銘源醫療

MINGYUAN MEDICARE DEVELOPMENT COMPANY LIMITED

(INCORPORATED IN BERMUDA WITH LIMITED LIABILITY)

STOCK CODE : 00233

Annual Report 2018

MISSION

Early Detection and Prevention of Diseases

Mingyuan Medicare Development Company Limited (the "Company") principally engages in provision of innovative medicare solutions for the early detection and prevention of diseases particularly in China.

With "Care for Health, Passion for Life" as our motto, the Company dedicates to the development and application of advanced biotech screening and diagnostic solutions for early detection and prevention of diseases including cancer. The Company is aiming to be a leading and comprehensive biotech screening and diagnostic solutions provider in Asia Pacific region, particularly China.

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CORPORATE INFORMATION

BOARD OF DIRECTORS

The composition of the board of directors in 2018 is set out in the Directors' Report.

Executive Directors

Mr. Lam Ping Cheung *(Chairman)*
Mr. Hui Yip Wing

Independent Non-Executive Directors

Ms. Chan Mee Sze
Mr. Lam Suk Ping
Mr. Cheung Chi Ming
Ms. Fan Stephanie Winnie

AUDIT COMMITTEE

Mr. Cheung Chi Ming *(Chairman)*
Ms. Chan Mee Sze
Mr. Lam Suk Ping

REMUNERATION COMMITTEE

Mr. Lam Suk Ping *(Chairman)*
Ms. Chan Mee Sze
Mr. Cheung Chi Ming

NOMINATION COMMITTEE

Mr. Lam Ping Cheung *(Chairman)*
Ms. Chan Mee Sze
Mr. Cheung Chi Ming

AUTHORISED REPRESENTATIVES

Mr. Lam Ping Cheung
Ms. Chan Mei Yuk

COMPANY SECRETARY

Ms. Chan Mei Yuk

AUDITOR

Crowe (HK) CPA Limited

LEGAL ADVISERS

Estera

PRINCIPAL BANKERS

The Hongkong and Shanghai Banking Corporation Limited

PRINCIPAL SHARE REGISTRAR

MUFG Fund Services (Bermuda) Limited
The Belvedere Building
69 Pitts Bay Road
Pembroke HM08
Bermuda

BRANCH SHARE REGISTRAR IN HONG KONG

Computershare Hong Kong Investors Services Limited
Shop 1712-1716, 17th Floor, Hopewell Centre,
183 Queen's Road East,
Wanchai, Hong Kong

REGISTERED OFFICE

Canon's Court, 22 Victoria Street,
Hamilton HM 12, Bermuda

PRINCIPAL PLACE OF BUSINESS

11th Floor, Shum Tower, 268 Des Voeux Road Central,
Sheung Wan, Hong Kong
Tel: (852) 3102 3201
Fax: (852) 3102 0905
Email: mingyuan@mingyuan-hk.com
Website: www.mymedicare.com.hk

PLACE OF SHARE LISTING

The Stock Exchange of Hong Kong Limited

STOCK CODES

The Stock Exchange of Hong Kong Limited: 233
Reuters: 233.HK
Bloomberg: 233 HK

CHAIRMAN'S STATEMENT

Dear Shareholders

I am pleased to present the annual reports of Mingyuan Medicare Development Company Limited (the "**Company**") and its subsidiaries (collectively, the "**Group**") for the year ended 31 December 2018 to the shareholders of the Company (the "**Shareholders**").

RESULTS

For the year ended 31 December 2014, the Group recorded a consolidated loss of HK$868.2 million which was due to, among other things, the derecognition of the financial position and performance of the Group's two Shanghai subsidiaries, namely, Shanghai HealthDigit Company Limited and SHMY HealthDigit Biochips Company Limited, in the Group's financial statements as well as the impairment for the loss of a cash sum of RMB 420 million which the Group is still striving to trace and recover. Since 2015 and under the new management which took office in May 2016, the Group has focused its business in manufacturing and trading HPV chips and related equipment through the Group's 100% owned subsidiary Genetel Pharmaceuticals (Shenzhen) Company Limited and the Group has recorded steady revenue.

CONDITIONS IMPOSED BY THE STOCK EXCHANGE FOR RESUMPTION OF TRADING IN THE SHARES OF THE COMPANY

Shareholders will note that trading in the shares of the Company on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") has been suspended since 1 April 2015 due to the delay in the publication of the audited annual results for the year ended 31 December 2014 and the Stock Exchange has imposed four conditions and provided guidance for the Company to resume trading in its shares. In order to satisfy and/or comply with the resumption conditions and guidance, the Board has: (a) engaged an Independent Compliance Adviser for consultation on the Company's compliance with the Listing Rules; (b) appointed an independent forensic accountant to conduct a forensic investigation on the bank balance of a subsidiary as of 31 December 2014 amounting to approximately RMB 420 million which the Company's former auditors were unable to verify; (c) worked closely with the auditors for the release of all the outstanding audited financial results as soon as practicable; (d) implemented good corporate governance policies and procedures; and (e) established sound internal control systems.

On 11 April 2019, the Stock Exchange further required, as additional resumption guidance, the Company to demonstrate a sufficient level of operations or assets under Rule 13.24 of the Listing Rules to warrant the continued listing of the Company's shares. The Board has been striving to meet this resumption guidance by working close with the auditors for the release of the 2018 audited financial results.

THE INQUIRY BY THE SECURITIES AND FUTURES COMMISSION ("SFC")

On 23 October 2017, the SFC has directed the Stock Exchange to suspend all dealings in the shares of the company pursuant Rule 8(1) of the Securities and Futures (Stock Market Listing) Rules (Cap. 571V). The SFC is concerned that the Company's 2013 Annual Results/ Annual Report and 2014 Interim Results/ Interim Report and certain bank statements and bank transfer documents provided by the Company had contained materially false, incomplete or misleading information. The Board is taking active steps to address the aforesaid concern of the SFC.

PROSPECTS

The management intends to accelerate the growth of the Group's business both in terms of sales and productivity in the Hong Kong and the PRC markets by continuing to focus on its core business whilst seeking to grasp every opportunity to enhance, diversify and expand its operations with the view to bringing good investment return to the Shareholders.

APPRECIATION

I would like to take this opportunity to express my gratitude to the Shareholders for their continued support to the Group, and my fellow directors and those who have worked for the Group for their valuable contributions.

Lam Ping Cheung
Chairman

MANAGEMENT DISCUSSION AND ANALYSIS

OVERVIEW

Trading in the shares of Mingyuan Medicare Development Company Limited (the "Company") has been suspended from trading on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") since 1 April 2015 as the Company failed to publish its audited financial statements for the financial year ended 31 December 2014 for the reason that the former auditor was unable to verify the bank balance of a subsidiary as of 31 December 2014 amounting to approximately RMB420 million (the "Unresolved Matter").

After the special general meeting held on 10 September 2014, the Company failed to hold an annual general meeting ("AGM") within the time limits prescribed by the Bermuda Companies Act 1981 ("BCA 1981") and by Bye-law 67 of the Company's New Bye-laws. The Chief Justice of Bermuda granted the relief to permit Greater Achieve Limited, a substantial shareholder of the Company, to convene the AGM itself. The AGM convened by Greater Achieve Limited was held on 20 May 2016. At that meeting, each of the directors was either retired or removed and the entire board of the Company has replaced, and Crowe Horwath (HK) CPA Limited was appointed as auditor of the Company in place of Deloitte Touche Tohmatsu ("Deloitte"). The board of directors of the Company since 20 May 2016 is defined as the "Board" in this report.

The new members of the board of directors of the Company do not have access to a substantial part of the accounting books and records held by the Company prior to 20 May 2016. Prior to the appointment of the new directors, the Company's hard drives had been removed as a result of which its computer records were no longer accessible, and its banking records had been removed. Substantial part of the accounting records of the Company and its subsidiaries, in particular 上海數康生物科技有限公司 Shanghai HealthDigit Company Limited ("Shanghai HealthDigit") and 上海銘源數康生物芯片有限公司 SHMY HealthDigit Biochip Company Limited ("SHMY Biochip") is no longer accessible.

The board of directors of the Company herein presents its report together with the audited financial statements of the Company and its subsidiaries (collectively the "Group") for the year ended 31 December 2018 (the "Year") based on the books and records made available to them. Members of the Board make no representation as to the completeness of the information contained in this report.

MARKET REVIEW

The China Government is committed to provide basic medical security to all Chinese in both urban and rural areas, improve the quality of medical services, and make medical services more accessible and affordable for ordinary people and to pave the road for further medical reforms in the healthcare industry.

With the healthcare reform in full momentum, the healthcare industry in China will continue to be one of the fastest growing healthcare markets in the world. Underpinning such phenomenal growth are enhanced living standard, increase in per capital income, growth of the aging population, increasing healthcare consciousness, and the China Government's commitment to reform and to increase the healthcare budget for both the urban and rural medical systems as part of its committed effort to establish a harmonious society and will invariably drive up strong demands for medical products and services in the coming decade.

BUSINESS REVIEW

As at the date of this report, the Board is still in the process of getting back the control over the Group's two key subsidiaries, Shanghai HealthDigit and SHMY Biochip, and is unable to access to their books and records. As a result, the balances relating to these two subsidiaries brought forward from 31 December 2013 were derecognized and the financial effects were charged to the consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2014 ("Derecognition"). Derecognition results loss of HK$804.5 million for the financial year 2014. After the Derecognition of the above subsidiaries, the Group only maintained Health Care Division which sells HPV DNA testing kits to female patients at hospital nationwide. The division recorded total sales of HK$66.00 million (2017: HK$48.82 million).

MANAGEMENT DISCUSSION AND ANALYSIS

Health Care Division

The HPV DNA testing kits offer superior sensitivity (>95%) for early screening of cervical cancer compared with conventional pap-smear test (50-60%). Besides, it does not require a large upfront capital investment on specialised equipment. According to the World Health Organization, cervical cancer is fully preventable and curable if pre-cancerous lesions are detected and treated early.

Cervical cancer is caused by a common virus called human papillomavirus ("HPV"). High-risk, cancer-causing types of HPV can be detected using DNA technology. Women above age 18 are recommended to take annual examination to screen cervical disease or cancer.

The division recorded total sales of HK$66.00 million (2017: HK$48.82 million), representing a significant increase of 35.19 percent over the preceding year.

FINANCIAL PERFORMANCE

The key financial figures of the Group for the years ended 31 December 2018 and 31 December 2017 are summarized as follows:

	2018 HK$'000	2017 HK$'000	Change %
Revenue	**66,001**	48,823	35.18
Gross profit	**50,125**	36,055	39.02
Gross profit percentage	**75.95%**	73.85%	2.1
Other income and net loss	**1,135**	92	1,133.70
Distribution and selling expenses	**(7,651)**	(5,598)	36.67
Administrative expenses	**(45,566)**	(36,941)	23.35
Other expenses	**(3,544)**	(2,779)	27.53
Impairment losses on trade receivables	**(549)**	(173)	217.34
Finance costs	**(2,082)**	(1,090)	91.01
Net loss attributable to owners of the Company	**(10,165)**	(12,200)	(16.68)
Loss per share			
– Basic and diluted	**(0.23 HK cents)**	(0.28 HK cents)	(17.86)

Results

– Revenue

Revenue for the Year was HK$66,001,000, representing an increase of HK$17,178,000 or 35.18%, as compared with HK$48,823,000 for the preceding year.

– Gross profit percentage

The Group recorded an increased gross profit percentage of 75.95% for the Year as compared with a gross profit percentage of 73.85% for the preceding year.

– Other income and net loss

Other income for the Year was HK$1,135,000, as compared with HK$92,000 for the preceding year. This mainly represented bank deposit interest income.

– Distribution and selling expenses

Distribution and selling expenses for the Year was HK$7,651,000, representing an increase of HK$2,053,000 or 36.67% as compared with HK$5,598,000 for the preceding year. The increase was mainly due to the increase in direct selling expenses.

– Administrative expenses

Administrative expenses for the Year was HK$45,566,000, representing an increase of HK$8,625,000 or 23.35% as compared with HK$36,941,000 for the preceding year. Major expenses include technical service fee, professional charges, salaries and welfare expenses of HCD division.

MANAGEMENT DISCUSSION AND ANALYSIS

– Other expenses

Other expenses, mainly comprised of research & development expenses, for the Year was HK$3,544,000, representing an increase of HK$765,000 or 27.53% as compared with HK$2,779,000 for the preceding year.

– Finance costs

Finance costs represent loan interest incurred on the loans granted to the Group by a director and an independent third party of HK$2,082,000 (2017: HK$1,090,000) as the Group needs additional working capital to maintain its daily normal operation.

– Net loss attributable to owners of the Company

Net loss attributable to owners of the Company for the Year was HK$10,165,000, representing a decreased loss of HK$2,035,000 or 16.68% as compared with HK$12,200,000 for the preceding year.

– Loss per share

Basic and diluted loss per share for the Year was HK0.23 cents, representing a decreased loss per share of HK0.05 cents or 17.86% as compared with HK0.28 cents for the preceding year.

– Gearing ratio

Gearing ratio of the Group as at 31 December 2018 and 2017 were not presented as the Group was at state of capital deficit at both dates.

Key sources of estimation uncertainty, capital risk management and financial risk management are disclosed in notes 5 and 7 to the consolidated financial statements respectively. Save as disclosed herein, the Board cannot ascertain if there were any other material non-compliance with the relevant laws and regulations that have a significant impact on the Group's other businesses during the Year. In addition, the Board does not have sufficient information to report the Group's corporate governance for the Year. In order to ensure the business is conducted with fit and proper persons and entities, the Board values business/ professional ethics as the key criterion in hiring employees and service providers. In future, the Company will also value social responsibilities in providing health care services and in dealing with its employees and vendors.

FINANCIAL RESOURCES, LIQUIDITY AND FOREIGN EXCHANGE EXPOSURES

The financial positions of the Group as at 31 December 2018 and 31 December 2017 are summarized as follows:

	31 December 2018 HK$'000	31 December 2017 HK$'000
Current assets	**56,935**	42,667
Including		
– bank balances and cash including fixed deposits	**30,572**	24,072
– trade and other receivables, deposits and prepayments	**22,734**	14,474
Current liabilities	**(55,066)**	(67,185)
Including		
– Bank borrowings	**–**	–
Current ratio (current assets/current liabilities)	**1.03**	0.64
Quick ratio (current assets less inventories/current liabilities)	**0.97**	0.57
Shareholders' deficit	**(31,315)**	(19,934)
Gearing ratio (total debt borrowings/shareholders' equity)	**N/A**	N/A

MANAGEMENT DISCUSSION AND ANALYSIS

Bank balances and cash including fixed deposits increased by HK$6,500,000 or 27.00% from HK$24,072,000 as at 31 December 2017 to HK$30,572,000 as at 31 December 2018.

Trade and other receivables, deposits and prepayments increased by HK$8,260,000 or 57.07% from HK$14,474,000 as at 31 December 2017 to HK$22,734,000 as at 31 December 2018.

As at 31 December 2018, both the current and quick ratios increased. The current ratio was 1.03 (2017: 0.64) and the quick ratio was 0.97 (2017: 0.57).

Shareholders' deficit increased from HK$19,934,000 as at 31 December 2017 to HK$31,315,000 as at 31 December 2018, mainly because of the total comprehensive loss of HK$11,381,000 recorded in 2018.

The Group's operations and transactions are principally located in the PRC. Other than bank balances and cash denominated in Hong Kong dollars or Renminbi, other assets and liabilities are mainly denominated in Renminbi. The Directors do not believe that there will be material fluctuations in the exchange rate of Renminbi against Hong Kong dollars, the reporting currency, in the foreseeable future, even though the steadily decrease in the exchange rate of Renminbi against Hong Kong dollars would result in a translation loss for the Group when the net assets of the Group's operating subsidiaries in the PRC are denominated in Renminbi. Although the Group currently does not have a foreign currency hedging policy, it does and will continue to monitor the foreign exchange exposure closely and will consider hedging if there is significant foreign currency exposure.

KEY TRANSACTIONS CONDUCTED BY THE GROUP

Foreign Exchange Agreement

On 23 December 2013, SHMY Biochip entered into an agreement in writing (the "Foreign Exchange Agreement") by which it agreed to transfer RMB396 million (the "Payment") to Beijing Nong Long Investment Management Company Limited 北京農龍投資管理有限公司 ("BJ Nong Long"), and BJ Nong Long agreed in return to convert that sum into Hong Kong Dollars and to pay HK$507 million to SHMY Biochip. If for any reason BJ Nong Long was unable to effect the conversion on or before 22 March 2014, then the RMB396 million had to be returned to SHMY Biochip within 3 banking days. Based on the published annual report of the Company for the year ended 31 December 2013, the Group deposited RMB396 million pursuant to the treasury arrangement but BJ Nong Long failed to deliver the Hong Kong currency in Hong Kong and no agreement had been reached as to the date of repayment of such sum. As such, the entire amount had been impaired during 2013. The Company later in an announcement dated 9 June 2014, "RECOVERY OF OTHER RECEIVABLE PREVIOUSLY WRITTEN OFF", stated that the full amount of RMB396 million was recovered on 9 June 2014.

Due to the limited books and records available and accessible by the Board, whether or not the Payment had been fully recovered as announced by the former directors on 9 June 2014 cannot be ascertained by the Board.

The Payment had raised the concern of the Listing Department of the Stock Exchange of Hong Kong Limited ("HKEx") and a hearing was conducted by the Listing Committee of HKEx into the conduct of the Company and its directors in respect of this transaction. The Listing Committee found that the Payment constituted a financial assistance by the Company to BJ Nong Long and it was a non-exempt transaction subject to requirements under Chapter 14 of the Listing Rules and it constituted a major transaction subject to the announcement requirement under Rule 13.34 and shareholder approval requirement under Rule 14.40 of the Listing Rules. The Payment was made without shareholders' approval and the Listing Committee concluded that the Company breached Rules 14.34 and 14.40 of the Listing Rules. The Company and six former directors of the Company were therefore publicly censured by the Stock Exchange on 28 September 2016. Details of the listing decision issued by the Stock Exchange can be downloaded from the Stock Exchange's website (http://www.hkexnews.hk/listedco/listconews/SEHK/2016/0928/LTN20160928385.PDF")

MANAGEMENT DISCUSSION AND ANALYSIS

Missing Fund of RMB420 million

In 2015, during the course of audit procedures for preparing the audited results of the Group for the year ended 31 December 2014, Deloitte, the then auditors of the Company, attempted to but was unable to verify the bank balance of RMB420 million (the "Bank Balance") as of 31 December 2014 supposedly held in SHMY Biochip's name at the Agricultural Bank of China (the "Unresolved Matter"). Deloitte advised the former Board to establish an independent board committee ("IBC") to conduct independent forensic investigation for the Unresolved Matter but the former management of the Company failed to do so. Therefore, in the absence of any independent forensic investigation being performed, Deloitte tendered their resignation as auditors of the Company with effect from 21 December 2015.

Following the appointment of new directors at the AGM held on 20 May 2016 to replace the former management, IBC has been formed and Control Risks Pacific Limited ("Control Risk"), an independent forensic accountant, has been engaged since 3 June 2016 to conduct a forensic investigation on the Unresolved Matter. Control Risk's initial findings on the missing Bank Balance of RMB420 million were announced by the Company on 29 August 2016 (http://www.hkexnews.hk/listedco/listconews/SEHK/2016/0829/LTN20160829581.pdf). As at the date of this report, the question of the Unresolved Matter remains outstanding as the investigation cannot move on without gaining access to the banking and accounting records of SHMY Biochip.

