were granted. No further options will be offered or granted under the Pre-IPO Share Option Scheme.

30. SHARE OPTIONS (CONTINUED)

Pre-IPO share option scheme adopted on 17 June 2016 (continued)

Details of each tranche of options are as follows:

Tranche	Date of grant	Vesting period	Exercise period	Exercise price HK$
First	17 June 2016	17 June 2016 to 13 July 2017	13 July 2017 to 16 June 2026	0.80
Second	17 June 2016	17 June 2016 to 13 July 2018	13 July 2018 to 16 June 2026	0.80
Third	17 June 2016	17 June 2016 to 13 July 2019	13 July 2019 to 16 June 2026	0.80
Fourth	17 June 2016	17 June 2016 to 13 July 2020	13 July 2020 to 16 June 2026	0.80

If the options remain unexercised after a period of ten years from the date of grant, the options will be expired. Options are lapsed if the directors, employees and/or consultants leave the Group.

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

	2018		2017	
	Number of share options	**Weighted average exercise price HK$**	Number of share options	Weighted average exercise price HK$
Outstanding at the beginning of the year	**17,908,000**	**0.80**	19,356,000	0.80
Lapsed during the year	**(1,120,000)**	**0.80**	(1,448,000)	0.80
Outstanding at the end of the year	**16,788,000**	**0.80**	17,908,000	0.80
Exercisable at the end of the year	**8,394,000**	**0.80**	3,391,000	0.80

The options outstanding at the end of the year have a weighted average remaining useful life of 7.46 years (2017: 8.46 years) and the exercise price is HK$0.8 (2017: HK$0.8).

Share option scheme adopted on 24 June 2016

A share option scheme (the "**Share Option Scheme**") was approved and adopted on 24 June 2016. Pursuant to the Share Option Scheme, the Board of Directors may, as its discretion, grant share options to any executive, director, employee, advisor, consultant, professional, agent, contractor, customer, provider of goods and/or services or partner of the Group. The Share Option Scheme will expire on 23 June 2026.

The subscription price per share shall be determined by the Board of Directors and notified to the grantee at the time of offer of the option.

30. SHARE OPTIONS (CONTINUED)

Share option scheme adopted on 24 June 2016 (continued)

On 28 May 2018, the Group granted 14,300,000 share options with exercise price of HK$0.80 per share to certain directors and employees. 25% of the options will vest on each of 28 May 2019, 2020, 2021 and 2022 respectively and will be exercisable from each of 28 May 2019, 2020, 2021 and 2022 respectively to 23 June 2026.

The estimated fair value of the options at the date of grant was approximately HK$2,654,000.

The fair value was calculated using the binomial option pricing model. The inputs into the model were as follows:

Weighted average share price	HK$0.63
Weighted average exercise price	HK$0.80
Expected volatility	37.35%
Risk free rate	2.79%
Expected divided yield	2.35%

If the options remain unexercised after a period of ten years from the date of grant, the options will be expired. Options are lapsed if the directors and/or employees leave the Group.

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

	2018		2017	
	Number of share options	**Weighted average exercise price HK$**	Number of share options	Weighted average exercise price HK$
Outstanding at the beginning of the year	**–**	**n/a**	–	n/a
Granted during the year	**14,300,000**	**0.80**	–	n/a
Lapsed during the year	**(1,800,000)**	**0.80**	–	n/a
Outstanding at the end of the year	**12,500,000**	**0.80**	–	n/a
Exercisable at the end of the year	**–**	**n/a**	–	n/a

The options outstanding at the end of the year have a weighted average remaining useful life of 7.48 years (2017: Nil) and the exercise price is HK$0.8 (2017: Nil).