However, Control Risk had concluded that the Bank Balance, allegedly represented by a bank deposit certificate that was provided to Deloitte by the former management was a fake, hence the holding of the Bank Balance never existed.

FUTURE DEVELOPMENTS

Resumption of Trading

Trading in the shares of the Company (the "Shares") has been suspended since 1 April 2015 as disclosed hereinabove this report. In the letter issued by the Stock Exchange to the Company dated 14 July 2015, in which the Stock Exchange has imposed the following resumption conditions ("Resumption Conditions"):

1. conduct a forensic investigation on the Unresolved Matter, disclose the findings of the investigation, assess the impact on the Company's financial and operational positions, and take appropriate remedial actions;

2. publish all outstanding financial results under the Listing Rules and address any audit qualifications;

3. demonstrate that the Company has put in place adequate financial reporting procedures and internal control systems to meet its Listing Rules obligations; and

4. inform the market of all material information for the shareholders and the investors to appraise the Company and SHMY Biochip's position.

On 11 April 2019, the Stock Exchange issued a letter to the Company informing that the Stock Exchange has considered it appropriate to require the Company, as an additional resumption guidance, to demonstrate a sufficient level of operations or assets under Rule 13.24 of the Listing Rules to warrant the continued listing of the Company's shares.

The Company must also comply with the Listing Rules and all applicable laws and regulations in Hong Kong and its place of incorporation before resumption. The Stock Exchange may modify any of the above Resumption Conditions and/or impose further conditions if the situation changes.

On 23 October 2017, the Securities and Futures Commission ("SFC") has directed the HKEx to suspend all dealing in the shares of the Company from 9: 00 a.m. 23 October 2017 pursuant to Section 8(1) of the Securities and Futures (Stock Market Listing) Rules ("SMLR"). SFC has raised concerns about the Company's 2013 Annual Results/Annual Report and 2014 Interim Results/Interim Report and certain bank statements and bank transfer documents provided by the then management of the Company that had contained materially false, incomplete or misleading information.

The Company will seek legal advice and contemplating to make representations under Section 9(1) in response to SFC's directions.

Shareholders may refer to the announcements made by the Company on 10 August 2018, 15 November 2018, 11 February 2019 and 2 May 2019 respectively on the updates on trading suspension. A summary of the progress is as follows: -

MANAGEMENT DISCUSSION AND ANALYSIS

1. In June 2016, the Company has appointed Control Risks as an independent forensic accountant to conduct forensic investigation on the bank balance of a subsidiary as of 31 December 2014 amounting to approximately RMB 420 million which the Company's former auditors was unable to verify (the "Unresolved Matter"). A preliminary report was published by Control Risks in August 2016 and it was concluded that the said bank balance of RMB 420 million was not legitimate (the "Control Risks Report"). Findings of the Control Risks Report have been disclosed by the Company in its announcement dated 29 August 2016. The Company is of the view that the relevant resumption condition has been fulfilled.

2. The Company has engaged FTI Consulting to conduct a review on the Company's financial reporting procedures and internal control systems and an internal control review report was issued by FTI Consulting in July 2018. The major findings of the internal control report have been set out by the Company in its announcement dated 15 November 2018 and the relevant measures taken by the Company in response to the internal control deficiencies have been disclosed in its announcement dated 11 February 2019. The Company is of the view that the relevant resumption condition has been fulfilled.

3. The Company has been informing the market of all material information from time to time by way of announcements.

Upon the publication of all outstanding financial results of the Group, the Board will demonstrate to the Stock Exchange that all the resumption conditions have been fulfilled and to the SFC that its concerns have been properly addressed.

Legal Action against Deloitte

i) On 19 December 2016, the Company and its other 2 indirectly wholly owned subsidiaries (the "Plaintiffs") commenced an action (HCA3339 of 2016) against the Company's predecessor auditors, Deloitte Touche Tohmatsu ("DTT"), claiming against DTT for, inter alia, breach of its duties of reasonable skill and care owed to the Plaintiffs arising out of DTT's failure to detect, suspect or report fraudulent activity and/or other irregularities in the management of the Plaintiffs and/or other subsidiaries of the Company.

(ii) On 29 September 2017, an indirectly wholly owned subsidiary commenced an action (HCA 2282 of 2017) against the Company's predecessor auditors, DTT, claiming against DTT for, inter alia, breach of its duties of reasonable skill and care owed to the Plaintiff arising out of DTT's failure to detect, suspect or report fraudulent activity and/or other irregularities in the management of the Plaintiff and its subsidiaries.

(iii) On 6 July 2018, Master J. Wong of the High Court ordered, inter alia, that HCA 3339 of 2016 and HCA 2282 of 2017 be consolidated and thereafter be carried on as one action (the "Consolidated Action") with HCA3339 of 2016 being the lead action.

As at the date of this report, the Consolidated Action has not been determined.

Financial Support

The Company has also obtained facilities totaling HK$39 million from an independent third party on 27 September 2016 and 23 August 2018, of HK$5 million and of HK$40 million from the Chairman and Lam & Co. on 12 September 2016 and 18 May 2018 respectively. With their strong and continuous financial support, it is expected that the Group will be able to maintain its operation and its existing businesses. In addition, the Company is in the course of appraising potential business proposals with a view to expanding the Group's healthcare business. Hence, the current management believes that the Group shall have sufficient operations to maintain its listing status.

MANAGEMENT DISCUSSION AND ANALYSIS

Control over SHMY Biochip and Shanghai HealthDigit

The current management of the Company has been making vigorous attempt to take control of SHMY Biochip and Shanghai HealthDigit. Two civil actions against Yao Yuan and Iu Chung, being the current respective legal representatives of SHMY Biochip and Shanghai HealthDigit, for the return of the company seals and business licenses of SHMY Biochip and Shanghai HealthDigit in early November 2016. Shareholders may refer to the Company's announcement dated 1 December 2016, 10 October 2017, 20 October 2017, 31 October 2017 and 29 January 2018 for details of the two civil actions. On 28 February 2018, Chairman Mr. Lam Ping Cheung, on behalf of the Company, wrote to the Liaison Office of the Central People's Government in the Hong Kong Special Administrative Region (the "Liaison Office") to seek the Liaison Office's assistance in re-gaining control of SHMY Biochip and Shanghai HealthDigit. From March 2018 to October 2018, officers of Shanghai Administration for Industry & Commerce ("SHAIC") had several meetings with the Company's PRC lawyer concerning the registration of change of legal representative, the reported loss of the business licenses and company seals and the re-issuance of the same. The PRC lawyer had fulfilled the relevant requirements as informed by an official of the Registration Division of Foreign Invested Enterprises of SHAIC. Prior to the re-issuance of the business licenses and company seals, some staff members of SHMY Biochip and Shanghai HealthDigit had informed SHAIC that the business licenses and company seals were in their possession. As such, SHAIC was unable to treat the business licenses and company seals as loss properties and to re-issue the same to the new management. Having considered further advice from the PRC lawyer, the Company decided to apply for retrial of the civil claims against Mr. Yao Yuan and Mr. Iu Chung for the recovery of the business licenses and company seals.

BIOGRAPHICAL DETAILS OF DIRECTORS

Mr. Lam Ping Cheung

Mr. Lam Ping Cheung ("Mr. Lam"), aged 67, is a renowned solicitor in Hong Kong. Mr. Lam graduated from the Chinese University of Hong Kong and holds a bachelor degree in social science. Mr. Lam was the founder and partner of Messrs. Lam & Co. (formerly known as Messrs. Andrew Lam & Co.), a law firm in Hong Kong. Mr. Lam was appointed as an independent non-executive director of Golden Resources Development International Limited, a company listed on the Stock Exchange (stock code: 677) on 28 September 2011 and retired on 30 August 2012. He was appointed as an independent non-executive director of Enerchina Holdings Limited, a company listed on the Stock Exchange (stock code: 622) on 27 March 2012 and resigned on 20 May 2015. He has been appointed as director of the Company since 20 May 2016.

Mr. Hui Yip Wing

Mr. Hui Yip Wing ("Mr. Hui"), aged 69, is an executive director at Joywood China Investment Limited and SRA Asia Limited. Mr. Hui earned a Master of Law Degree from City University of Hong Kong and has also been awarded Fellow Member of the University. Mr. Hui has held top leadership positions in a diverse spectrum of industries ranging from finance to fashion and property development. He has been appointed as director of the Company since 20 May 2016.

Mr. Lam Suk Ping

Mr. Lam Suk Ping, aged 62, is currently the Chief Financial Officer of OCI International Holdings Limited ("OCI"), a company listed on the Stock Exchange (stock code:329). He was an executive director of OCI from 1 June 2011 to 6 July 2017, when he was redesignated to the current position. Mr. Lam Suk Ping holds a Master's Degree in Business Administration from the University of Hull and a Master's Degree in Corporate Governance from the Open University of Hong Kong. He has over 30 years of experience in auditing, finance and accounting, investment and business management. He has been appointed as director of the Company since 20 May 2016.

Ms. Chan Mee Sze

Ms. Chan, aged 44, has been appointed as an Independent Non-executive Director of the Company since 20 May 2016. Ms. Chan holds a Bachelor's degree in Laws from University of London and a Master's degree in Business Administration from University of Dundee. She is also a fellow member of The Hong Kong Institute of Company Secretaries and a fellow member of The Institute of Chartered Secretaries and Administrators. She has extensive experience in corporate administration and corporate finance. Ms. Chan has been appointed as executive director of Landing International Development Limited (stock code: 0582), which is listed on the Main Board of the Stock Exchange since 1 September 2018. She was an executive director of OCI International Holdings Limited (stock code: 329), which is also listed on the Main Board of the Stock Exchange, from 11 April 2011 to 31 August 2018.

Mr. Cheung Chi Ming

Mr. Cheung Chi Ming, aged 40, has been the Financial Controller of OVM International Development Co Ltd ("OVM Intl"), a wholly owned subsidiary of the China-state-controlled enterprise since 1 Oct 2018 onwards. OVM Intl engaged in international trading and investment holding. Prior to his joining with OVM Intl, he was the Financial Controller and Assistant General Manager of Hong Kong OVM Engineering Company Limited. Mr. Cheung had worked for Wuling Motors Holdings Limited, a company listed with the Stock Exchange (Stock code: 305) as Assistant Financial Controller for 6 years, and an international accounting firm for 4 years. Mr. Cheung has over 14 years' experience in finance, accounting and business management functions. Mr. Cheung graduated from the Hong Kong Polytechnic University and holds a Master degree in Corporate Governance and a Bachelor degree in Accountancy. He is currently a fellow member of the Association of Chartered Certified Accountants and a member of The Hong Kong Institute of Chartered Secretaries and a member of The Institute of Chartered Secretaries and Administrators. He has been appointed as director of the Company since 10 July 2017.

BIOGRAPHICAL DETAILS OF DIRECTORS

Ms. Stephanie Winnie Fan

Ms. Fan, aged 41, has been appointed as an Independent Non-executive Director of the Company since 13 September 2017. She is the Chief Operating Officer of Sinovation Capital Asset Management until 30 June 2019 and will be joining Zhong Shan Asset Management as Managing Director thereafter. Ms. Fan has many years of asset management and hedge fund investment experience in Canada and Hong Kong. She was the Executive Director of Future Gate Capital Management, a global systematic managed futures hedge fund. She is an Adjunct Professor at the City University of Hong Kong. Ms. Fan holds a Bachelor of Business Administration from Brock University, Canada, a Master of Science in Finance from the City University of Hong Kong and a doctoral degree in Business Administration from the Hong Kong Polytechnic University.

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE PRACTICES

The Board believes that corporate governance is essential to the success of the Company and has adopted various measures to ensure that a high standard of corporate governance is maintained.

Save as disclosed below the deviations from code provisions of the Corporate Governance code (the "CG Code") contained in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules"), the company has applied the principles and complied with all code provisions of the CG Code during the period commencing from 1 January 2018 to 31 December 2018 (the "Reporting Period").

COMPOSITION OF THE BOARD

The composition of the Board during the Reporting Period is as follows:-

(a) Executive Directors: Mr. Lam Ping Cheung (Chairman), Mr. Hui Yip Wing

(b) Non-executive Director ("NED"): Mr. Wong Peter Kai-hong (resigned on 31 October 2018)

(c) Independent Non-executive Directors: Mr. Lam Suk Ping, Ms. Chan Mee Sze, Mr. Cheung Chi Ming, Ms. Fan Stephanie Winnie

For the Reporting Period, the Board has complied with the requirements of Rules 3.10 and 3.10A of the Listing Rules to have three Independent Non-executive directors ("INED") who represent more than one-third of the Board and with one of whom possesses appropriate professional qualifications or accounting or related financial management expertise.

The Board has received from each INED a written annual confirmation of his independence satisfied with the guidelines set out in Rule 3.13 of the Listing Rules.

To the best knowledge of the Company, all the directors of the Board do not have financial, business, family or other material/relevant relationships with each other.

THE BOARD OF DIRECTORS

The Board is responsible for leadership and control of the Company and its subsidiaries (together the "Group"), and oversees the Group's businesses, strategic direction and performance. The Board delegates day-to-day management of business to the senior management of the Group. The composition of the Board is reviewed regularly to ensure that it has a good balance of expertise, skills and experience which can meet the requirements of the business of the Group.

The Board assumes responsibility for leadership and control of the Company, and is collectively responsible for directing and supervising the Company's affairs. Every Director ensures that he carries out his duty in good faith and in compliance with the standards of applicable laws and regulations, and acts in the best interests of the Company and its shareholders at all times.

The day-to-day operations of the Company are delegated to the senior management while the Board retains leadership and approves strategic policies and plan with a view to enhancing shareholders' interests.

The Board reserves for its decisions on all major matters, including: senior officer appointments, annual budget and financial matters, equity related transactions such as issuance of shares/options, repurchase of shares, dividend, raising of capital loan; determination of major business strategy, merger and acquisition; disposal of business unit; major investment; annual financial budget; and matters as required by laws and ordinance.

When the Board delegates aspects of its management and administration functions to the senior management, it has given clear directions, in particular, with respect to the circumstances where the senior management shall report back and obtain prior approval from the Board before making decisions or entering into any commitments on behalf of the Company.

CORPORATE GOVERNANCE REPORT

Attendance Records of Directors

All members of the Board strive to put the Group back from the brink and have the business back to the right track. A total of 4 Board Meetings were conducted for the Reporting Period. Directors are provided with adequate information before each board meeting so that considered decisions can be made during the board meeting. Minutes of all of the board meetings were recorded in sufficient details. The number of board meetings held and attendance (either in person or through other electronic means of communication) record of each director at the meetings of the Board together with the meetings of the Audit Committee and Remuneration Committee for the year ended 31 December 2018 is set out below:

	Attendance/Number of Meetings				
Name of Directors	**Board**	**Audit Committee**	**Remuneration Committee**	**Nomination Committee**	**AGM**
Mr. Lam Ping Cheung (appointed on 20 May 2016)	4/4				1/1
Mr. Hui Yip Wing (appointed on 20 May 2016)	2/4				1/1
Ms. Chan Mee Sze (appointed on 20 May 2016)	3/4	2/2			1/1
Mr. Lam Suk Ping (appointed on 20 May 2016)	1/4	0/2			1/1
Ms. Fan Stephanie Winnie (appointed on 13 September 2017)	1/4				1/1
Mr. Cheung Chi Ming (appointed on 10 July 2017)	2/4	2/2			1/1
Mr. Wong Peter Kai-hong (appointed on 1 December 2017 and resigned on 31 October 2018)	0/4				0/1

CORPORATE GOVERNANCE REPORT

Responsibilities and trainings of Directors

Every newly appointed director receives a director induction package which includes Director's handbook, the relevant documents setting out the duties and responsibilities of directors under Listing Rules and relevant regulatory requirement.

The Company has from time to time provided information and briefings to the Directors on the latest developments in the laws, rules and regulations relating to Directors' duties and responsibilities to ensure the upkeep of good corporate governance practice.

The list of Directors and Their Role and Function has been maintained at the websites of the Company and the Stock Exchange. The current composition of the Board provides a balance of skills, experience, expertise and diversity of perspectives appropriate to the requirements of the business of the Company. The Board has considered a number of aspects in designing the composition of the Board and the Nomination Committee will review the diversity of the Board, as appropriate, to ensure its effectiveness and to monitor the implementation of Board Diversity Policy.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

During the Reporting Period, Mr. Lam Ping Cheung was appointed as the Chairman of the Board whilst Mr. Lam Sing Hung Danny was appointed as the Chief Executive Officer. The Chief Executive Office worked closely with the senior management of the Company to ensure prosperous operation and business development of the Group.

DIRECTORS

Appointment and Re-election of Directors

All directors appointed on the Annual General Meeting are subject to retirement by rotation at each annual general meeting as set out in the New Bye-laws of the Company. New Bye-law 109 provides that at each general meeting of the Company, with the exception of the Executive Chairman, one-third of the directors of the Company (or if their number is not three or a multiple of three, the then number nearest to but not exceeding one-third) shall retire from office. In addition, all the INEDs have been appointed for a specific term of less than three years. The term of appointment of NED shall continue until the next Annual General Meeting.

THE BOARD COMMITTEES

The Board has established Audit Committee, Remuneration Committee and Nomination Committee. The latest versions of the terms of reference of the Board Committees which explain their respective role and the authority delegated to them by the Board are available on the websites of the Stock Exchange and the Company. The Board Committees are provided with sufficient resources, including external professional advice if necessary, to enable each committee to discharge its duties.

Audit Committee

The Audit Committee comprises three INEDs who possess the relevant business and financial management experience and skills to understand financial statements and contribute to the financial governance, internal controls and risk management of the Company. It was chaired by Mr. Cheung Chi Ming (Chairman) with Ms. Chan Mee Sze and Mr. Lam Suk Ping as members during the Reporting Period.

The duties of the Audit Committee are in line with the code provision C.3.3 of the CG Code including:

(a) Reviewing the Group's annual and interim financial statements and reports and consider any significant or unusual items before submission to the Board;

(b) Reviewing the relationship with the external auditors by reference to the work performed by the auditors, their fees and terms of engagement, and make recommendation to the Board on the appointment, re-appointment and removal of external auditors;

(c) Reviewing the adequacy and effectiveness of the Company's financial reporting system, internal control system and risk management system and associated procedures;

(d) Advising on material event or drawing the attention of the management on related risks.

The audited financial statements of the Company for the year ended 31 December 2018 have been reviewed by the Audit Committee in 2019.

CORPORATE GOVERNANCE REPORT

Nomination Committee

The Nomination Committee was chaired by Mr. Lam Ping Cheung with Ms. Chan Mee See and Mr. Cheung Chi Ming as members during the Reporting Period.

The main responsibilities of the Nomination Committee are to review the structure, size and composition, including the skills, knowledge and experience of the Board at least annually and make recommendations on any proposed changes to the Board to complement the Company's corporate strategy, and identify individuals suitable qualified to become Directors and select, or make recommendations to the Board for directorships.

The Nomination Committee did not convene any meeting during the Reporting Period.

Remuneration Committee

The Remuneration Committee comprised three Independent Non-Executive Directors, namely: Mr. Lam Suk Ping (Chairman), Ms. Chan Mee Sze and Mr. Cheung Chi Ming during the Reporting Period.

The primary responsibilities of the Remuneration Committee include (but without limitation):

(a) to make recommendations to the Board on the Group's remuneration policy and structure for all directors' and senior management and on the establishment of a formal and transparent procedure for developing such policies;

(b) to review and approve performance-based remuneration by reference to corporate goals and objectives resolved by the Directors from time to time;

(c) to make recommendations to the Board on the remuneration packages of individual directors and senior management.

Save for the remuneration of Mr. Cheung Chi Ming, Mr. Wong Peter Kai-hong and Ms. Fan Stephanie Winnie, the remuneration of the each of the members of the Board for the Reporting Period was approved by shareholders during the Annual General Meeting held on 20 May 2016.

COMPANY SECRETARY

Ms. Chan Mei Yuk was appointed on 20 May 2016 replacing Mr. Wong Kwan Pui as the Company Secretary of the Company. Ms. Chan is an employee of the company and have day-to-day knowledge of the Company's affairs. Ms. Chan also provides advices on compliance with all applicable laws, rules and regulations in relation to the listing requirements and keeps the Board fully abreast of all legislative, regulatory and corporate governance developments. Ms. Chan confirmed that she has complied with all the required qualifications, experience and training requirements of the Listing Rules.

RISK MANAGEMENT AND INTERNAL CONTROL

There are derivations from code provisions C2.1-2.3 which stipulate the appropriate practices risk for management and internal control.

The Company does not have internal audit department to oversee the control procedures to perform the risk management functions and the Executive Directors are responsible for the overall risk management functions. FTI Consulting (Hong Kong) Limited ("FTI Consulting") had been engaged to conduct internal control system review and to prepare a report on any significant internal control deficiencies. The report had been circulated to the Audit Committee to review and the recommended actions have been identified and taken into consideration by the Board for improvements. It has come to the attention to the Board that the risk management and system of internal control were ineffective and insufficient in previous years and the Board has assumed the role to identify, evaluate and manage significant risks encountered by the Group on an ongoing basis. Shareholders may refer to the announcements dated 15 November 2018 and 11 February 2019 for the details of the findings of the Internal Control Review and policies implemented in response by the management.

FINANCIAL REPORTING

Code provision C.1.2 of CG Code stipulates that management should provide all members of the board with monthly updates giving a balanced and understandable assessment of the company's performance, position and prospects in sufficient detail to enable the board as a whole and each director to discharge their duties.

CORPORATE GOVERNANCE REPORT

Due to the incomplete books and records, the management was unable to provide complete and accurate financial statements to the Board. However, the Company expected that regular financial updates will be provided once the management can ascertain the financial position of the Company based on the information and documents available to them.

MODEL CODE FOR SECURITIES TRANSACTION

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 of the Listing Rule. The Model Code applies to all directors and members of the senior management who, because of such office or employment, are likely to be in possession of inside information in relation to the Company or its securities.

Specific enquiry has been made of all directors and members of the senior management who have confirmed their compliance with the required standards set out in the Model Code during the Reporting Period.

AUDITOR'S REMUNERATION

The responsibilities of the external auditor with respect to the audit of the consolidated financial statements are set out in the section of "Independent Auditor's Report".

The fees of the external auditors of the Group for the audit services amounted to HK$900,000 for the Year.

COMMUNICATION WITH SHAREHOLDERS

The Board is committed to providing clear and full information on the Group to shareholders through various means of communication, including but not limited to, the publication of notices, announcements, circulars, interim and annual reports. The New Bye-laws of the Company are published on the websites of the Company and HKEx. The Company's website provides extra information as to the Group's business to shareholders.

SHAREHOLDERS' RIGHTS

The Company aims to, via its corporate governance structure, enable all its shareholders an equal opportunity to exercise their rights in an informed manner and allow all shareholders to engage actively with the Company. Under the Company's New Bye-laws, the shareholders of the Company enjoy, among others, the following rights:

1. Convening Special General Meetings

Pursuant to New Bye-laws 70, special general meetings shall also be convened on requisition. Members of the Company at the date of the deposit of the requisition holding not less than one-tenth of the paid-up capital of the Company as at the date of the deposit carries the right of voting at the general meetings of the Company may submit a requisition to convene special general meeting. The requisition must state the purposes of the meeting, and must be signed by the requisitionists and deposited at the registered office of the Company. The Board shall then convene a special general meeting by serving sufficient notice in accordance with the Company's New Bye-laws or statutory requirements to all shareholders of the Company.

2. Participation at General Meetings

Shareholders are encouraged to attend all general meetings of the Company in which the Chairman, all Directors, Senior Management are readily to address shareholders' queries. The Company provides details of the general meetings to the shareholders in a notice prior to the meeting in compliance with the New Bye-laws of the Company and the Listing Rules. Time is set aside in each general meeting for such question and answer session.

All substantive resolutions at general meetings are decided on a poll which is conducted by the Chairman of the general meetings and scrutinized by the Group's Branch Share Registrar in Hong Kong. The results of the poll are published on the websites of the Company and HKEx.

CORPORATE GOVERNANCE REPORT

3. Enquiries to the Board

Shareholders of the Company may communicate to the Board for any enquiries they may have. The contact information of the Company can be found in the Company's website. All shareholder correspondences received by the Company will be delivered to the Group's investor relation staff for an initial review. The investor relation staff will maintain a log of the correspondences and forward either a summary or a copy of the correspondences to the Board for consideration at its next meeting. Apart from the above, the shareholders of the Company also have the right to nominate candidates to be Directors of the Company. Following the relevant procedures which are made available to the shareholders, the shareholders may at any time send a notice of nomination setting out the information required to the Nomination Committee of the Company. After evaluation, the Nomination Committee may make recommendation to the Board which will then evaluate the nomination.

CONCLUSION

The Company believes that corporate governance principles and practices are essential to the business communities. Effort will be employed to review the Company's corporate governance practices from time to time to accommodate any changes in circumstances. The Company will strive to maintain and strengthen the standard and quality of its corporate governance.

DIRECTORS' AND AUDITOR'S RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS

The Directors noted their responsibility in overseeing the preparation of the financial statements of the Group. However, the Board does not have access to a substantial part of the accounting books and records held by the Company prior to 20 May 2016. The Board is unable to represent that proper accounting books and records have been maintained for the years ended 31 December 2018, 2017, 2016, 2015 and 2014, or whether all transactions entered into by the Group for the years ended 31 December 2018, 2017, 2016, 2015 and 2014 have been properly reflected in the consolidated financial statements. The Board is unable to represent as to the completeness, existence and accuracy of information contained and the disclosures of the consolidated financial statements in accordance with Hong Kong Financial Reporting Standards, the disclosure requirements under the Hong Kong Companies Ordinance and the Listing Rules.

The ability of the Group to operate as a going concern is dependent upon the availability of the credit facilities provided by Mr. Lam Ping Cheung, the substantial shareholder and the chairman of the Board and Eastern Wealth, and the future business performance of the Group. The Board has given careful consideration to the impact of the current and anticipated future liquidity of the Group and the ability of the Group to attain profit and positive cash flow from operations in the future and considers the Group be able to operate as a going concern.

The statement by the auditor of the Company regarding their reporting responsibilities on the consolidated financial statements of the Group is set out in the Independent Auditor's Report.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

1. ABOUT THIS REPORT

Mingyuan Medical Development Company Limited (the "Company") presents the Environmental, Social and Governance ("ESG") Report (the "ESG Report") which covers environmental and social performance of the Group and its major subsidiaries to demonstrate our continuous commitment to sustainability. Additional information in relation to the Group's corporate governance and financial performance can be found in other sections of this Annual Report. The ESG Report highlights our sustainability activities spanning over a period from 1 January 2018 to 31 December 2018.

The present scope of the ESG reporting covers the principal operating activities of the Group's headquarters and subsidiaries in Hong Kong and in the People's Republic of China (the "PRC"), which include the production and sales of HPV DNA testing kit and the research and development of bio-medical technology. We pledge to develop into an innovative bio-medical technology enterprise to provide best quality of products and services for the development of bio-medical technology and the contribution to the improvement of human health. We not only act as an innovation and startups incubator but also a creator of human and social values.

This ESG Report is prepared in accordance with the "Environmental, Social and Governance Reporting Guide" (the "ESG Reporting Guide") under Appendix 27 of the Main Listing Rules Chapter 13.91 of The Hong Kong Exchanges and Clearing Limited. With reference to the definition stated in the ESG Reporting Guide, the presentation of our ESG Report will divide those aspects and key performance indicators ("KPI"), which are considered to be relevant and material to the Group's businesses and operations, into four subject areas: Environmental, Employment and Labour Practices, Operating Practices and Community.

In order to define what are relevant and material to our business with respect to sustainability, the key is to understand what issues our stakeholders are most concerned with. We define our stakeholders as people who affect our business or who are affected by our business. Our stakeholders include shareholders, employees, clients, suppliers, customers, environment and community. In our daily operation, we actively exchange information with our stakeholders through our transparent platform while we are devoted to continuous improvement of our communication system. We are committed to maintaining a long-term partnership with our stakeholders and are actively engaged in addressing their concerns with timely follow-up actions.

2. ENVIRONMENTAL

2.1 corporate environmental policy

We pledge to reduce our environmental impact throughout our operation. We are accountable to protect the earth and to build a sustainable future for our generations and their generations. The Group is committed to upholding high environmental standards to fulfil relevant requirements under applicable laws or ordinances during the operation of the business.

2.2 emissions

The Group actively maintains a steady focus on reducing our energy consumption to manage our impact on the air quality. The Group is committed to follow the "Indoor Temperature Energy Saving Charter" introduced by the Environmental Bureau of Hong Kong. Specific measures have already been taken, which include maintaining an indoor temperature at an optimal level for comfort, encouraging the employees to switch off the computers and monitors when not utilised, setting office machines such as copiers and TV monitors to switch off automatically after office hours, encouraging the employees to make the best use of modern telecommunication system to avoid unnecessary travel arrangement, and putting up signage emphasizing the importance of energy saving at offices are in place.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

2.3 non-hazardous wastes

Besides implementation of energy saving initiatives throughout offices, the Group also promotes other environmental friendly measures to reduce disposal of non-hazardous waste (such as used paper) throughout the entire operation. We encourage our employees to reduce paper usage by using double-sided copying and by a more frequent use of electronic information systems for material sharing or internal administrative documents as part of our environmental protection campaigns.

2.4 environmental performance

In accordance with the ESG Reporting Guide set out by The Stock Exchange of Hong Kong Limited (the "SEHK"), the data of the "Emissions" and "Use of Resources" of the Group during the reporting period of 2018 are tabulated below.

Energy use and emissions	**Unit**	**2018**
Electricity	kWh	173,728
Unleaded petrol	L	4,517
Diesel	L	0
Greenhouse gas emissions	CO_2e (tonnes)	41
NOx	g	2,282
SOx	g	69
PM	g	168

Resources use	Unit	2018
Paper	Piece (kg)	120,678 (604)
Water	m3	173

The Group will continue our commitment in environmental protection and to strive to build a green and healthy environment for the community we all live in, as a responsible corporate citizen.

3. EMPLOYMENT AND LABOUR PRACTICES

3.1 compliance with labour laws

Our employees are mainly located in Hong Kong and the PRC. The Group safeguards the rights of our employees by strictly complying with the requirements of the Labour Law of Hong Kong and the Labour Law of the PRC. In the PRC, we have participated in welfare schemes concerning pension insurance, unemployment insurance, maternity insurance, occupational injury insurance and medical insurance in accordance with the local regulations including the Regulations on the Administration of Housing Provident Funds and the Social Insurance Law of the PRC. In Hong Kong, we provide medical insurance, disability and invalidity coverage, maternity leave, incentive and bonus etc. to all our full-time employees. We have also participated in the Mandatory Provident Fund (MPF) Scheme, prescribed by the Mandatory Provident Fund Schemes Ordinance (Chapter 485 of the Laws of Hong Kong).

3.2 corporate policy of employment and labour

The Group spends a great effort to provide a desirable workplace, continuous training programs and prospective career opportunities to our employees in order to attract and retain highly qualified employees. The Group believes that a strong and loyal team is invaluable to maintain a robust business performance and growth.

The Group aims to uphold a fair and equitable human resource policy, in which quality and merit of the candidates are the most important elements to be assessed during the recruitment and promotion processes. The Group offers equal employment opportunities to different genders, age groups and nationalities such that a sound of diversify of human resources can be achieved.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

3.3 corporate policy of health and safety

The Group has been attaching great importance to provide a safe working environment and protect our employees from occupational hazards. We have also developed health and safety policies including prohibition of smoking in workplace, abuse of alcohol and drugs, identification and prevention of risks and hazards in the working area, and emergency actions for accidents or personal injuries. We require our employees to strictly adhere to and comply with such policies, which are set out in our employee handbook.

3.4 corporate policy of training and recruitment

The Group anticipates that every position has its unique professional and technical needs and therefore, we ensure that every new joiner receives proper orientation training and mentoring in order to help them swiftly adapt to the new working environment. Continuous training programs are offered by the Group in different ways including internal training courses, comprehensive training for specific skill development, and professional training for relevant employees. Through education and training, the Group can nurture the employees to elevate their personal qualities, reinforce their skill-sets and keep up with the most advanced professional knowledge that their position may require.

Sense of belonging and morale of the employees drives the healthy growth of the Group. The Group constantly encourages open and direct communication between employees and management. Various of gatherings, such as Group anniversaries, team building activities, Chinese New Year dinners, are organised to enhance the harmonious sprit throughout the Group.

3.5 social performance

In accordance with the ESG Reporting Guide set out by the Hong Kong Stock Exchange, the data of the "Social Performance" of the Group during the reporting period of 2018 are tabulated as well as presented in graphs below.

Employee Training	Unit	2018
Average hours of training received per employees	hours	30.8
Average hours of training per employee by gender		
Female	hours	33.8
Male	hours	29.2
Average hours of training per employee by employment category		
Senior level	hours	21
Middle level	hours	45.2
Entry level	hours	31.2
Average hours of training per employee by region category		
Hong Kong	hours	28
PRC	hours	31.25
Total Workforce as of 31 Dec 2018	nos.	54
Turnover rate by gender (%)		
Female	percentage	11.1
Male	percentage	17.5
Turnover rate by age group (%)		
Under 30 years old	percentage	9.5
30 – 50 years old	percentage	15.9
Over 50 years old	percentage	3.2
Turnover rate by region (%)		
Hong Kong	percentage	14.3
PRC	percentage	14.3

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

4. OPERATING PRACTICES

As a responsible corporate citizen, one of our missions is to integrate sustainability into our core business. During our selection process for suppliers and contractors, we not only consider economical and commercial factors in the tendering processes but also make a serious assessment of their compliance with all the applicable laws and regulations; safeguard workers' health and safety; and mitigate environmental impacts. There are in total 166 suppliers and contractors during the reporting period which are all located in the PRC. To maintain a good corporate control and governance, the Group has formulated a series of management systems and procedures to be aligned with the Corporate Governance required by the Hong Kong Stock Exchange. In addition, the Group encourages all business partners to develop energy-saving and consumption-reducing policies in order to work together in our pursuit of sustainable development.

4.1 intellectual property rights

The Group safeguards the confidentiality of all customers and entrepreneurs and warrants that the customer's information is properly protected during our business operation. We require our employees to strictly follow full procedures of handling company confidential information set out in our confidentiality management policy handbook.

4.2 anti-corruption

The Group is committed to upholding a high standard of business ethics and to prohibition of bribery and corruption. The Group has developed a series of company policies on anti-fraud, antibribery, anti-extortion and anti-money laundering with reference to the Prevention of Bribery Ordinance (Cap 201 of the laws of Hong Kong). With principles of "Commitment, Assurance of High Quality, Fair Deals and Faithfulness", all employees perform their duties with utmost level of good faith, determination and professionalism, and ensure that the reputation of the Group will not be tarnished because of misconduct and corruption behavior.

5. COMMUNITY

We take pride in contributing to the community. As a part of the community that we cherish, it is our responsibility to contribute to the well-being of a community beyond financial support. We encourage and organise our employees to take part in charity activities and hope to apply the concept of social responsibility and practice in our routine work.

DIRECTORS' REPORT

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

PRINCIPAL ACTIVITIES

The Company is an investment holding company. The activities of its principal subsidiaries are set out in Note 33 to the consolidated financial statements.

BUSINESS REVIEW

The business review of the Group for the year ended 31 December 2018 are provided in the Management's Discussion and Analysis sections respectively from pages 5 to 11 of this Annual Report.

RESULTS

The results of the Group for the year ended 31 December 2018 are set out in the consolidated statement of profit or loss and other comprehensive income on page 43.

The directors do not recommend the payment of any dividend in respect of the year.

FIVE YEAR FINANCIAL SUMMARY

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

PROPERTY, PLANT AND EQUIPMENT

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

SHARE CAPITAL

Details of the movements during the year in the share capital of the Company are set out in note 28 to the consolidated financial statements.

RESERVES OF THE COMPANY

As at 31 December 2018, the Company's reserves consisted of contributed surplus of HK$12,804,000 (2017: HK$12,804,000) and (accumulated losses) of HK$1,386,971,000 (2017: (accumulated losses) of HK$1,371,893,000).

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

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

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

MAJOR CUSTOMERS AND SUPPLIERS

During the year, the aggregate sales attributable to the Group's five largest customers were approximately 22% of the Group's total sales and the sales attributable to the Group's largest customer were approximately 5% of the Group's total sales. The aggregate purchases attributable to the Group's five largest suppliers comprised approximately 81% of the Group's total purchases and the purchases attributable to the Group's largest supplier were approximately 31% of the Group's total purchases.

At no time during the year did a director, an associate of a director or a shareholder of the Company (which to the knowledge of the directors, owns more than 5% of the Company's share capital) have an interest in any of the Group's five largest suppliers or customers.

DIRECTORS

The directors of the Company during the Year were:

Executive Directors:

Mr. Lam Ping Cheung *(Chairman)* (appointed on 20 May 2016)
Mr. Hui Yip Wing (appointed on 20 May 2016)

Non-executive Director:

Dr. Wong Peter Kai-hong (appointed on 1 December 2017 and resigned on 31 October 2018)

DIRECTORS' REPORT

Independent non-executive Directors:

Ms. Chan Mee Sze (appointed on 20 May 2016)
Mr. Lam Suk Ping (appointed on 20 May 2016)
Mr. Cheung Chi Ming (appointed on 10 July 2017)
Ms. Fan Stephanie Winnie (appointed on 13 September 2017)

DIRECTORS' SERVICE CONTRACTS

No directors proposed for re-election at the forthcoming annual general meeting has a service contract which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

DIRECTORS' INTERESTS IN SHARES

The (i) register which shall be maintained by the Company pursuant to Section 352 of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the "SFO") and (ii) the notice(s) which shall be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") are not found and accessible by the Board. To the best knowledge of the Board, as at 31 December 2018, based on the public records shown in the website of the Stock Exchange, the interests of the directors and their associates in the shares, underlying shares and debentures of the Company, its subsidiaries and associated corporations were as follows.