31. DEFERRED TAX

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

Deferred tax liabilities

	Fair value on intangible assets HK$'000	Temporary difference on intangible assets HK$'000	Accelerated tax depreciation HK$'000	Total HK$'000
At 1 January 2017	2,014	401	–	2,415
Charge/(credit) to profit or loss for the year	(242)	222	–	(20)
At 31 December 2017 and 1 January 2018	**1,772**	**623**	**–**	**2,395**
Charge/(credit) to profit or loss for the year *(Note 11)*	**(241)**	**1,415**	**1,596**	**2,770**
Exchange differences	**–**	**(41)**	**(42)**	**(83)**
At 31 December 2018	**1,531**	**1,997**	**1,554**	**5,082**

Deferred tax assets

	Tax losses HK$'000
At 1 January 2017, 31 December 2017 and 1 January 2018	**–**
Credit to profit or loss for the year *(Note 11)*	**1,994**
Exchange differences	**(59)**
At 31 December 2018	**1,935**

The following is the analysis of the deferred tax balances (after offset) for statement of financial position purposes:

	2018 HK$'000	2017 HK$'000
Deferred tax assets	**1,935**	–
Deferred tax liabilities	**(5,082)**	(2,395)
	(3,147)	(2,395)

31. DEFERRED TAX (CONTINUED)

As at 31 December 2018, the Group has unused tax losses of approximately HK$73,202,000 (2017: HK$45,142,000) available for offset against future profits. A deferred tax asset has been recognised in respect of approximately HK$7,740,000 (2017: HK$Nil) of such losses. No deferred tax asset has been recognised in respect of the remaining HK$65,462,000 (2017: HK$45,142,000) due to the unpredictability of future profit streams. The unused tax losses of the Group have not yet been agreed by respective tax authorities. The expiry date of unrecognised tax losses are summarised as follows:

	2018 **HK$'000**	2017 HK$'000
On 31 December 2021	**4,306**	4,514
On 31 December 2022	**8,006**	8,392
On 31 December 2023	**14,547**	–
Carried forward indefinitely	**38,603**	32,236
	65,462	45,142

As at 31 December 2018, the aggregate amount of temporary differences associated with undistributed earnings of subsidiaries and a joint venture for which deferred tax liabilities have not been recognised is approximately HK$8,203,000 (2017: HK$7,385,000). No liability has been recognised in respect of these differences because the Group is in a position to control the timing of reversal of the temporary differences and it is probable that such differences will not reverse in the foreseeable future.

32. TRADE PAYABLES

The ageing analysis of trade payables, based on the date of receipt of goods, is as follows:

	2018 **HK$'000**	2017 HK$'000
0 to 30 days	**25,821**	20,784
31 to 60 days	**6,303**	7,134
Over 60 days	**8,690**	15,358
	40,814	43,276

32. TRADE PAYABLES (CONTINUED)

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

	2018 HK$'000	2017 HK$'000
HKD	4,014	3,865
RMB	29,006	23,106
USD	7,071	16,271
Others	723	34
	40,814	43,276

33. OTHER PAYABLES AND ACCRUALS

	2018 HK$'000	2017 HK$'000
Accrued staff costs	17,941	18,394
Other accrued expenses	6,405	7,485
Other payables	3,156	5,325
Receipt in advance	3,896	5,275
Unpaid investment costs	–	9,677
	31,398	46,156

34. BORROWINGS

	2018 HK$'000	2017 HK$'000
Bank loan, secured	9,255	–
Other loans, unsecured	7,989	9,824
	17,244	9,824

The borrowings are repayable as follows:

	2018 HK$'000	2017 HK$'000
Within one year	9,844	9,824
More than one year, but not exceeding two years	1,854	–
More than two years, but not more than five years	5,546	–
	17,244	9,824
Portion of bank loan that is due for repayment after one year but contain a repayment on demand clause (shown under current liabilities)	(7,400)	–
	9,844	9,824
Less: Amount due for settlement within 12 months (shown under current liabilities)	(9,844)	(9,824)
Amount due for settlement after 12 months	–	–

34. BORROWINGS (CONTINUED)

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

	2018 HK$'000	2017 HK$'000
HKD	9,255	1,450
RMB	7,989	8,374
	17,244	9,824

The interest rates of the Group's borrowings at 31 December were as follows:

	2018	2017
Bank loan	1-month HIBOR + 1.85%	n/a
Other loans	8%	5% – 8%

Bank loan is arranged at floating rate, thus exposing the Group to cash flow interest rate risk. Other loans are arranged at fixed rate and expose the Group to fair value interest rate risk.

The bank loan is secured by corporate guarantee provided by the Company.

At 31 December 2018, the Group had HK$30,000,000 (2017: HK$Nil) of available undrawn borrowing facilities.

35. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

Reconciliation of liabilities arising from financing activities

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

	1 January 2018 HK$'000	Cash flows HK$'000	Capitalisation HK$'000	Exchange differences HK$'000	31 December 2018 HK$'000
Bank loan	–	9,255	–	–	9,255
Other loans	9,824	(44)	(1,406)	(385)	7,989
	9,824	9,211	(1,406)	(385)	17,244

35. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

Reconciliation of liabilities arising from financing activities (continued)

	1 January 2017 HK$'000	Cash flows HK$'000	Acquisition of a subsidiary HK$'000	Exchange differences HK$'000	31 December 2017 HK$'000
Bank loan	892	(892)	–	–	–
Other loans	3,725	7	5,806	286	9,824
	4,617	(885)	5,806	286	9,824

36. CAPITAL COMMITMENTS

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

	2018 HK$'000	2017 HK$'000
Property, plant and equipment	**12,792**	18,135

37. LEASE COMMITMENTS

At 31 December 2018, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	2018 HK$'000	2017 HK$'000
Within one year	**13,889**	12,768
In the second to fifth years inclusive	**22,528**	8,383
	36,417	21,151

Operating lease payments represent rentals payable by the Group for certain of its offices and factory premises. Leases are negotiated for terms ranging from one to four years and rentals are fixed over the lease terms and do not include contingent rentals.

38. RELATED PARTY TRANSACTIONS

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

	2018 HK$'000	2017 HK$'000
Year ended 31 December:		
Purchases of goods from related companies	452	423
Purchases of goods from a joint venture	549	–
Catering service fee paid to a related company	1,058	1,027
Consultancy fee to an associate	253	–
Rental expenses paid to related companies	8,036	6,561
Metal supplies and processing service fee to a related company	5,445	4,311
At 31 December:		
Other payables to related companies	1,432	478
Other receivables from a related company	76	76

Note:

Mr. Choi and Ms. Liu (retired on 24 May 2018) have beneficial interests in these related companies.

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

	2018 HK$'000	2017 HK$'000
Short-term benefits	11,496	12,106
Retirement benefits scheme contributions	529	505
Share-based payments	950	736
	12,975	13,347

39. PRINCIPAL SUBSIDIARIES

Particulars of the principal subsidiaries as at 31 December 2018 are as follows:

Name	Place of incorporation/ registration, operation and kind of legal entity	Issued share capital/ registered capital	Percentage of ownership interest/voting power/profit sharing	Principal activities
Directly held:				
Vincent Medical Manufacturing Holdings Limited	The BVI, limited liability company	US$1	100%	Investment holding
Vincent Medical Care Holdings Limited	The BVI, limited liability company	US$1	100%	Investment holding
Indirectly held:				
Dongguan Vincent Rehabilitation Devices Company Limited ^ 東莞永健康復器具有限公司	The PRC, wholly-foreign owned enterprise with limited liability	HK$8,000,000	100%	Manufacturing of medical devices
RRCL	Hong Kong, limited liability company	HK$31,900,000	67.82% *(Note (a))*	Development of "Hand of Hope" robotic hand training devices
Shenzhen Vincent Raya Medical Device Company Limited ^ 深圳永勝宏基醫療器械有限公司	The PRC, wholly-foreign owned enterprise with limited liability	RMB10,000,000	100%	Research and development of medical devices and investment holding
VHPL	Hong Kong, limited liability company	HK$100,000	100%	Investment holding
Vincent Medical Care Company Limited	Hong Kong, limited liability company	HK$1	80.1%	Trading of medical devices and investment holding
VMHK	Hong Kong, limited liability company	HK$14,889,321	80.1%	Trading of medical devices and investment holding
VMDG	The PRC, wholly-foreign owned enterprise with limited liability	HK$15,000,000	80.1%	Manufacturing of medical devices
Vincent Medical Avalon Limited	Hong Kong, limited liability company	HK$1	100%	Investment holding
Vincent Medical Celsius Limited	Hong Kong, limited liability company	HK$1	100%	Investment holding
Vincent Medical Fresca Limited	Hong Kong, limited liability company	HK$1	100%	Investment holding
Vincent Medical Innovation Limited	Hong Kong, limited liability company	HK$1	100%	Investment holding
Vincent Medical Inovytec Limited	Hong Kong, limited liability company	HK$1	100%	Investment holding
Vincent Medical Respinova Limited	Hong Kong, limited liability company	HK$1	100%	Investment holding