(a) Ordinary shares of HK$0.05 each of the Company

Name of director	Capacity	Number of issued ordinary shares held	Position	Percentage of the issued share capital of the Company
Lam Ping Cheung	Interest in controlled corporation	815,109,075 (Note i)	Long	18.59%

Note:

(i) The shares were held by Greater Achieve Limited. Greater Achieve Limited was held by Equity Reward Limited which in turn was held by Lam Ping Cheung.

To the best knowledge of the Board, other than as disclosed above, none of the Company's directors nor their associates had any interests or short positions in any shares of the Company or any of its associated corporations as at 31 December 2018.

SHARE OPTIONS SCHEME

The Company did not have any valid Share Option Scheme as at 31 December 2018.

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

To the best knowledge of the Board, at no time during the year was the Company or any of its subsidiaries, a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

DIRECTORS' REPORT

DIRECTORS' INTEREST IN CONTRACTS OF SIGNIFICANCE

Except for note 2c(i) and 32(c), no contract of significance to which the Company or any of its subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2018, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the Securities and Futures Ordinance shows that the following shareholders had notified the Company of relevant interests in the issued share capital of the Company.

Long positions

Name	Capacity	Number of shares	Notes	Shareholding percentage
Equity Reward Limited	Interest in controlled corporation	815,109,075	(i)	18.59%
Greater Achieve Limited	Beneficial owner	815,109,075	(i)	18.59%
Lam Ping Cheung	Interest in controlled corporation	815,109,075	(i)	18.59%

Notes:

(i) The shares were held by Greater Achieve Limited. Greater Achieve Limited was held by Equity Reward Limited which in turn was held by Lam Ping Cheung.

Other than as disclosed above, the Company has not been notified of any other relevant interests representing 5% or more in the issued share capital of the Company as at 31 December 2018.

INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received, from each of the existing independent non-executive directors, an annual confirmation of his independence pursuant to Rule 3.13 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. The Company considers all of the existing independent non-executive directors are independent.

EMOLUMENT POLICY

Save for Mr. Wong Peter Kai-hong, Mr. Cheung Chi Ming and Ms. Fan Stephanie Winnie whose emoluments were recommended by the Remuneration committee of the Company ("Remuneration Committee") and approved by the board of directors of the Company, the emoluments of all other directors, namely Mr. Lam Ping Cheung, Mr. Hui Yip Wing, Mr. Lam Suk Ping and Ms. Chan Mee Sze were approved by the shareholders' at the AGM held on 20 May 2016.

The current emolument policy of senior management and directors of the Group is set up by the Remuneration Committee on the basis of their merit, qualification and competence. The emoluments of directors of the Company are recommended by the Remuneration Committee, having regard to the Company's operating results, individual performance, time, commitment, duties and responsibilities, contribution to the Group, comparable market statistics and prevailing market practice and trends.

DIRECTORS' REPORT

PERMITTED INDEMNITY PROVISION

During the financial year and up to the date of this report, subject to the applicable laws, the directors of the Company and its subsidiaries are entitled to be indemnified pursuant to the provisions in force for the benefit of directors against liabilities incurred in the execution and discharge of their duties in accordance with the respective articles of associations or constitutional documents of the Company and its subsidiaries.

The Articles of Association of the Company provides that the Directors shall be indemnified and secured harmless out of the assets and profits of the Company from and against all actions, costs, charges, losses, damages and expenses which they may incur or sustain by reason of any act done, concurred in or omitted in or about the execution of their duty, or supposed duty, in their offices, provided that such indemnity shall not extend to any matter in respect of any fraud or dishonesty.

SUFFICIENCY OF PUBLIC FLOAT

Trading in the shares of the Company has been suspended since 1 April 2015.

Based on the information that is publicly available to the Company and within the knowledge of the Directors of the Company, as of the date of this report, there is sufficient public float of more than 25% of the Company's issued shares as required under the Listing Rules.

Equity-linked Agreements

Based on the information and/or documents available, the Company has not entered into any equity-linked agreement during the Year.

Purchase, Sale or Redemption of the Company's Listed Securities

Based on the information and/or documents available, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the Year.

PRE-EMPTIVE RIGHTS

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

AUDITOR

The financial statements for the year ended 31 December 2018 were audited by Crowe (HK) CPA Limited who will retire and, being eligible, offer themselves for the re-appointment at the forthcoming annual general meeting. A resolution will be submitted at the forthcoming annual general meeting to re-appoint Messrs. Crowe (HK) CPA Limited as auditor of the Company.

PLEDGE OF ASSETS

The Company does not have any pledge of assets as at 31 December 2018 (31 December 2017: nil).

LITIGATIONS AND CONTINGENT LIABILITIES

Details are set out in note 37 to the consolidated financial statements.

REVIEW BY THE AUDIT COMMITTEE

The audited results of the Group for the Year have been reviewed by the audit committee of the Company ("Audit Committee"). The composition of the Audit Committee currently comprises of Mr. Cheung Chi Ming (Chairman), Mr. Lam Suk Ping and Ms. Chan Mee Sze.

DIRECTORS' REPORT

DELAY IN DESPATCH OF ANNUAL REPORTS FOR THE YEARS 2014 TO 2018

The delay in the dispatch of the Annual Reports for years 2014 to 2018 constitute a non-compliance of the Rule 13.46(2) of the Listing Rules by the Company.

NON-COMPLIANCE OF APPENDIX 16 "DISCLOSURE OF FINANCIAL INFORMATION" OF THE LISTING RULES

Due to the failure to access the books and records of certain subsidiaries in PRC, the Board does not have sufficient data to compile the annual report so as to comply with the Appendix 16 "Disclosure of financial information" to the Listing Rules. The following information in relation to the aforesaid subsidiaries has been omitted from this annual report:

1. A statement in respect of connected transactions and continuing connected transactions with the connected person as defined in Chapter 14A (or Chapter 14 prior to the coming into force of Chapter 14A) of the Listing Rules.

2. Details of management contracts.

3. Details of contracts of significance between the Company, one of its subsidiary companies, and controlling shareholder or any of its subsidiaries.

4. Details of business review.

DIRECTORS' VIEW ON AUDITORS' BASIS FOR DISCLAIMER OF OPINION

1. Opening balances and corresponding figures

   On 21 May 2016, when the representatives of the Board attended the Company's registered principal place of business to complete the take over procedures, it was discovered that 8 internal hard disk drives of the company's computer sets had been removed and corporate documents and accounting books and records were found missing. According to staff members of the Company, the missing internal hard disk drives contained material data of the Company. The Company had reported the case to the Police and had assisted in their investigation.

   The Company had requested Deloitte Touche Tohmatsu, the former auditor, to provide copies of all the accounting books and records of the Company in their possession but the documents provided so far were very limited.

   For the aforesaid reason, the Board were unable to confirm the opening balances and comparative figures.

   The current management will ensure proper storage and safe-keeping of the accounting books and records as far as those companies under its control are concerned.

2. Derecognition of Shanghai Subsidiaries

   The Board has been making vigorous attempts to take control over the two major subsidiaries, Shanghai HealthDigit and SHMY Biochip, and their subsidiaries (the "Shanghai Subsidiaries") and so far is not able to do so. The following steps have been taken:

   a. On 12 August 2016, the legal representatives and the old board of SHMY Biochip and Shanghai HealthDigit were removed by way of shareholders' resolutions.

DIRECTORS' REPORT

b. On 9 September 2016, senior management and the director of the board of HD Global, being the holding company of SHMY Biochip and Shanghai HealthDigit, in the company of a lawyer in Shanghai, a local lawyer from the Feng Xian district (奉賢區) and security guards, entered into the premises of SHMY Biochip and Shanghai HealthDigit at 699 Hui Feng Bei Lu, Fengxian Qu, Shanghai (上海市奉賢區奉賢現代農業園區匯豐北路699號). The group later met with Mr. Zhou Li Qun (周立群), the former executive director of the Company and then current managing director of the two companies. Mr. Zhou refused to surrender the seals and the original licence certificates of the two companies. Mr. Zhou further informed the group that he would only act on the instructions by Mr. Yao Yuan (the former chairman of the Company).

c. Advertisement on two newspapers in Shanghai was placed on 19 September 2016 in order to report to the public about the refusal by the old management of the two companies to surrender the three licenses and company seals.

d. Lawyer in Shanghai for the Company informally approached the Shanghai Administration of Industry and Commerce ("SHAIC") with a view to changing the official records of the new legal representatives and board members of the two companies but was refused. SHAIC advised that it would require a court's order to do so.

e. Respectively on 3 November 2016 and 8 November 2016, the lawyer in Shanghai acted on instructions by the Company issued two civil complaints against Mr. Yao Yuan and Mr. Iu Chung, being the legal representatives of SHMY Biochip and Shanghai HealthDigit respectively seeking the PRC court's order for the return of the seals and the original licence certificates. As the Board was unable to gain control of SHMY Biochip and Shanghai HealthDigit, the Company had no other alternatives but to resort to commencing civil actions for the purpose of regaining access and control of SHMY Biochip and Shanghai HealthDigit. Upon the issuance of the two civil complaints against Mr. Yao Yuan and Mr. Iu Chung, the Board considered that the Group lost access and control over SHMY Biochip since 3 November 2016 and over Shanghai HealthDigit since 8 November 2016 respectively.

f. The judgment made in the civil complaint by SHMY Biochip was handed down on 28 September 2017 ("the 28/9/17 Judgment") which was against the Company. The Company then made an appeal against the 28/9/17 Judgment but was unsuccessful. The appeal court upheld the 28/9/17 Judgment.

g. In relation to the civil complaint made by Shanghai HealthDigit, Mr. Iu was ordered to surrender the company seals of Shanghai HealthDigit and its business licenses by a judgment handed down on 20 October 2017 ("the 20/10/17 Judgment"). Mr. Iu made an appeal on 2 April 2018 against the 20/10/17 Judgment. On 30 August 2018, the appeal court revoked the 20/10/17 Judgment on the basis that there was no evidence that the relevant instruments were in Mr. Iu's possession ("the 30/8/18 Judgment").

h. After the Company had considered the legal opinion of its PRC lawyer, it decided not to appeal against the judgments, namely the 28/9/17 Judgment and the 30/8/18 Judgment, in respect of the two civil complaints delivered by the appeal courts.

DIRECTORS' REPORT

i. On 28 February 2018, Chairman Mr. Lam Ping Cheung, on behalf of the Company, wrote to the Liaison Office of the Central People's Government in the Hong Kong Special Administrative Region (the "Liaison Office") to seek the Liaison Office's assistance in re-gaining control of SHMY Biochip and Shanghai HealthDigit.

j. From March 2018 to October 2018, officers of SHAIC had several meetings with the Company's PRC lawyer concerning the registration of change of legal representative, the reported loss of the business licenses and company seals and the re-issuance of the same. The PRC lawyer had fulfilled the relevant requirements as informed by an officer of SHAIC.

k. Prior to the re-issuance of the business licenses and company seals, some staff members of SHMY Biochip and Shanghai HealthDigit had informed SHAIC that the business licenses and company seals were in their possession. As such, SHAIC was unable to treat the business licenses and company seals as lost properties and to re-issue the same to the new management. Having considered the advice from the PRC lawyer, the Company decided not to issue civil complaints against such staff members for the recovery of the business licenses and company seals in order to avoid endless lawsuit.

l. Having considered further advice from the PRC lawyer, the Company decided to apply for retrial of the civil claims against Mr. Yao Yuan and Mr. Iu Chung for the recovery of the business licenses and company seals.

Due to the aforesaid-mentioned reasons, the Board has been unable to access the accounting books and records of the Shanghai Subsidiaries to, amongst other things, prepare the consolidated financial statements for the years ended 31 December 2014, 2015, 2016, 2017 and 2018 and therefore the Shanghai Subsidiaries were accounted for as available-for-sales investments as at 31 December 2014, 2015, 2016 and 2017 and the balances relating to the Shanghai Subsidiaries brought forward from 31 December 2013 were also charged to the consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2014. The Shanghai Subsidiaries were accounted for as financial assets at fair value through other comprehensive income as at 31 December 2018.

3. Revenue

a) The Board noted the lack of sufficient supporting documents for the auditor to ascertain the existence and accuracy of the revenue recognized by the Group.

b) On the basis of a comprehensive presentation made by the management of both the Company as well as Genetel Shenzhen, the Board has been aware of the fact that Genetel Shenzhen's current business model has been adopted since the Company's take over from 2009 and has been in full compliance with local PRC law and tax regulations. The Board is also aware of the fact that prior to the change of legal representatives of Genetel Shenzhen in mid 2018, the former management of Genetel Shenzhen has failed to provide sufficient supporting documents of the inter-related transactions in relation to all sales, technical service fees and receipts in advance, thus leading to the auditors' disclaimer opinion under paragraph 3 on "Revenue", under paragraph 10 on "Receipts in advance" and under paragraph 12 on "Technical service fees".

DIRECTORS' REPORT

The Board considers that full compliance with local PRC laws and regulations to ensure the smooth continuation and possible further development of our HPV DNA testing kits business carried in Genetel Shenzhen is the prime and fundamental business of the Group, hence drastic change(s) to the current business practices which has limited the ability of Genetel Shenzhen to provide totally satisfactory and sufficient supporting documents may not be advisable in order to achieve the optimal economic benefits for the Company and shareholders. However, the management will still strive to seek for further professional advices from PRC lawyers and tax consultants to investigate into all PRC legally viable rectification solutions to resolve the above-mentioned limitations in the Sales revenue, Receipts in advance and Technical service fees recognition aspects going forward.

c) Since the take-over by the Board, the Company has engaged FTI Consulting (Hong Kong) Limited ("FTI Consulting") to conduct a review on the Company's financial reporting procedures and internal control systems and an internal control review report was issued by FTI Consulting in July 2018. The management had noted the control deficiencies in the Sales and Receipt Cycle of Genetel Shenzhen and relevant policies had been implemented progressively in response to the FTI's recommendation.

4. Intangible assets, property, plant and equipment and impairment on intangible assets and property, plant and equipment

The Board noted the lack of supporting documents to prepare valuation report as to the intangible assets. Going forward the Board will ensure that the Company will appoint independent third party valuer to provide valuation in case of future acquisition.

In relation to the Cash Generating Unit, regular cash flow forecast has been prepared and reviewed by the management to ensure that any indication of possible impairment loss can be timely identified and addressed.

5. Investments in a joint venture

The joint venture was held by the Shanghai Subsidiaries. As stated in paragraph 2, the Group lost control over the Shanghai Subsidiaries, therefore, the Group was also unable to gain access to the books and records of the joint venture for accounting purpose.

6. Loan receivable and loan interest income

It is noted that there was the loan receivable and loan interest income before the Board took control of the Company. The Board has impaired such loan receivable and loan interest income in the year of 2014 as such loans could not be recovered. The Board's view is that it will endeavor to pursue the recovery of such loans after the relevant information and documents have been obtained.

7. Trade receivables

The Board's view under paragraph 3b above is repeated. The management noted that there was no satisfactory confirmation reply from the majority of the End Users in relation to the outstanding trade receivables.

Going forward the management will use its endeavor to make reconciliation with the End Users on a regular basis to ensure that any possible deviations on record between parties can be identified and addressed on a timely manner.

8. Other receivables

After the Board took control of the Company, it was noted that there were other receivables in the sum of HK$3,425,000 brought forward from 2013 which had been outstanding in the books of Genetel Shenzhen for many years. The staff members concerned had left long ago and limited information was kept about these receivables. The Board will use reasonable endeavor to contact the relevant party(ies) to chase for the same in order to clear off the said receivables.

DIRECTORS' REPORT

9. Other payables

It was noted that there were other payables in an amount of HK$3,654,000 due to a company called "香港港龍科技有限公司" recorded in the books of Genetel Shenzhen. The new management noted that the staff members concerned had left and no information was available to show why Genetel Shenzhen owed the said amount to such company. After conducting the company searches in Hong Kong and the PRC, there was no record in relation to such company. The Board will seek an advice from the PRC lawyer in relation to such amount, if necessary.

10. Receipts in advance

The Board acknowledged that the basis of the auditors' disclaimer opinion under "Receipts in advance" is inter-related to the discussions made in paragraph 3b above and will use best endeavor to seek for a feasible solution under the current business model of Genetel Shenzhen.

11. Income tax, income tax payable and deferred tax liabilities

The Board noted the lack of supporting documents for the auditors to ascertain the completeness and accuracy of the income tax credit, income tax payable and deferred tax liabilities.

In relation to the lack of information regarding the Shanghai Subsidiaries, the Board repeated its view under paragraph 2 above.

12. Technical service fees

The Board acknowledged that the basis of the auditors' disclaimer opinion under "Receipts in advance" is inter-related to the discussions made in paragraph 3b above and will use best endeavor to seek for a feasible solution under the current business model of Genetel Shenzhen.

13. Impairment loss on amount due from a Shanghai Subsidiary

Same as described in details under paragraph 2 above, the Board acknowledged that the Company is still unable to gain access to the accounting books and records of 湖州數康生物科技有限公司, being also one of the Company's Shanghai Subsidiaries, which owed Genetel Shenzhen HK$2,277,000 as at 31 December 2018. Since the Company did not have sufficient supporting documents to ascertain the nature of this transaction taken place during 2016 and the recoverability of such amount, the Board has concurred with the management's suggestion to make full impairment on this amount due from 湖州數康生物科技有限公司.

14. Litigations and contingent liabilities

The Board noted the lack of information for the auditor to ascertain the completeness and accuracy of the disclosure regarding the litigations and contingent liabilities of the Group.

The Board will use best endeavor to obtain relevant information on all outstanding litigations and keep the shareholders informed in due course.

15. Amounts due to ex-directors

The Board noted the lack of information due to missing records in relation to the amounts due to ex-directors. All those ex-directors had left the Company. The Company will endeavor to maintain proper records in relation to the directors' remuneration.

16. Incomplete books and records and the Board's representations

The Board is of the view that they are not in the position to provide written representation that the accounting records were properly maintained for the financial period before the Board was elected on 20 May 2016.

Subsequent to their appointment, the Board has closely worked with the management to ensure that proper accounting books and records have been maintained and safeguarded.

DIRECTORS' REPORT

17. Amounts due from subsidiaries

    The Board will closely monitor the financial position and performance of the subsidiaries in order to consider if any impairments on the amounts due from subsidiaries is required.

On behalf of the Board

Mr. Lam Ping Cheung
Chairman

Hong Kong, 28 June 2019

INDEPENDENT AUDITOR'S REPORT

Crowe

國富浩華 (香港) 會計師事務所有限公司
Crowe (HK) CPA Limited
Member Crowe

9/F Leighton Centre,
77 Leighton Road,
Causeway Bay, Hong Kong

TO THE SHAREHOLDERS OF
MINGYUAN MEDICARE DEVELOPMENT COMPANY LIMITED
(Incorporated in Bermuda with limited liability)

Disclaimer of opinion

We were engaged to audit the consolidated financial statements of Mingyuan Medicare Development Company Limited (the "Company") and its subsidiaries (together the "Group") set out on pages 43 to 116, which comprise the consolidated statement of financial position as at 31 December 2018, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

We do not express an opinion on the consolidated financial statements of the Group and as to whether the consolidated financial statements have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance. Because of the significance of the matters described in the "basis for disclaimer of opinion" section of this report, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these consolidated financial statements.

Basis for disclaimer of opinion

1. Opening balances and corresponding figures

The corresponding figures disclosed in the consolidated financial statements are based on the audited consolidated financial statements of the Group for the year ended 31 December 2017. The auditor did not express an opinion on the consolidated financial statements for the year ended 31 December 2017.

As disclosed in note 2 to the consolidated financial statements, the board of directors of the Company since 20 May 2016 (the "Board") noted that the Company's hard drives in the computers in its Hong Kong office had been removed, and its banking documents had been taken away, as a result of which its computer records including details of all bank transactions were no longer accessible. A substantial part of the accounting and computer records of the Company and its subsidiaries, which was contained in the hard drives, is no longer accessible. The Board also identified irregularities in the previous years' financial statements as disclosed in note 2(f) to the consolidated financial statements and the unresolved matter as identified by the predecessor auditor as disclosed in note 2(d) to the consolidated financial statements remain outstanding. The Securities and Futures Commission suggested that the bank statements and bank transfer documents provided by the Company were forged. The Securities and Futures Commission also concerned that the Company's annual results announcement and annual report for the year ended 31 December 2013 and the interim results and interim report for the six months ended 30 June 2014 had contained materially false, incomplete or misleading information. As the consolidated financial statements for the year ended 31 December 2017 were prepared based on incomplete books and records, the Board was unable to gain access to the books and records of SHMY HealthDigit Biochip Company Limited and Shanghai HealthDigit Company Limited and their subsidiaries (the "Shanghai Subsidiaries") and substantial part of accounting and computer records of the Company and its subsidiaries was no longer accessible, the Board believed that it was not practical, if not impossible, to verify the financial information as reported in the consolidated financial statements of the Group for the year ended 31 December 2017 and past years. Accordingly, the comparative financial information disclosed in these consolidated financial statements may contain errors and omissions and has not been adjusted or reclassified and therefore may not be comparable with the figures for the current year.

INDEPENDENT AUDITOR'S REPORT

Basis for disclaimer of opinion *(Continued)*

1. Opening balances and corresponding figures *(Continued)*

The consolidated financial statements for the year ended 31 December 2017 therefore might not comply with the Hong Kong Financial Reporting Standards, or the disclosure requirements of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities of The Stock Exchange of Hong Kong Limited.

As a result, in performing our audit of the consolidated financial statements of the Group for the year ended 31 December 2018, we were unable to obtain sufficient appropriate audit evidence to satisfy ourselves as to whether the opening balances of assets, liabilities and reserves as at 1 January 2018 and the corresponding figures were fairly stated.

Any adjustments found to be necessary in respect thereof had we obtained sufficient appropriate audit evidence would have had a consequential effect on the net liabilities of the Group as at 1 January 2018, and of its financial performance and cash flows for the current and prior years, and the related disclosures thereof in the consolidated financial statements.

2. Derecognition of Shanghai Subsidiaries

As disclosed in note 2(e) to the consolidated financial statements, pursuant to the resolution passed at the annual general meeting of the Company held on 20 May 2016, all the then directors (the "ex-directors") were either removed or retired from the board of the Company and the Company appointed seven new directors. From then on, the Board began to take over the control of the Company and its subsidiaries from the ex-directors. However, save for the equity interest owned by the Group and the removal of former directors and legal representatives and the appointment of new directors and legal representatives by way of shareholders' resolutions, the Board was unable to take control over the management and operations of the Shanghai Subsidiaries notwithstanding the Board took actions against Mr. Yao Yuan and Mr. Iu Chung for the return of the company seals and business licenses of the Shanghai Subsidiaries. The Board was also unable to gain access to the premises, assets and books and records of the Shanghai Subsidiaries and to direct their relevant activities. Under these circumstances, the Board considered that the control over the Shanghai Subsidiaries was lost and therefore the financial performance and financial position of the Shanghai Subsidiaries were not consolidated into these consolidated financial statements. The Board also considered that the balances relating to the Shanghai Subsidiaries brought forward from 31 December 2013 should be derecognised and therefore the financial effects were charged to the consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2014. The Shanghai Subsidiaries were accounted for as financial assets at fair value through other comprehensive income as at 31 December 2018.

In the absence of sufficient appropriate audit evidence, we were unable to ascertain whether it was appropriate to continue to derecognise the Shanghai Subsidiaries from the consolidated financial statements for the years ended 31 December 2018 and 2017. The derecognition of the financial position and finance performance of the Shanghai Subsidiaries in the consolidated financial statements is a departure from the requirements of Hong Kong Financial Reporting Standard 10 "Consolidated Financial Statements". Due to the absence of the books and records of the Shanghai Subsidiaries, we were unable to quantify the financial effects arising from the departure from Hong Kong Financial Reporting Standard 10 "Consolidated Financial Statements".

In addition, we were unable to obtain sufficient appropriate audit evidence to determine whether it was appropriate to account for the Shanghai Subsidiaries as financial assets at fair value through other comprehensive income and as to whether the carrying values of the investments in the Shanghai Subsidiaries was free from material misstatement. Any adjustments that might have been found to be necessary would have a consequential significant effect on the Group's net liabilities as at 31 December 2018 and the Group's financial performance and cash flows for the year then ended and the related classification and disclosures in the consolidated financial statements.

INDEPENDENT AUDITOR'S REPORT

Basis for disclaimer of opinion *(Continued)*

3. Revenue

As disclosed in note 8 to the consolidated financial statements, the revenue of the Group mainly represented the sales of HPV detection products by a subsidiary namely Genetel Pharmaceuticals (Shenzhen) Company Limited ("Genetel Shenzhen") to hospitals and other customers (the "End Users"). However, a number of the End Users did not enter into sales contracts with Genetel Shenzhen. Genetel Shenzhen only entered into agreements (the "Sales Agreements") with distributors pursuant to which Genetel Shenzhen sold goods to the distributors. During the course of audit for the year ended 31 December 2018, the management discovered that Genetel Shenzhen entered into the Sales Agreements with the distributors and sales contracts with the End Users at the same time under certain circumstances. Under the Sales Agreements, Genetel Shenzhen shall deliver goods to the End Users upon receiving payments from the distributors (the "Payments") and issue sales invoices for the distributors to the End Users under the instructions from the distributors. The sales invoices issued by Genetel Shenzhen to the End Users were to be in amounts specified by the distributors without the Group having a price negotiating right. The selling price stated in the sales invoices to the End Users were higher than the selling price stated in the Sales Agreement with the distributors. In addition, there were no acknowledgement of goods receipt by the End Users available for our inspection. Notwithstanding the fact that no written agreements for sales were entered into between Genetel Shenzhen and a number of the End Users and Genetel Shenzhen entered into the Sales Agreements with the distributors and sales contracts with the End Users at the same time under certain circumstances, the Board considered that the End Users were customers of Genetel Shenzhen, therefore, the sales invoices issued for the End Users were recognised as revenue of the Group.

Under another agreement with the distributors, the distributors were appointed to perform technical and ancillary services to the End Users. Upon receiving of settlements of trade receivables from the End Users, Genetel Shenzhen was required to pay the distributors the technical service fees and refund the Payments to the distributors net of appropriate value added tax.

In the absence of sufficient appropriate audit evidence, we were unable to ascertain whether the recognition of sales invoice amounts to the End Users as revenue was appropriate and the existence and accuracy of the revenue of HK$66,001,000 for the year ended 31 December 2018.

4. Intangible assets, property, plant and equipment and impairment on intangible assets and property, plant and equipment

As detailed in note 18 to the consolidated financial statements, the intangible assets were brought forward from previous years. The intangible assets represented technical know–how held and used by Genetel Shenzhen. The Board was unable to locate the purchase agreements nor valuation reports at the date of the acquisition of these technical know-how. There were no other documents to support the costs and the carrying amount of these intangible assets. In this connection, the Board was unable to ascertain the accuracy of the cost and carrying amount of the intangible assets of HK$626,000 as at 31 December 2018 nor the amortisation of HK$3,854,000 charged to the consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2018.

The Board carried out an impairment assessment on the cash generating unit of the manufacture and trading of HPV detection products and related equipment. As a result of the assessment, no impairment loss nor reversal of impairment loss was made for the year ended 31 December 2018. The recoverable amount of the cash generating unit has been determined by the Board based on value in use calculations. In preparing cash flow projections for the cash generating unit, the Board used certain bases and assumptions and the historical performance of Genetel Shenzhen. Given the facts that the revenue, trade receivables, technical services fees and other items of Genetel Shenzhen were qualified, we were unable to obtain sufficient appropriate audit evidence to ascertain the reasonableness of the assumptions and bases upon which the Board has employed in determining the recoverable amounts of the cash generating unit. There were no alternative audit procedures that we could perform to satisfy ourselves as to the carrying amount of the intangible assets of HK$626,000 and property, plant and equipment of HK$4,297,000 as at 31 December 2018 or whether any impairment loss or reversal of impairment loss for the year ended 31 December 2018 was necessary. Any adjustments to the carrying amounts of intangible assets and property, plant and equipment found to be necessary would affect the Group's net liabilities as at 31 December 2018, the Group's financial performance for the year then ended and the related disclosures in the consolidated financial statements.

INDEPENDENT AUDITOR'S REPORT

Basis for disclaimer of opinion *(Continued)*

5. Investments in a joint venture

As disclosed in note 35 to the consolidated financial statements, the Group held 50% equity interest in a joint venture namely 天津紅鬃馬醫院投資管理有限公司 ("天津紅鬃馬"), with a carrying amount of HK$14,765,000 as at 31 December 2013 which had been derecognised since 1 January 2014.

The interest in 天津紅鬃馬 was held by the Shanghai Subsidiaries. Given that the Board was unable to take over the control of the Shanghai Subsidiaries, the Board was unable to obtain the books and records of 天津紅鬃馬. Therefore, the Group has not equity accounted for the financial statements of the joint venture for the years ended 31 December 2018 and 2017. In the absence of the relevant books and records, we were unable to obtain sufficient appropriate audit evidence to ascertain whether it was appropriate to continue to derecognise the interest in a joint venture and not to equity account for the joint venture in the consolidated financial statements.

6. Loan receivable and loan interest income

As disclosed in note 21 to the consolidated financial statements, there was a loan receivable together with interest receivable totalling HK$83,738,000 due from an individual in the PRC (the "Individual"). On 14 November 2014, the Group entered into a loan agreement with the Individual pursuant to which the Group granted a loan of RMB66,000,000 (equivalent to HK$82,500,000) to the Individual. Pursuant to the loan agreement, the loan was secured by the Individual's 21% shareholding interest in the Company, bearing interest at 1% per month and repayable on 16 May 2015. The Individual failed to make repayment upon maturity and the loan became overdue for more than four years up to the date of approval of the consolidated financial statements. The Board noted that there was only one director's signature on the board minutes approving the loan and the security as stated in the board minutes was the Individual's interests in a former associate of the Group instead of the Individual's 21% shareholding interest in the Company as stated in the loan agreement. In addition, based on the information obtained, the Board noted that the Individual was neither a shareholder of the Company nor a shareholder of the former associate of the Group.

According to the available accounting records, the loan was made to the Individual through the current account with SHMY Biochip. Due to the fact that the Board was unable to gain access to the books and records of SHMY Biochip, the Board was unable to verify whether the loan was properly made to the Individual.

The Board was also unable to verify if the Individual hold 21% shareholding interest in the Company. In addition, up to the date of approval of the consolidated financial statements, no settlement was made by the Individual for the loan of HK$82,500,000 nor accrued interest receivable of HK$1,238,000. Therefore, the amount of loan and interest receivable of HK$83,738,000 was fully impaired during the year ended 31 December 2014.

In the absence of sufficient appropriate audit evidence, we were unable to ascertain the existence and accuracy of the loan receivable of HK$82,500,000 and the related interest receivable of HK$1,238,000 and the impairment loss of HK$83,738,000 as at 31 December 2018 and 2017.

INDEPENDENT AUDITOR'S REPORT

Basis for disclaimer of opinion *(Continued)*

7. Trade receivables

As mentioned in paragraph 3, we were unable to ascertain the existence and accuracy of the revenue for the year ended 31 December 2018 and whether the recognition of sales invoice amounts to the End Users as revenue was appropriate. The trade receivables of HK$17,889,000 as at 31 December 2018 as stated in note 22 to the consolidated financial statements were arising from these revenue. No satisfactory confirmation replies were obtained from the End Users in relation to the outstanding trade receivables. Because of these scope limitations, there were no alternative audit procedures that we could perform to satisfy ourselves as to the existence, accuracy and valuation of the Group's trade receivables of HK$17,889,000 as at 31 December 2018 and the impairment loss on trade receivables of HK$549,000 charged to the consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2018. Consequently, we were unable to determine whether any adjustment to these amounts and disclosures was necessary.

8. Other receivables

As disclosed in note 22(c) to the consolidated financial statements, there were other receivables of RMB3,008,000 (equivalent to HK$3,425,000) brought forward from 2013 which had been outstanding in the books of Genetel Shenzhen for several years. The Board noted that there were no documentary evidence to confirm the nature and existence of these other receivables. At the same time, there were certain long outstanding receipts in advance of RMB2,242,000 (equivalent to HK$2,553,000) due to the same parties brought forward from 2013. The Board set off these other receivables with receipts in advance in 2014 and the net balance of RMB766,000 (equivalent to HK$957,000) was charged to the consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2014 as an impairment loss on other receivables.

In the absence of supporting documents, we were unable to obtain sufficient appropriate audit evidence to ascertain the existence, valuation, nature and accuracy of the other receivable and receipts in advance brought forward from previous years and whether the Group had the right to set off and the impairment loss on other receivable of RMB766,000 (equivalent to HK$957,000) charged to the consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2014 was appropriately recognised in the proper accounting period.

9. Other payables

As disclosed in note 24(e) to the consolidated financial statements, there was an amount of RMB3,209,000 (equivalent to HK$3,654,000) due to 香港港龍科技有限公司 in the books of Genetel Shenzhen. The Board noted that the amount was brought forward from previous years and there was no sufficient information to confirm the nature of this amount. In addition, according to the available information, there was no company registered in the name of 香港港龍科技有限公司 either in the PRC or Hong Kong.

In the absence of appropriate supporting documents, we were unable to obtain sufficient appropriate audit evidence to ascertain the nature, existence and accuracy of the amount of HK$3,654,000 as included in the other payables as at 31 December 2018.

10. Receipts in advance

As disclosed in notes 24 and 24(b) to the consolidated financial statements, there were receipts in advance of HK$7,590,000 as at 31 December 2018 which represented the payments received from the distributors upon delivery of goods to the End Users as mentioned in paragraph 3 above. In the absence of the sufficient appropriate audit evidence, we were unable to verify whether the recognition of the payments received from the distributors as liabilities is appropriate and as to the accuracy of the outstanding balances as at 31 December 2018. We were also unable to determine whether any reclassification of the receipts in advance as at 31 December 2018 to contracts liabilities was necessary.

INDEPENDENT AUDITOR'S REPORT

Basis for disclaimer of opinion *(Continued)*

11. Income tax, income tax payable and deferred tax liabilities

As disclosed in notes 13, 26 and 27 to the consolidated financial statements, the Group recorded income tax expense of HK$2,033,000 for the year ended 31 December 2018 and income tax payable of HK$2,963,000 and deferred tax liabilities of HK$3,897,000 as at 31 December 2018. We were unable to obtain sufficient appropriate audit evidence regarding the revenue and certain expenses as mentioned in paragraphs 3 and 12 and note 26 to the consolidated financial statements and the books and records were incomplete. As a consequence, we were unable to obtain sufficient appropriate audit evidence for us to verify the related taxes payable.

There were no other practical alternative audit procedures that we could perform to satisfy ourselves as to the completeness and accuracy of the income tax expense of HK$2,033,000 recorded in the consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2018 and the income tax payable of HK$2,963,000 and deferred tax liabilities of HK$3,897,000 as at 31 December 2018.

12. Technical service fees

As disclosed in note 12 to the consolidated financial statements, there were technical service fees of HK$22,174,000 payable to the distributors as included in the administrative expenses for the year ended 31 December 2018. No sufficient documentary evidence were made available for us to ascertain the nature of the actual technical services provided by the distributors. Certain technical service fees of HK$14,425,000 were supported by invoices issued by third parties unrelated to the provision of the technical services.

In the absence of sufficient appropriate audit evidence, we were unable to ascertain the completeness, existence and accuracy of the technical service fees of HK$22,174,000 for the year ended 31 December 2018 and the outstanding technical service fees payable of HK$10,523,000 as at 31 December 2018 as stated in note 24 to the consolidated financial statements.

13. Impairment loss on amount due from a Shanghai Subsidiary

As disclosed in note 32(a)(v) to the consolidated financial statements, Genetel Shenzhen advanced RMB2,000,000 (equivalent to HK$2,233,000) to 湖州數康生物科技有限公司, one of the Shanghai Subsidiaries in May 2016. However, the Board could not identify the purpose of the payments and could not locate any supporting documents for verification purpose. Since the cash has been paid out and no repayment was made by 湖州數康生物科技有限公司 up to the date of approval of these consolidated financial statements, the Board was of the view that there was no expectation of recovery. Therefore, a full impairment loss was made on the amount due from a Shanghai Subsidiary in the consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2016.

In the absence of supporting documents, we were unable to obtain sufficient appropriate audit evidence to ascertain the purpose, nature and substance of the amount due from 湖州數康生物科技有限公司 and the impairment loss of RMB2,000,000 (equivalent to HK$2,277,000) as at 31 December 2018.

INDEPENDENT AUDITOR'S REPORT

Basis for disclaimer of opinion *(Continued)*

14. Litigations and contingent liabilities

As disclosed in note 37 to the consolidated financial statements, the Group, its joint venture and ex-directors of the Company were involved in a number of litigations in the PRC. Given the fact that the Board was unable to take over the control of the Shanghai Subsidiaries and gain access to their books and records, the Board believes that it is not practical, if not impossible, to ascertain the accuracy or completeness of the disclosure regarding the litigations and contingent liabilities of the Group for the year ended 31 December 2018 and the subsequent period up to the date of approval of these consolidated financial statements.

In the absence of sufficient appropriate audit evidence, we were unable to determine whether all provisions and contingent liabilities have been properly accounted for and disclosed in the consolidated financial statements in accordance with Hong Kong Accounting Standard 37 "Provisions, Contingent Liabilities and Contingent Assets".

15. Amounts due to ex-directors

As disclosed in note 32 (a) to the consolidated financial statements, there were amounts due to ex-directors of HK$3,223,000 as at 31 December 2018. The Board noted that the amounts mainly comprised of accrued directors' emoluments for the ex-directors. Up to the date of approval of these consolidated financial statements, the amounts remained outstanding. As the ex-directors had left the Company, the Board was unable to locate documentary evidence to verify the accuracy of the outstanding balances as at 31 December 2018.

In the absence of sufficient appropriate audit evidence, we were unable to ascertain the existence, accuracy and completeness of the amounts due to ex-directors of HK$3,223,000 as at 31 December 2018 as disclosed in note 32(a) to the consolidated financial statements.