39. PRINCIPAL SUBSIDIARIES (CONTINUED)

Name	Place of incorporation/ registration, operation and kind of legal entity	Issued share capital/ registered capital	Percentage of ownership interest/voting power/profit sharing	Principal activities
Vincent Medical Retraction Limited	Hong Kong, limited liability company	HK$1	100%	Investment holding
Vincent Medical Technology (Guangdong) Limited	Hong Kong, limited liability company	HK$1	100%	Investment holding
Vincent Rehab Devices Company Limited	Hong Kong, limited liability company	HK$10	100%	Trading of medical devices and investment holding
Vincent Medical (Dongguan) Technology Company Limited ("**VMGD**") ^ 東莞永昇醫療科技有限公司	The PRC, wholly-foreign owned enterprise with limited liability	RMB10,000,000 *(Note (b))*	100%	Research and development, and manufacturing of medical devices
Vincent Raya (Dong Guan) Medical Device Co., Ltd. ^ 東莞永勝宏基醫療器械有限公司	The PRC, wholly-foreign owned enterprise with limited liability	HK$2,100,000	100%	Trading of medical devices
Hypnus Healthcare Technology Limited	Hong Kong, limited liability company	HK$10,000	60%	Investment holding
GZ Hypnus	The PRC, wholly-foreign owned enterprise with limited liability	HK$20,000,000 *(Note (c))*	60%	Manufacturing and trading of CPAP equipment.

^ For identification purposes only

Notes:

(a) In May 2018, the Group injected capital of HK$5,000,000 in RRCL. Further, in December 2018, the Group and non-controlling shareholders of RRCL entered into a loan capitalisation agreement, pursuant to which the shareholders' loans to RRCL of HK$8,000,000 were converted into shares of RRCL. Accordingly, the Group's percentage of ownership interest increased from 53.125% to 67.82%, and loss on deemed acquisition of non-controlling interests of approximately HK$2,359,000 was directly recognised in equity.

(b) The registered capital of VMGD is RMB10,000,000 and RMB5,188,260 has been paid up as at 31 December 2018.

(c) The registered capital of GZ Hypnus is HK$20,000,000 (2017: HK$20,000,000) and HK$20,000,000 (2017: HK$5,000,000) has been paid up as at 31 December 2018.

(d) In May 2018, the Group acquired 40% non-controlling interests of Vincent Medical R&D Limited at a cash consideration of HK$4. The adjustment on the carrying amount of non-controlling interests of approximately HK$3,695,000 was directly recognised in equity.

The above list contains the particular of subsidiaries which principally affected the results, assets or liabilities of the Group. None of the subsidiaries has issued any debt securities.

39. PRINCIPAL SUBSIDIARIES (CONTINUED)

The following table shows information of subsidiaries that have non-controlling interests ("**NCI**") material to the Group. The summarised financial information represents amounts before inter-company elimination.

Name	VMHK		VMDG	
	2018	2017	**2018**	2017
Principal place of business/country of incorporation	**Hong Kong**	Hong Kong	**The PRC**	The PRC
% of ownership interests/voting rights held by NCI	**19.9%/19.9%**	19.9%/19.9%	**19.9%/19.9%**	19.9%/19.9%
	HK$'000	HK$'000	**HK$'000**	HK$'000
At 31 December:				
Non-current assets	**14,759**	14,917	**40,868**	40,799
Current assets	**192,958**	160,824	**145,074**	141,183
Non-current liabilities	**–**	–	**(1,034)**	–
Current liabilities	**(47,279)**	(42,786)	**(34,366)**	(32,424)
Net assets	**160,438**	132,955	**150,542**	149,558
Accumulated NCI	**31,859**	26,391	**27,532**	27,184
Year ended 31 December:				
Revenue	**351,608**	324,328	**302,742**	282,950
Profit	**27,483**	10,315	**10,054**	3,515
Other comprehensive income	**–**	–	**(9,070)**	9,726
Total comprehensive income	**27,483**	10,315	**984**	13,241
Profit allocated to NCI	**5,469**	2,053	**2,001**	700
Dividends paid to NCI	**–**	(2,786)	**–**	–
Net cash generated from/(used in) operating activities	**(417)**	(30,041)	**20,797**	2,793
Net cash generated from/(used in) investing activities	**3**	(143)	**(12,067)**	(11,822)
Net cash generated from/(used in) financing activities	**9,255**	(14,892)	**–**	–
Effect of foreign exchange rate changes	**–**	–	**(7,518)**	7,164
Net increase/(decrease) in cash and cash equivalents	**8,841**	(45,076)	**1,212**	(1,865)

39. PRINCIPAL SUBSIDIARIES (CONTINUED)

Name	RRCL		GZ Hypnus	
	2018	2017	**2018**	2017
Principal place of business/ country of incorporation	**Hong Kong**	Hong Kong	**The PRC**	The PRC
% of ownership interests/ voting rights held by NCI	**32.18%/32.18%**	46.875%/46.875%	**40%/40%**	40%/40%
	HK$'000	HK$'000	**HK$'000**	HK$'000
At 31 December:				
Non-current assets	**14,711**	15,009	**17,972**	8,320
Current assets	**5,538**	4,977	**7,961**	5,596
Non-current liabilities	**(2,350)**	(7,195)	**(1,364)**	–
Current liabilities	**(4,507)**	(6,750)	**(16,390)**	(13,242)
Net assets	**13,392**	6,041	**8,179**	674
Accumulated NCI	**4,310**	2,831	**(4,617)**	(1,730)
Year ended 31 December:				
Revenue	**4,130**	2,685	**4,166**	654
Loss	**(5,648)**	(8,006)	**(6,425)**	(3,346)
Other comprehensive income	**–**	–	**(955)**	(126)
Total comprehensive income	**(5,648)**	(8,006)	**(7,379)**	(3,472)
Loss allocated to NCI	**(2,287)**	(3,753)	**(2,570)**	(1,338)
Dividends paid to NCI	**–**	–	**–**	–
Net cash used in operating activities	**(2,245)**	(6,585)	**(8,038)**	(4,282)
Net cash used in investing activities	**(881)**	(1,691)	**(8,359)**	(610)
Net cash generated from financing activities	**5,550**	7,725	**14,884**	7,282
Effect of foreign exchange rate changes	**–**	–	**(861)**	(90)
Net increase/(decrease) in cash and cash equivalents	**2,424**	(551)	**(2,374)**	2,300

40. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform to the current year's presentation. The changes included the reclassification of certain items previously classified under other income and administrative expenses to other gains and losses. The new classification of the accounting items was considered to provide a more appropriate presentation of the results of the Group.

Five-Year Financial Summary

A summary of the results and of the assets and liabilities of the Group for the last five financial years is as follows.

	Year ended 31 December				
	2018	2017	2016	2015	2014
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Results					
Revenue	**488,030**	446,302	467,347	448,169	388,977
Profit before tax	**38,131**	19,617	47,696	69,172	53,958
Income tax (expense)/credit	**(3,928)**	(8,163)	(10,614)	2,484	(11,562)
Profit for the year	**34,203**	11,454	37,082	71,656	42,396
Attributable to:					
Owners of the Company	**30,943**	13,155	29,242	58,153	35,759
Non-controlling interests	**3,260**	(1,701)	7,840	13,503	6,637
	34,203	11,454	37,082	71,656	42,396

	At 31 December				
	2018	2017	2016	2015	2014
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Assets and Liabilities					
Non-current assets	**186,347**	154,181	80,810	81,393	63,421
Current assets	**350,930**	370,978	414,388	238,575	232,964
Non-current liabilities	**(5,082)**	(2,395)	(3,865)	(5,978)	–
Current liabilities	**(98,002)**	(107,813)	(89,857)	(96,903)	(127,687)
Net assets	**434,193**	414,951	401,476	217,087	168,698
Attributable to:					
Owners of the Company	**374,451**	365,185	351,072	169,358	138,533
Non-controlling interests	**59,742**	49,766	50,404	47,729	30,165
	434,193	414,951	401,476	217,087	168,698

Note:

The summary of the consolidated results of the Group for each of the two years ended 31 December 2014 and 2015 and of the assets and liabilities as at 31 December 2014 and 2015 have been extracted from the Prospectus.