16. Incomplete books and records and the Board's representations

As disclosed in note 2(e) to the consolidated financial statements, the Board began to take over the control of the Company and its subsidiaries from 20 May 2016. As the Board was not appointed until 20 May 2016, and the change of legal representative of Genetel Shenzhen from Mr. Yao Yuan to a person nominated by the Board and the change of directors of Genetel Shenzhen were took place only in May 2018, the Board could not ensure the completeness of the accounting books and records of Genetel Shenzhen and whether the accounting books and records of Genetel Shenzhen have been properly maintained prior to May 2018. Therefore, the Board could not ensure whether the accounting books and records of the Group had been properly maintained for the years ended 31 December 2017 and 2018. Together with the facts that the consolidated financial statements were prepared based on incomplete books and records, the Board was also unable to confirm that the consolidated financial statements comply with HKFRSs, or the disclosure requirements of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

In addition, we have been unable to obtain written representations from the Board that the accounting records were properly maintained, the consolidated financial statements complied with HKFRSs, the disclosure requirements of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited throughout the years ended 31 December 2018 and 2017.

The lack of written representations as mentioned above from the Board has called into question the reliability of the financial and other information and documents provided by the management that undermined our ability to rely on the Group's system of internal control to safeguard the proper maintenance of accounting records and documentation. Given these circumstances, there were no practicable audit procedures that we could perform to satisfy ourselves that the information and documents presented to us for the purpose of our audit are complete and accurate in all material respects, or to quantify the extent of adjustments that might be necessary in respect of the Group's consolidated financial statements for the year ended 31 December 2018, including the corresponding figures and the opening balances as at 1 January 2018.

INDEPENDENT AUDITOR'S REPORT

Basis for disclaimer of opinion *(Continued)*

17. Amounts due from subsidiaries

As at 31 December 2018, included in the statement of financial position of the Company as disclosed in note 34 to the consolidated financial statements are amounts due from subsidiaries of HK$148,509,000. Due to the scope limitations as detailed in paragraphs 1 to 16 above, we have not been able to satisfy ourselves as to the fairness of the amounts carried as amounts due from subsidiaries in the statement of financial position of the Company or to determine whether any provision for impairment loss is necessary as at 31 December 2018. Any adjustments that might have been found to be necessary in respect of the above would have a consequential effect on the net assets of the Company as at 31 December 2018.

Material uncertainties relating to the going concern

We draw attention to note 2(c) to the consolidated financial statements which indicated that the Group had net liabilities of HK$31,315,000 as at 31 December 2018 and incurred a loss of HK$10,165,000 and cash outflows of HK$6,033,000 from operating activities for the year ended 31 December 2018 and based on management accounts, the Group was still operating at a loss up to the date of approval of these consolidated financial statements. The Group's ability to continue as a going concern is dependent on the ongoing availability of finance to the Group, including financial support from a substantial shareholder who is also the Chairman and a director of the Company. If the finance is not available, the Group would be unable to meet its financial obligations as and when they fall due. These conditions, along with other matters as set forth in note 2(c) to the consolidated financial statements, indicate the existence of a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Responsibilities of directors and those charged with governance for the consolidated financial statements

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

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

Those charged with governance are responsible for overseeing the Group's financial reporting process.

INDEPENDENT AUDITOR'S REPORT

Auditor's responsibilities for the audit of the consolidated financial statements

Our responsibility is to conduct an audit of the Group's consolidated financial statements in accordance with Hong Kong Standards on Auditing issued by the HKICPA and to issue an auditor's report. This report is made 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. However, because of the matters described in the *basis for disclaimer of opinion* section of our report, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these consolidated financial statements.

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.

Crowe (HK) CPA Limited
Certified Public Accountants
Hong Kong, 28 June 2019

Chan Wai Dune, Charles
Practising Certificate Number P00712

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2018

	Note	2018 HK$'000	2017 HK$'000
Revenue	8	**66,001**	48,823
Cost of sales		**(15,876)**	(12,768)
Gross profit		**50,125**	36,055
Other income	10	**1,135**	92
Distribution and selling expenses		**(7,651)**	(5,598)
Administrative expenses		**(45,566)**	(36,941)
Other expenses		**(3,544)**	(2,779)
Impairment loss on trade receivables	22(b)	**(549)**	(173)
Finance costs	11	**(2,082)**	(1,090)
Loss before tax	12	**(8,132)**	(10,434)
Income tax expense	13	**(2,033)**	(1,766)
Loss for the year attributable to owners of the Company		**(10,165)**	(12,200)
Other comprehensive (loss)/income			
Exchange differences arising on translation of a foreign subsidiary, (that may be reclassified subsequently to profit or loss)		**(1,216)**	1,290
Other comprehensive (loss)/income for the year, net of nil tax		**(1,216)**	1,290
Total comprehensive loss for the year attributable to owners of the Company		**(11,381)**	(10,910)
LOSS PER SHARE			
Basic	16	**(0.23) HK cents**	(0.28) HK cents
Diluted	16	**(0.23) HK cents**	(0.28) HK cents

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2018

	Note	2018 HK$'000	2017 HK$'000
Non-current assets			
Property, plant and equipment	17	**4,297**	1,206
Intangible assets	18	**626**	4,558
Deposit for acquisition of plant and equipment		**–**	2,694
Available-for-sale investments	19	**–**	–
Financial assets at fair value through other comprehensive income	19	**–**	–
		4,923	8,458
Current assets			
Inventories	20	**3,629**	4,121
Loan receivable	21	**–**	–
Trade and other receivables, deposits and prepayments	22	**22,734**	14,474
Fixed bank deposits	23	**11,386**	–
Bank balances and cash	23	**19,186**	24,072
		56,935	42,667
Current liabilities			
Trade and other payables	24	**40,854**	36,980
Amount due to a related company	32(a)	**6,563**	4,588
Amounts due to ex-directors	32(a)	**3,223**	3,223
Loan from a director	32(a)	**–**	3,308
Amounts due to shareholders	32(a)	**1,463**	1,463
Other borrowings	25	**–**	13,820
Income tax payable	26	**2,963**	3,803
		55,066	67,185
Net current assets/(liabilities)		**1,869**	(24,518)
Total assets less current liabilities		**6,792**	(16,060)
Non-current liabilities			
Other borrowings	25	**24,433**	–
Loan from a director	32(a)	**3,548**	–
Loan from a related company	32(a)	**6,229**	–
Deferred tax liabilities	27	**3,897**	3,874
		38,107	3,874
Net liabilities		**(31,315)**	(19,934)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2018

	Note	2018 HK$'000	2017 HK$'000
Capital and reserves			
Share capital	28	**219,195**	219,195
Reserves		**(250,510)**	(239,129)
Total deficit attributable to owners of the Company		**(31,315)**	(19,934)

The consolidated financial statements on pages 43 to 116 were approved and authorised for issue by the Board of Directors on 28 June 2019 and are signed on its behalf by

Lam Ping Cheung
DIRECTOR

Hui Yip Wing
DIRECTOR

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2018

	Attributable to owners of the Company							
	Share capital HK$'000	**Share premium** HK$'000	**Assets revaluation reserve** HK$'000 (Note i)	**Contributed surplus** HK$'000 (Note ii)	**Statutory reserve** HK$'000	**Translation reserve** HK$'000	**Accumulated losses** HK$'000	**Total** HK$'000
At 1 January 2017	219,195	1,177,323	10,354	12,804	–	29,163	(1,457,863)	(9,024)
Loss for the year	–	–	–	–	–	–	(12,200)	(12,200)
Other comprehensive loss								
Exchange differences arising on								
translation of a foreign subsidiary	–	–	–	–	–	1,290	–	1,290
Total comprehensive loss for the year	–	–	–	–	–	1,290	(12,200)	(10,910)
At 31 December 2017	219,195	1,177,323	10,354	12,804	–	30,453	(1,470,063)	(19,934)
At 1 January 2018	219,195	1,177,323	10,354	12,804	–	30,453	(1,470,063)	(19,934)
Loss for the year	–	–	–	–	–	–	(10,165)	(10,165)
Other comprehensive loss								
Exchange differences arising on								
translation of a foreign subsidiary	–	–	–	–	–	(1,216)	–	(1,216)
Total comprehensive loss for the year	–	–	–	–	–	(1,216)	(10,165)	(11,381)
Transfer to reserve	–	–	–	–	1,408	–	(1,408)	–
At 31 December 2018	219,195	1,177,323	10,354	12,804	1,408	29,237	(1,481,636)	(31,315)

Note:

(i) The assets revaluation reserve of the Group represents the revaluation surplus arising from business combination in 2009.

(ii) The contributed surplus of the Group represents an amount due to a former holding company waived upon the change of the substantial shareholders in 2002.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2018

	Note	2018 HK$'000	2017 HK$'000
OPERATING ACTIVITIES			
Loss before tax		**(8,132)**	(10,434)
Adjustments for			
Interest income		**(116)**	(53)
Finance costs		**2,082**	1,090
Depreciation of property, plant and equipment		**841**	289
Amortisation of intangible assets		**3,854**	3,754
Impairment loss on trade receivables		**549**	173
Reversal of write down of inventories		**–**	(186)
Exchange differences		**(307)**	248
Operating cash flows before changes in working capital		**(1,229)**	(5,119)
Decrease in inventories		**285**	159
(Increase)/decrease in trade and other receivables, deposits and prepayments		**(9,564)**	1,493
Increase in trade and other payables		**4,955**	6,433
Increase in amount due to a related company		**1,975**	3,608
Cash (used in)/generated from operations		**(3,578)**	6,574
Income tax paid		**(2,455)**	(1,756)
NET CASH (USED IN)/GENERATED FROM OPERATING ACTIVITIES		**(6,033)**	4,818
INVESTING ACTIVITIES			
Additions of property, plant and equipment		**(1,435)**	(344)
Deposit paid for acquisition of plant and equipment		**–**	(992)
Increase in fixed bank deposits		**(11,386)**	–
Interest received		**116**	53
NET CASH USED IN INVESTING ACTIVITIES		**(12,705)**	(1,283)
FINANCING ACTIVITIES			
Proceeds from other borrowings		**9,000**	9,218
Loan from a related company		**6,000**	–
NET CASH FROM FINANCING ACTIVITIES		**15,000**	9,218
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		**(3,738)**	12,753
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR		**24,072**	10,568
EFFECT OF FOREIGN EXCHANGE RATE CHANGE		**(1,148)**	751
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	23	**19,186**	24,072

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

1. GENERAL

The Company is a public limited liability company incorporated in Bermuda and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The address of the registered office and principal place of business of the Company are located at Canon's Court, 22 Victoria Street, Hamilton HM 12, Bermuda and 11/F, Shum Tower, 268 Des Voeux Road Central, Sheung Wan, Hong Kong respectively.

The Company is an investment holding company. The principal activities of its principal subsidiaries as at 31 December 2018 are set out in note 33.

2. BASIS OF PRESENTATION

a) Suspension of trading in shares of the Company

At the request of the Company, trading in the shares of the Company has been suspended since 1 April 2015 as the Company was unable to publish annual results for the year ended 31 December 2014 by 31 March 2015. In addition, the Securities and Futures Commission (the "SFC") has directed the Stock Exchange to suspend all dealings in the shares of the Company commencing from 23 October 2017 under Rule 8(1) of the Securities and Futures (Stock Market Listing) Rules ("SMLR").

The Company received a letter dated 4 October 2017 from the SFC which set out the SFC's concern about the Company's annual results announcement and annual report for the year ended 31 December 2013 and the interim results and interim report for the six months ended 30 June 2014 and that certain bank statements and bank transfer documents provided by the Company contained materially false, incomplete or misleading information. The SFC suggested that the bank statements and bank transfer documents provided by the Company were forged. The Company has still to assess the impact of the SFC's direction under Rule 8(1) of SMLR and will seek legal advice accordingly.

b) Comparative information

The comparative figures disclosed in the consolidated financial statements are based on the audited consolidated financial statements for the year ended 31 December 2017. The auditor did not express an opinion on the consolidated financial statements for the year ended 31 December 2017. In addition, in view of (i) the findings of the SFC as set out in note 2(a) above, (ii) the issues as set out in notes 2(d), 2(e) and 2(f) below which relate to the consolidated financial statements of the Group for the previous years and (iii) incomplete books and records, the board of directors of the Company since 20 May 2016 (the "Board") believed that it was not practical, if not impossible, to verify the financial information as reported in the consolidated financial statements of the Group for the year ended 31 December 2017 and previous years. The Board was of the view that the comparative financial information disclosed in these consolidated financial statements may contain errors and omissions and not be reliable. The consolidated financial statements for the year ended 31 December 2017 therefore might not comply with the Hong Kong Financial Reporting Standards, or the disclosure requirements of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities of The Stock Exchange of Hong Kong Limited. The comparative financial information has not been adjusted or reclassified and therefore may not be comparable and any adjustments to the opening balances as at 1 January 2018 would have a significant consequential effect on the financial performance of the Group for the year ended 31 December 2018 and/or the financial position of the Group as at 31 December 2018.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

2. BASIS OF PRESENTATION *(Continued)*

c) Going concern

During the year ended 31 December 2018, the Group incurred a loss of HK$10,165,000 (2017: HK$12,200,000) and cash outflows of HK$6,033,000 from operating activities and net liabilities of HK$31,315,000 as at 31 December 2018. Based on management accounts, the Group was still operating at a loss up to the date of approval of these consolidated financial statements.

The major loan liabilities of the Group as at the date of approval of these consolidated financial statements included loans and loan interests payable to Mr. Lam Ping Cheung and Lam & Co, of HK$10,134,000 and loans and interests payable to Eastern Wealth Development Limited ("Eastern Wealth") of HK$27,488,000. Mr. Lam Ping Cheung is the sole equity partner and also the managing partner of Lam & Co., a firm of solicitors in Hong Kong.

In preparing these consolidated financial statements, the Board has given careful consideration to the impact of the current and anticipated future liquidity of the Group and the ability of the Group to attain profit and positive cash flows from operations in the immediate and longer term. The ability of the Group to operate as a going concern is dependent upon the availability of the credit facilities provided by Mr. Lam Ping Cheung, a substantial shareholder of the Company and being the Chairman and director of the Company and Eastern Wealth and the future business performance of the Group. These conditions indicate the existence of a material uncertainty which may cast significant doubt on the Group's ability to continue as a going concern and therefore it may be unable to realise its assets and discharge its liabilities in the normal course of business. Notwithstanding the above, the Board considered that it is appropriate to adopt the going concern basis in preparing these consolidated financial statements.

The Board is satisfied that the Group will have sufficient financial resources to meet its financial obligations as and when they fall due in the foreseeable future after taking into consideration of the following:

i) Loan facilities from Mr. Lam Ping Cheung and Lam & Co

On 12 September 2016, the Company and Mr. Lam Ping Cheung entered into a loan agreement pursuant to which Mr. Lam Ping Cheung agreed to make available to the Company a credit facility of HK$5,000,000 for two years for the ordinary course of business of the Group. The loan bears interest at 8% per annum which shall not be payable unless and until the maturity of the loan.

On 18 May 2018, the Company and Mr. Lam Ping Cheung entered into a supplemental agreement pursuant to which the term of the loan agreement shall be extended for 2 years to 11 September 2020.

As of the date of approval of these consolidated financial statements, the outstanding loan and accrued interests amounted to HK$2,992,000 and HK$674,000 respectively. The remaining loan facility available for future use under the loan agreement amounted to HK$2,008,000.

On 18 May 2018, the Company entered into a loan agreement with Lam & Co, for a loan facility of HK$40,000,000 for use in the ordinary course of business of the Group. The loan bears interest at 8% per annum. Interest on loan shall not be payable unless and until the maturity of the loan under the loan agreement.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

2. BASIS OF PRESENTATION *(Continued)*

c) Going concern *(Continued)*

i) Loan facilities from Mr. Lam Ping Cheung and Lam & Co *(Continued)*

All outstanding principal and accrued interest under the loan agreement shall be repayable by the Company within 3 months upon written demand by Lam & Co. However, Lam & Co undertakes not to demand repayment of all outstanding principal and accrued interest under the loan agreement within 5 years from the date of the loan agreement.

As of the date of approval of these consolidated financial statements, the outstanding loan and accrued interests amounted to HK$6,000,000 and HK$468,000 respectively. The remaining loan facility available for future use under the loan agreement amounted to HK$34,000,000.

ii) Loan facilities from Eastern Wealth

On 27 September 2016, the Company and Eastern Wealth entered into a loan agreement pursuant to which Eastern Wealth made available to the Company a credit facility of HK$30,000,000 (the first loan agreement). The loan bears interest at 10% per annum and shall not be payable unless and until the maturity of the loan under the terms of the first loan agreement. The credit facility was for a period of three years from the date of the first loan agreement.

On 18 May 2018, the Company and Eastern Wealth entered into a supplemental agreement to extend the term of the loan to 26 September 2020 and Eastern Wealth undertakes not to demand for repayment of the loan and accrued interest by two more year to 26 September 2020.

As of the date of approval of these consolidated financial statements, the outstanding loan and accrued interests amounted to HK$15,000,000 and HK$3,003,000 respectively. The remaining loan facility available for future use under the first loan agreement amounted to HK$15,000,000.

On 23 August 2018, the Company and Eastern Wealth entered into another loan agreement pursuant to which Eastern Wealth made available to the Company a new credit facility of HK$9,000,000 (the second loan agreement). The loan bears interest at 10% per annum and shall not be payable unless and until the maturity of the loan under the terms of the second loan agreement. The credit facility was for a period of three years from the date of the second loan agreement.

As of the date of approval of these consolidated financial statements, the outstanding loan and accrued interests amounted to HK$9,000,000 and HK$485,000 respectively. There was no remaining loan facility available for future use under the second loan agreement.

Based on the cash flow projections of the Group and having taken into account the available financial resources of the Group and the above measures, the Board considered that the Group will be able to obtain sufficient financing to enable it to operate, as well as to meet its liabilities as and when they become due, and the capital expenditure requirements for the upcoming twelve months. Accordingly, the Board believes that it is appropriate to prepare these consolidated financial statements on a going concern basis.

Should the Group be unable to continue in business as a going concern, adjustments would have to be made to write down the value of assets to their recoverable amounts, to provide for further liabilities which might arise and to reclassify non-current assets and liabilities to current assets and liabilities respectively. The effects of these potential adjustments have not been reflected in these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

2. BASIS OF PRESENTATION *(Continued)*

d) Unresolved Matter identified by the predecessor auditor

During the audit in respect of the financial year ended 31 December 2014, Deloitte Touche Tohmatsu, the predecessor auditor (the "Predecessor Auditor") of the Company visited a bank in the PRC to confirm a bank account balance of RMB420,245,000 (equivalent to HK$525,044,000). However, the Predecessor Auditor was told by the bank staff that the bank account belonged to an individual instead of the Company's subsidiary SHMY HealthDigit Biochip Company Limited ("SHMY Biochip") and the bank account was opened in a branch elsewhere (the "Unresolved Matter"). The findings call into question the validity of the bank account with a balance totaling RMB420,245,000 as at 31 December 2014 and the underlying transactions. The Predecessor Auditor reported the Unresolved Matter to the then board of directors and audit committee and recommended that an independent forensic investigation be undertaken to addess the Unresolved Matter. On 6 October 2015, an independent board committee (the "IBC") comprising two of the independent non-executive directors of the Company was established to conduct an investigation on the Unresolved Matter. However, no independent forensic investigation was conducted. On 21 December 2015, the Predecessor Auditor resigned with the reason that the Company failed to undertake an independent forensic investigation in respect of the Unresolved Matter. The then management was replaced by the Board on 20 May 2016. After the change of directors on 20 May 2016 as stated in note 2(e) to the consolidated financial statements, a new IBC was formed. On 3 June 2016 Control Risks Pacific Limited (the "Independent Forensic Investigator") was engaged to conduct a forensic investigation on the Unresolved Matter.

The Independent Forensic Investigator has confirmed that the bank confirmation produced by the then management to the Predecessor Auditor of the Company was forged and that SHMY Biochip did not and does not hold the bank account. Up to the date of approval of these consolidated financial statements, the Unresolved Matter remains outstanding as the Company was unable to gain access to the accounting and banking records of SHMY Biochip and thus, the Independent Forensic Investigator was unable to conduct further investigations.

The Board noted that the bank balances of RMB420,245,000 included an amount of RMB396,000,000 which was allegedly recovered from an unrelated entity in the PRC. The details are set out in note 2(f)(iii).

e) Matters subsequent to the change in directors on 20 May 2016

As at 19 May 2016, the Company has 7 directors (the "ex-directors") with Mr. Yao Yuan as the Chairman of the board. Pursuant to the resolution passed at the annual general meeting of the Company held on 20 May 2016, Mr. Yao Yuan and Mr. Yu Ti Jun were removed as executive director and non-executive director respectively and the remaining one executive and four independent non-executive directors retired from the board of the Company and 7 new directors were appointed.

Since 20 May 2016, the Board began to take over the control of the Company and its subsidiaries from the ex-directors. As at the date of approval of these consolidated financial statements, the Board has successfully taken over the control of the Company and its subsidiaries, with the following exceptions:

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

2. BASIS OF PRESENTATION *(Continued)*

e) Matters subsequent to the change in directors on 20 May 2016 *(Continued)*

i) 上海銘源數康生物芯片有限公司SHMY HealthDigit Biochip Company Limited ("SHMY Biochip") and its subsidiary

On 12 August 2016, HD Global Limited removed the former directors and legal representative of SHMY Biochip and appointed new directors and a legal representative by way of a shareholder's resolution. However, the Board is still unable to gain access to the premises of SHMY Biochip. In early November 2016, the Company issued civil claims against Mr. Yao Yuan, being the registered legal representative of SHMY Biochip for the return of the company seals and business licenses of SHMY Biochip. The Company lost the lawsuit and the appeal against such judgement was unsuccessful. The Company under the advice of its PRC lawyer, reported the loss of the company seals and business licenses and to apply for the issuance of new company seals and business licenses of SHMY. Although the Group was able to obtain agreement from Mr. Yao Yuan to cooperate to change the legal representative of Genetel Shenzhen from Mr. Yao Yuan to a person nominated by the Board in May 2018, the Board was unable to obtain the signature from Mr. Yao Yuan to change the legal representative of SHMY Biochip. On 28 February 2018, Chairman Mr. Lam Ping Cheung, on behalf of the Company, wrote to the Liaison Office of the Central People's Government in the Hong Kong Special Administrative Region (the "Liaison Office") to seek the Liaison Office's assistance in re-gaining control of SHMY Biochip. From March 2018 to October 2018, officers of the Shanghai Administration for Industry & Commerce ("SHAIC") had several meetings with the Company's PRC lawyer concerning the registration of change of legal representative, the reported loss of the business licenses and company seals and the re-issuance of the same. The PRC lawyer had fulfilled the relevant requirements as informed by an official of the Registration Division of Foreign Invested Enterprises of SHAIC. Prior to the re-issuance of the business licenses and company seals, some staff members of SHMY Biochip had informed SHAIC that the business licenses and company seals were in their possession. As such, SHAIC was unable to treat the business licenses and company seals as loss properties and to re-issue the same to the new management. Having considered further advice from the PRC lawyer, the Company decided to apply for retrial of the civil claims against Mr. Yao Yuan for the recovery of the business licenses and company seals. As at the date of approval of these consolidated financial statements, Mr. Yao Yuan remained the registered legal representative of SHMY Biochip. In these circumstances, the Board was unable to take control over the management and operations of SHMY Biochip and its subsidiary.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

2. BASIS OF PRESENTATION *(Continued)*

e) Matters subsequent to the change in directors on 20 May 2016 *(Continued)*

ii) 上海數康生物科技有限公司 Shanghai HealthDigit Co., Ltd ("Shanghai HealthDigit") and its subsidiaries

On 12 August 2016, HD Global Limited removed the former directors and legal representative of Shanghai HealthDigit and appointed new directors and a legal representative by way of a shareholders' resolution. However, the Board is still unable to gain access to the premises of Shanghai HealthDigit. In early November 2016, the Company issued civil claims against Mr. Iu Chung ("Mr. Iu"), being the registered legal representative of Shanghai HealthDigit for the return of the company seals and business licenses of Shanghai HealthDigit. The Shanghai Xu Hui People's Court ruled in favour of Shanghai HealthDigit and Mr. Iu was ordered to surrender the company seals and the business licenses within 10 days from the date when the judgment took effect (that was, 8 March 2018). The Company was later informed by its lawyer in the PRC that Mr. Iu filed an appeal in respect of the judgment made by the Shanghai Xu Hui People's Court. On 30 August 2018, the appeal was successful and the appeal court revoked the judgment made by lower court. On 28 February 2018, Chairman Mr. Lam Ping Cheung, on behalf of the Company, wrote to the Liaison Office of the Central People's Government in the Hong Kong Special Administrative Region to seek the Liaison Office's assistance in re-gaining control of Shanghai HealthDigit. From March 2018 to October 2018, officers of SHAIC had several meetings with the Company's PRC lawyer concerning the registration of change of legal representative, the reported loss of the business licenses and company seals and the re-issuance of the same. The PRC lawyer had fulfilled the relevant requirements as informed by an official of the Registration Division of Foreign Invested Enterprises of SHAIC. Prior to the re-issuance of the business licenses and company seals, some staff members of Shanghai HealthDigit had informed SHAIC that the business licenses and company seals were in their possession. As such, SHAIC was unable to treat the business licenses and company seals as loss properties and to re-issue the same to the new management. Having considered further advice from the PRC lawyer, the Company decided to apply for retrial of the civil claims against Mr. Iu Chung for the recovery of the business licenses and company seals. As at the date of approval of these consolidated financial statements, Mr. Iu Chung remained the registered legal representative of Shanghai HealthDigit. In addition, the Board was unable to gain access to the premises of Shanghai HealthDigit. In these circumstances, the Board was unable to take control over the management and operations of Shanghai HealthDigit.

Given the above circumstances, the Board was unable to take control over the management and operations of SHMY Biochip and Shanghai HealthDigit and their subsidiaries (together the "Shanghai Subsidiaies") nor direct the relevant activities of the Shanghai Subsidiaries which significantly affected the Shanghai Subsidiaries' returns and could not gain access to the premises, assets and the accounting books and records of the Shanghai Subsidiaries. The Board considered that the control over the Shanghai Subsidiaries was lost.

In the absence of relevant books and records of the Shanghai Subsidiaries, the Board has no information to consolidate the financial statements of the Shanghai Subsidiaries into these consolidated financial statements and the financial statements of the Shanghai Subsidiaries were derecognised from these consolidated financial statements.

The Board of the Company acknowledged that it is the responsibility of the directors to prepare consolidated financial statements that give a true and fair view in accordance with the Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"). However, prior to their appointment, the Company's hard drives in the computers in its Hong Kong office had been removed and its banking documents taken away, as a result of which its computer records including details of all bank transactions were no longer accessible. A substantial part of the accounting and computer records of the Company and its subsidiaries, which was contained in the hard drives, is also no longer accessible. The Company reported the matter to the Hong Kong police. The Board of the Company can only prepare the consolidated financial statements of the Company for the year ended 31 December 2016 based on the books and records made available to them. As the Board was not appointed until 20 May 2016, and the change of legal representative of Genetal Shenzhen from Mr. Yao Yuan to a person nominated by the Board and the change of directors of Genetal Shenzhen were took place only in May 2018, the Board could not ensure whether the accounting books and records of Genetal Shenzhen had been properly maintained prior to May 2018. Therefore, the Board would not ensure whether the accounting books and records of the Group had been properly maintained for the years ended 31 December 2017 and 2018.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

2. BASIS OF PRESENTATION *(Continued)*

e) Matters subsequent to the change in directors on 20 May 2016 *(Continued)*

As a result, the consolidated financial statements for the year ended 31 December 2018 have been prepared based on incomplete records and since no financial information of the Shanghai Subsidiaries was made available, the financial performance and financial position of the Shanghai Subsidiaries were not consolidated into these consolidated financial statements. The Board considered that the balances relating to the Shanghai Subsidiaries brought forward from 31 December 2013 should be derecognised and therefore the financial effects were charged to the consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2014.

Any adjustments arising from the matters described above would have a consequential significant effect on the loss of the Group for the year ended 31 December 2018 and net liabilities of the Group as at 31 December 2018.

Due to the limited financial information available and, as most of the former key accounting personnel of the Group had left, the Board was unable to obtain sufficient documentary information to satisfy itself regarding the validity and completeness of the Group's books and records and the appropriateness of the treatment of various balances as included in the consolidated financial statements for the years ended 31 December 2018 and 2017.

As the consolidated financial statements have been prepared based on incomplete books and records, the Board is unable to represent that proper accounting books and records have been maintained for the years ended 31 December 2018 and 2017, or whether all transactions entered into by the Group for the years ended 31 December 2018 and 2017 have been properly reflected in the consolidated financial statements. The Board is also unable to represent as to the completeness, existence and accuracy of information contained in and the disclosures of the consolidated financial statements in accordance with the HKFRSs, the disclosure requirements of the Hong Kong Companies Ordinance and the Listing Rules.

Genetel Shenzhen adopted "Accounting Standards for Business Enterprises" in the preparation of its financial statements. Although the Standards were in line with "The Accounting Law of the People's Republic of China," and were accepted by The Ministry of Finance, they were not in total compliance with the disclosure requirements of the HKFRSs. As certain records had not been kept by Genetel Shenzhen, the Board could not locate all the necessary documents and information to compile the financial statements in accordance with the HKFRSs.

f) Irregularities identified by the Board

Since the Board took over the control of the Group, the Board identified the following questionable transactions in previous years.

i) Shanghai Yuanqi Acquisition and loss of 70% equity interest in Shanghai Yuanqi

On 5 August 2011, the Company announced the acquisition of 70% equity interest in a company, 上海源奇生物醫藥科技有限公司 (Shanghai Yuanqi Bio-Pharmaceutical Company Limited) ("Shanghai Yuanqi") in the PRC by a wholly-owned subsidiary, SHMY Biochip for a consideration of RMB354,000,000, of which RMB225,000,000 was to be paid in cash and the remaining balance of RMB129,000,000 to be satisfied by the issue of 326,871,967 new shares of the Company at HK$0.478 per share as consideration shares (the "Acquisition Announcement").

In the Acquisition Announcement, the 70% equity interest of Shanghai Yuanqi was alleged to have been sold by Mr. Yan Rong Rong ("Yan") as to 51% and Madam Xiong Hui ("Xiong") as to 19% to SHMY Biochip.

On 18 May 2015, Xiong commenced a civil complaint at the People's Court of Feng Xian District, City of Shanghai, the PRC. The civil complaint of Xiong and a search of the documents kept at the Administration of Industry and Commerce revealed that:

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

2. BASIS OF PRESENTATION *(Continued)*

f) Irregularities identified by the Board *(Continued)*

i) Shanghai Yuanqi Acquisition and loss of 70% equity interest in Shanghai Yuanqi *(Continued)*

(a) A different Equity Transfer Agreement to what the Company announced was entered into on the same day of 5 August 2011 between SHMY Biochip, Yan and Xiong whereat the total consideration for the 70% equity interest of Shanghai Yuanqi was agreed at RMB354,000,000 represented by the issuance of 896,997,491 shares of the Company of which 243,470,711 shares were to be issued to Xiong to satisfy the payment for her 19% equity interest in Shanghai Yuanqi. No cash was required to be paid by SHMY Biochip to either Yan or Xiong. At the material times, Mr. Iu, the brother of the then chairman of the board Mr. Yao Yuan, was the legal representative of SHMY Biochip.

(b) By an agreement dated 18 March 2014 between SHMY Biochip and Xiong whereat it was agreed that SHMY Biochip would pay Xiong RMB60 million to settle the unpaid consideration shares for her 19% interest before 30 August 2014.

(c) On the same day of 18 March 2014, a Debt Convert-to-Shares Agreement was entered into between SHMY Biochip and Xiong whereat SHMY Biochip acknowledged the debt of RMB60 million owed to Xiong and agreed to transfer all the 70% equity interest in Shanghai Yuanqi to Xiong if the debt was not paid.

(d) SHMY Biochip did not pay the debt to Xiong and Xiong commenced the civil complaint to enforce her alleged right under the Debt Convert-to-Shares Agreement. In the statement of civil complaint dated 18 May 2015 issued by Xiong, it was stated that SHMY Biochip only gave Xiong a confirmation of entitlement to 88,722,391 shares in the Company on 21 December 2011 (as opposed to the actual delivery of the shares). The balance of 154,748,320 shares had never been issued to Xiong.

According to the records in the Administration of Industry and Commerce, the 70% equity interest in Shanghai Yuanqi owned by SHMY Biochip was transferred to Xiong by agreement between SHMY Biochip and Xiong on 18 February 2016. As a result, the Group lost its 70% equity interest in Shanghai Yuanqi.

Findings by the Board

Shortly before the acquisition, Yan's 51% interest in Shanghai Yuanqi was acquired from a person called Mr. Zhu Cong Zhen (朱從真) ("Zhu") for RMB1.02 million on 21 June 2011. When Yan sold his 51% interest, the Company paid (allegedly) cash RMB163,928,571 and 238,149,576 consideration shares of the Company at HK$0.478 per share. The Equity Transfer Agreement produced by Xiong, where Yan was a party to, that no cash payment was to be paid to Yan as well.

At all material times, Zhu and Xiong were directors of Shanghai Yuanqi.

The then management of the Company had not disclosed to the shareholders the connected relationship of Zhu and Xiong and that Yan only acquired the 51% equity interest from Zhu, less than 2 months ago at the price of RMB1.02 million.

Further enquiry with the branch share registrar of the Company in Hong Kong has confirmed the issuance of a total of 238,149,576 shares of the Company to Yan and 88,722,391 shares to Xiong on 23 December 2011 as consideration shares pursuant to the terms of the acquisition as mentioned in the Acquisition Announcement.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

2. BASIS OF PRESENTATION *(Continued)*

f) Irregularities identified by the Board *(Continued)*

i) Shanghai Yuanqi Acquisition and loss of 70% equity interest in Shanghai Yuanqi *(Continued)*

Findings by the Board (Continued)
The consideration shares issued to Yan exceeded 5% of the then total issued capital of the Company and Yan was required to disclose his interest to the Hong Kong Stock Exchange and the Company according to the SFO. But Yan had not done so. There is no evidence available to the existing directors that the consideration shares were actually delivered to Yan and Xiong, albeit they were issued in their names. Records show that Yan transferred all his 238,149,576 shares from January 2012 to May 2012 except 50,000,000 shares which are still in Yan's name. Xiong transferred all her 88,722,391 shares in May 2014.

The Board does not have information to confirm the actual payment of the cash consideration of RMB163,928,571 and RMB61,071,429 to Yan and Xiong respectively. In her civil complaint in a PRC court, Xiong claimed the agreement to sell her 19% equity interest was for consideration shares of the Company only and she had only received a confirmation as to her entitlement to 88,722,391 shares as opposed to the actual shares. The loss of Shanghai Yuanqi's interest had a significant impact on the net asset of the Company.

ii) Disposal of Shanghai Weiyi Hospital Investment and Management Limited

On 19 December 2011, the then company secretary Mr. Kenny Poon ("Mr. Poon") announced on behalf of the board the disposal of the Group's 51% interest in a PRC subsidiary namely, Shanghai Weiyi Hospital Investment and Management Limited ("Shanghai Weiyi") by its wholly-owned subsidiary, Shanghai HealthDigit to Madam Jiang Yi (蔣毅) ("Jiang") for a consideration of RMB65,000,000 (the"Disposal Announcement"). On 4 January 2012, the Company announced the completion of the disposal.

At all material times, Mr. Yao was the chairman of board of the Company and his brother Mr. Iu was the legal representative of Shanghai HealthDigit.

On 25 April 2014, more than two years after the completion of the disposal, the Company announced that a loan agreement dated 20 December 2011 was entered into between Shanghai HealthDigit and Shanghai Weiyi whereby Shanghai HealthDigit agreed to lend to Shanghai Weiyi a loan of RMB85,240,000 for a term of two years ended on 19 December 2013 (the "Loan Announcement"). It was said in the Loan Announcement that Shanghai HealthDigit had subsequently recovered the loan from Shanghai Weiyi.

The Board located a judgment dated 30 July 2013 issued by the Shanghai City First Intermediate People's Court, the PRC which has revealed different facts from those announced by the Company.

According to the judgement located, the action was brought by 上海銘源實業集團有限公司 Shanghai Mingyuan Enterprises Group Limited ("Shanghai Mingyuan") as plaintiff against 道格特醫療科技(深圳)有限公司 Dao Ge Te Medical Technology (Shenzhen) Company Limited ("Dao Ge Te") and 上海天壇普華醫院有限公司 ("Tian Tan") Shanghai Tian Tan Pu Hwa Hospital Company Limited ("Tian Tan") as defendants to enforce a share charge of all the Shanghai Weiyi shares (see below). According to the evidence produced by Shanghai Mingyuan at the trial, the following facts were presented:

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

2. BASIS OF PRESENTATION *(Continued)*

f) Irregularities identified by the Board *(Continued)*

ii) Disposal of Shanghai Weiyi Hospital Investment and Management Limited *(Continued)*

(a) By an agreement dated 9 August 2010 ("9 August 2010 agreement") entered into between Jiang, Mr. Yang Xing (楊興) ("Yang") and Mr. Tang Hon Ming (唐洪明) ("Tang") as sellers (the "Sellers") and Dao Ge Te and 亞太醫療集團有限公司 as purchasers (the "Purchasers"), the Sellers sold all their 100% shares in Shanghai Weiyi to the Purchasers for a consideration of RMB40 million in cash and RMB120 million worth of floating listed company's shares. The Purchasers designated Dao Ge Te and Tian Tan as the registered owners as to 51% and 49% of the registered capital of Shanghai Weiyi respectively.

(b) Shanghai Mingyuan is a company in PRC owned and controlled by Mr. Yao and Mr. Iu.

(c) Pursuant to the agreement, cash consideration of RMB40,000,000 was paid on 7 December 2010 in Hong Kong currency by a cheque of HK$46,790,000 issued by a Hong Kong solicitors firm Messrs Angela Ho & Associates to Ming Yuan Holdings Limited, which was owned and controlled by Mr. Yao and Mr. Iu.

(d) Completion of the sale took place on 21 December 2010. On 31 December 2010, Dao Ge Te and Tian Tan each executed a share charge on all 100% shares in Shanghai Weiyi in favour of Shanghai Mingyuan for their obligations to pay the balance of consideration of RMB120 million worth of floating listed shares.

(e) The share charges were registered in January 2011 with the Hong-Kou Branch of the Shanghai Administration of Industry and Commerce.

(f) Jiang, Yang and Tang held the 100% shares in Shanghai Weiyi for Shanghai Mingyuan as nominee holders.

(g) After the hearing of the action, Shanghai City First Intermediate People's Court ordered the validity of the share charge and later confirmed by the Shanghai City Higher People's Court on appeal by the buyers in 2015.

The evidence Shanghai Mingyuan produced in the hearing of the action contradicted with what the Company announced on 6 July 2006 about the independence of the sellers, namely Tang and Yang from whom the Company acquired the 51% equity interest. All along, Tang and Yang were nominees of the 51% equity interest in Shanghai Weiyi for Shanghai Mingyuan, a company owned by Mr. Yao and Mr. Iu.

Further findings by the Board

Contrary to what the Disposal Announcement of the Company disclosed, on 8 November 2010, Shanghai HealthDigit transferred all its 51% equity interest in Shanghai Weiyi to Jiang at the price of RMB68,000,000 and the transfer agreement dated the same day of 8 November 2010 between Shanghai HealthDigit and Jiang was filed with the Hong-Kou Branch of the Shanghai Administration of Industry and Commerce.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

2. BASIS OF PRESENTATION *(Continued)*

f) Irregularities identified by the Board *(Continued)*

ii) Disposal of Shanghai Weiyi Hospital Investment and Management Limited *(Continued)*

Further findings by the Board *(Continued)*

In fact, by 8 November 2010, Shanghai HealthDigit had transferred the 51% equity interest in Shanghai Weiyi in favour of Jiang, for RMB68,000,000. Jiang was the nominee for Shanghai Mingyuan which in turn was owned by Mr. Yao and Mr. Iu. The cheque in the sum of HK$46,790,000 issued by the Hong Kong solicitors firm Messrs Angela Ho & Associates as cash consideration paid by the Purchasers under the 9 August 2010 agreement was paid to Ming Yuan Holdings Limited, a British Virgin Islands company owned and controlled by Mr. Yao and Mr. Iu. Mr. Poon issued an acknowledgment of receipt of the payment on behalf of the Sellers. On the acknowledgement of receipt, Mr. Yao also signed for Shanghai Mingyuan.

At the time of making the Disposal Announcement for the purported disposal of 51% equity interest in Shanghai Weiyi by Shanghai HealthDigit to Jiang, the Company had already transferred the 51% equity interest to Jiang on 8 November 2010, who subsequently transferred the same to the Dao Ge Te and Tian Tan on 21 December 2010. Mr. Poon acknowledged the receipt of the cash consideration paid by the Purchasers and the recipient of the cheque was a company owned by Mr. Yao and Mr. Iu.

As such, when the Disposal Announcement was made, Mr. Poon and Mr. Yao knew that the contents of the Disposal Announcement were not true.

The existing directors of the Company could not identify any evidence showing that the loan to Shanghai Weiyi in the sum of RMB85.24 million had been paid to Shanghai HealthDigit as announced by the then management in the Loan Announcement.

The purported sale of the 51% interest in Shanghai Weiyi on 19 December 2011 was a fraud, given the fact that the Company had already transferred such interest to Jiang on 8 November 2010.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

2. BASIS OF PRESENTATION *(Continued)*

f) Irregularities identified by the Board *(Continued)*

iii) Foreign Exchange Agreement

During the year ended 31 December 2013, the Group deposited RMB396,000,000 (equivalent to approximately HK$507,197,000) (the "Payment") to a company incorporated in Beijing, the PRC namely 北京農龍投資管理有限公司 (Beijing Nong Long Investment Management Company Limited) (the "Beijing Company") for certain treasury arrangement. The Payment was made pursuant to an agreement dated 23 December 2013 between the Beijing Company and SHMY Biochip pursuant to which the Beijing Company agreed to exchange the Payment into Hong Kong dollars in Hong Kong within three months, at an agreed exchange rate and subject to a service charge by the Beijing Company, and convert the Payment into Hong Kong dollars to the Company on or before 22 March 2014. If the Beijing Company was unable to effect the conversion, the Beijing Company would refund the Payment to SHMY Biochip within three working days. The amount is interest-free, unsecured and repayable on demand. The Beijing Company failed to deliver the Hong Kong currency in Hong Kong. The ex-directors were still in the negotiation with the Beijing Company in relation to the repayment of such amount. Despite the ex-directors were of the view that such amount could be recovered, since no agreement had been reached in relation to the date of repayment, the entire amount had been impaired during the year ended 31 December 2013.

On 9 June 2014, the Company announced that the full amount was recovered and the Group recognized the full amount recovered as "recovery of other receivable previously written off" in other gains in the interim financial statements for the six months ended 30 June 2014. Purportedly, the whole amount of RMB396,00,000 was recovered by SHMY Biochip in May and June 2014. However, the Board was unable to ascertain whether or not the Payment had been fully recovered as the Board was unable to gain access to the books and records of SHMY Biochip. Subsequently, a sum of RMB420,000,000 was withdrawn from a bank account but details of transfer were unknown.

The Payment had raised concern of the Listing Department of the Stock Exchange. On 28 June 2016, the Listing Committee conducted a hearing into the conduct of the Company and the relevant directors in respect of this transaction. The Listing Committee found that the Payment constituted financial assistance by the Company to the Beijing Company and it was a non-exempt transaction and subject to the requirements under Chapter 14 of the Listing Rules. Based on the size of the Payment, it constituted a major transaction subject to announcement requirements under Rule 14.34 and shareholder approval requirement under Rule 14.40 of the Listing Rules. The Company had not obtained shareholders' approval before the Payment was made and only disclosed, with delay, on 31 March 2014. The Listing Committee concluded that the Company breached Rules 14.34 and 14.40 of the Listing Rules. The Company and six ex-directors were censured by the Stock Exchange on 28 September 2016.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS *(Continued)*

a) In the current year, the Group has applied the following amendments to HKFRSs issued by the HKICPA.

Amendments to HKFRS 2	*Classification and Measurement of Share-based Payment Transactions*
Amendments to HKFRS 4	*Applying HKFRS 9 Financial Instruments with HKFRS 4 insurance Contracts*
HKFRS 9	*Financial Instruments*
HKFRS 15	*Revenue from Contracts with Customers*
Amendments to HKFRS 15	*Clarifications to HKFRS 15 Revenue form Contracts with Customers*
Amendments to HKAS 40	*Transfers of Investment Property*
HK(IFRIC)-Int 22	*Foreign Currency Transactions and Advance Consideration*
Amendments to HKFRS 1 and HKAS 28	*Annual improvements 2014-2016 Cycle*

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

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. The adoption of HKFRS 9 Financial Instruments from 1 January 2018 resulted in changes in accounting policies and adjustments to the amounts recognised in the consolidated financial statements.

Classification and measurements

The Group elected to present changes in the fair value of all its equity investments previously classified as available-for-sale investments to financial assets at fair value through other comprehensive income as these investments are held as long-term strategic investments that are not expected to be sold in the short to medium term. As a result, the available-for-sale investments with carrying value of HK$1 as at 1 January 2018 were reclassified to financial assets at fair value through other comprehensive income on 1 January 2018.

There is no impact on the Group's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss and the Group does not have any such liabilities.

Impairment of financial assets

The incurred loss impairment model used in HKAS 39 has been replaced by an expected credit loss model, with the result that a loss event will no longer need to occur before an impairment allowance is recognised. For trade receivables, the Group applies the simplified approach permitted by HKFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables. The impact of the change in impairment methodology on the Group's financial statements was immaterial.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS *(Continued)*

a) *(Continued)*

HKFRS 15 Revenue from contracts with customers

HKFRS 15 and its amendments replace HKAS 11 Construction Contracts, HKAS 18 Revenue and related interpretations and it applies, with limited exceptions, to all revenue arising from contracts with customers. HKFRS 15 establishes a new five-step model to account for revenue arising from contracts with customers. Under HKFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in HKFRS 15 provide a more structured approach for measuring and recognising revenue. The standard also introduces extensive qualitative and quantitative disclosure requirements, including disaggregation of total revenue, information about performance obligations, changes in contract asset and liability account balances between periods and key judgements and estimates.

The Group has adopted HKFRS 15 using the modified retrospective method of adoption. Under this method, the standard can be applied either to all contracts at the date of initial application or only to contracts that are not completed at this date. The Group has elected to apply the standard to contracts that are not completed as at 1 January 2018.

The comparative information was not restated and continues to be reported under HKAS 18 and relate interpretations.

The adoption of HKFRS 15 did not have material financial impact on the Group's consolidated financial statements

b) The Group has not early applied the following new and amendments to HKFRSs that have been issued but are not yet effective for the current accounting period.

HKFRS 16	Leases[1]
HKFRS 17	Insurance contracts[4]
Amendments to HKFRS 3	Definition of a business[3]
Amendments to HKFRS 9	Prepayment features with negative compensation[1]
HK (IFRIC) – Int. 23	Uncertainty over income tax treatments[1]
Amendments to HKFRS 10 and HKAS 28	Sale or contribution of assets between an investor and its associate or joint venture[2]
Amendments to HKAS 1 and HKAS 8	Definition of Material[3]
Amendments to HKAS 19	Plan amendment, curtailment or settlement[1]
Amendments to HKAS 28	Long-term interests in associates and joint ventures[1]
Amendments to HKFRSs	Annual improvements to HKFRSs 2015-2017 cycle[1]

1 Effective for annual periods beginning on or after 1 January 2019.
2 Effective for annual periods beginning on or after a date to be determined.
3 Effective for annual periods beginning on or after 1 January 2020.
4 Effective for annual periods beginning on or after 1 January 2021.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS *(Continued)*

HKFRS 16 Leases

HKFRS 16, which upon the effective date will supersede HKAS 17 *Leases*, introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. Specifically, under HKFRS 16, a lessee is required to recognize a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. Accordingly, a lessee liability should recognize depreciation of the right-of-use asset and interest on the lease liability, and also classifies cash payments of the lease liability into a principal portion and an interest portion and presents them in the statement of cash flows. Also, the right-of-use asset and lease liability are initially measured on a present value basis. The measurement includes non-cancellable lease payments and also includes payments to be made in optional periods if the lessee is reasonably certain to exercise an option to extend the lease, or not to exercise an option to terminate the lease. This accounting treatment is significantly different from the lessee accounting for leases that are classified as operating leases under the predecessor standard, HKAS 17.

In respect of the lessor accounting, HKFRS 16 substantially carries forward the lessor accounting requirements in HKAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases and to account for these two types of leases differently.

As at 31 December 2018, the Group has non-cancellable operating lease commitments of HK$1,845,000 as disclosed in note 30. A preliminary assessment indicates that these arrangements will meet the definition of a lease under HKFRS 16, and hence the Group will recognise a right-of-use asset and a corresponding liability in respect of all the leases. The Group has estimated that the recognition of right-of-use assets and lease liabilities as at 1 January 2019 would have no material impact on the Group's net liabilities position and the accumulated losses

The directors of the Company anticipate that the application of other new and revised HKFRS will have no material effect on the Group's consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

4. SIGNIFICANT ACCOUNTING POLICIES

a) Statement of compliance

Except for the matters referred in note 2, the consolidated financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. The consolidated financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited.

The consolidated financial statements have been prepared on the historical cost basis.

A summary of significant accounting policies adopted by the Group is set out below:

b) Basis of consolidation

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

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

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

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

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with those used by the Group.

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

Changes in the Group's ownership interests in existing subsidiaries

When the Group loses control of a subsidiary, the assets and liabilities of that subsidiary and non-controlling interests (if any) are derecognised. A gain or loss is recognised in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the carrying amount of the assets (including goodwill), and liabilities of the subsidiary attributable to the owners of the Company. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable HKFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under HKFRS 9/HKAS 39 or, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

c) Investments in an associate and a joint venture

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

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 joint arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The results and assets and liabilities of an associate and a joint venture are incorporated in the consolidated financial statements using the equity method of accounting. Under the equity method, an investment in an associate or a joint venture is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associate or joint venture. When the Group's share of losses of an associate or a joint venture exceeds the Group's interest in that associate or joint venture (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate or joint venture), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal and constructive obligations or made payments on behalf of the associate or joint venture.

An investment in an associate or a joint venture is accounted for using the equity method from the date on which the investee becomes an associate or a joint venture.

The Group assesses whether there is an objective evidence that the interest in an associate or a joint venture may be impaired. When any objective evidence exists, the entire carrying amount of the investment is tested for impairment in accordance with HKAS 36 Impairment of Assets as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs of disposal) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with HKAS 36 to the extent that the recoverable amount of the investment subsequently increases.

d) Revenue recognition

Policy applicable from 1 January 2018

Revenue from contracts with customers is recognised when control of goods or services is transferred to the customers at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services.

When the consideration in a contract includes a variable amount, the amount of consideration is estimated to which the Group will be entitled in exchange for transferring the goods or services to the customer. The variable consideration is estimated at contract inception and constrained until it is highly probable that a significant revenue reversal in the amount of cumulative revenue recognised will not occur when the associated uncertainty with the variable consideration is subsequently resolved.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

d) Revenue recognition *(Continued)*

Policy applicable from 1 January 2018 *(Continued)*

When the contract contains a financing component which provides the customer a significant benefit of financing the transfer of goods or services to the customer for more than one year, revenue is measured at the present value of the amount receivable, discounted using the discount rate that would be reflected in a separate financing transaction between the Group and the customer at contract inception. When the contract contains a financing component which provides the Group a significant financial benefit for more than one year, revenue recognised under the contract includes the interest expense accreted on the contract liability under the effective interest method. For a contract where the period between the payment by the customer and the transfer of the promised goods or services is one year or less, the transaction price is not adjusted for the effects of a significant financing component, using the practical expedient in HKFRS 15.

Contract assets

A contract asset is the right to consideration in exchange for goods or services transferred to the customer. If the Group performs by transferring goods or services to a customer before the customer pays consideration or before payment is due, a contract asset is recognised for the earned consideration that is conditional.

Contract liabilities

A contract liability is the obligation to transfer goods or services to a customer for which the Group has received a consideration (or an amount of consideration that is due) from the customer. If a customer pays the consideration before the Group transfers goods or services to the customer, a contract liability is recognised when the payment is made or the payment is due (whichever is earlier). Contract liabilities are recognised as revenue when the Group performs under the contract.

(a) Sale of products

Revenue from the sale of products is recognised at the point in time when control of the asset is transferred to the customer, generally on delivery of the products.

(b) Service income

Service income is recognised at a point in time when the control of services is transferred.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

d) Revenue recognition *(Continued)*

Policy applicable prior to 1 January 2018

Revenue is measured at the fair value of the consideration received or receivable, and represents amounts receivable for goods sold and services provided in the normal course of business, net of discounts and sales related taxes.

Revenue from the sale of goods is recognised when the goods are delivered and titles have passed, at which time all the following conditions are satisfied:

- we have transferred to the buyer the significant risks and rewards of ownership of the goods;
- we retain neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to us; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Service income is recognised when the relevant services are provided.

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

e) Property, plant and equipment

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

Properties in the course of construction for production, supply or administrative purposes are carried at cost, less any recognized impairment loss. Costs include professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Such properties are classified to the appropriate categories of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Depreciation is recognised so as to write off the cost of assets (other than properties under construction) less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of the reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

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

f) Leases

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

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

g) Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle that obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

h) Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recognised at the rates of exchanges prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

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

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

On disposal of a foreign operation, all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss.

Goodwill and fair value adjustments on identifiable assets acquired arising on an acquisition of a foreign operation are treated as assets and liabilities of that foreign operation and translated at the rate of exchange prevailing at the end of each reporting period. Exchange differences arising are recognised in equity under the heading of translation reserve.

i) Borrowing costs

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

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

j) Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognised as a deduction from the carrying amount of the relevant asset in the consolidated statement of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

Government grants that are 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

k) Retirement benefits costs

Payments to defined contribution retirement benefit plans, government-managed retirement benefit schemes and the Mandatory Provident Fund Scheme are recognised as expenses when employees have rendered service entitling them to the contributions.

A liability for a termination benefit is recognised at the earlier of when the Group entity can no longer withdraw the offer of the termination benefit and when it recognises any related restructuring costs.

l) Taxation

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

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

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition 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 associated with investments in subsidiaries and an associate, and interest in a joint venture, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

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

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

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

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 relates 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.

Current and deferred tax is recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or direct in equity, respectively.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

m) Intangible assets

Intangible assets acquired separately

Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortisation and accumulated impairment losses. Amortisation is recognised on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less any subsequent accumulated impairment losses.

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 development activities (or from the development phase of an internal project) is recognised if, and only if, all of the following have been demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognised for internally-generated intangible assets is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. 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.

Subsequent to initial recognition, internally-generated intangible assets are reported at cost less accumulated amortisation and accumulated impairment losses, (if any) on the same basis as intangible assets that are acquired separately.

Intangible assets acquired in a business combination

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

Subsequent to initial recognition, intangible assets acquired in a business combination are reported at cost less accumulated amortisation and any accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

m) Intangible assets *(Continued)*

Derecognition of intangible assets

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

n) Inventories

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

o) Financial instruments

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

Financial assets and financial liabilities are initially measured at fair value except for trade receivables arising from contracts with customers which are initially measured in accordance with HKFRS 15 since 1 January 2018. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets or financial liabilities at fair value through profit or loss) 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 effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating interest income and interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts and payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset or financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest which are derived from the Group's ordinary course of business are presented as revenue.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

o) Financial instruments *(Continued)*

Financial assets *(applicable from 1 January 2018)*

Classification and subsequent measurement of financial assets (upon application of HKFRS 9 in accordance with transitions in note 3)

Financial assets that meet the following conditions are subsequently measured at amortised cost:

- the financial asset is held within a business model whose objective is to collect 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 amount outstanding.

Financial assets that meet the following conditions are subsequently measured at fair value through other comprehensive income (FVTOCI):

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling; and
- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All other financial assets are subsequently measured at fair value through profit or loss (FVTPL), except that at the date of initial application/initial recognition of a financial asset the Group may irrevocably elect to present subsequent changes in fair value of an equity investment in other comprehensive income if that equity investment is neither held for trading nor contingent consideration recognised by an acquirer in a business combination to which HKFRS 3 Business Combinations applies.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near term; or
- on initial recognition it is a part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

In addition, the Group may irrevocably designate a financial asset that are required to be measured at the amortised cost or FVTOCI as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch.

(i) *Amortised cost and interest income*

Interest income is recognised using the effective interest method for financial assets measured subsequently at amortised cost and debt instruments/receivables subsequently measured at FVTOCI. Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired (see below). For financial assets that have subsequently become credit-impaired, interest income is recognised by applying the effective interest rate to the amortised cost of the financial asset from the next reporting period. If the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial asset from the beginning of the reporting period following the determination that the asset is no longer credit impaired.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

o) Financial instruments *(Continued)*

Financial assets *(applicable from 1 January 2018) (Continued)*

Classification and subsequent measurement of financial assets (upon application of HKFRS 9 in accordance with transitions in note 3) (Continued)

(ii) *Debt instruments/receivables classified as at FVTOCI*

Subsequent changes in the carrying amounts for debt instruments/receivables classified as at FVTOCI as a result of interest income calculated using the effective interest method, and foreign exchange gains and losses are recognised in profit or loss. All other changes in the carrying amount of these debt instruments/receivables are recognised in OCI and accumulated under the heading of FVTOCI reserve. Impairment allowances are recognised in profit or loss with corresponding adjustment to OCI without reducing the carrying amounts of these debt instruments/receivables. The amounts that are recognised in profit or loss are the same as the amounts that would have been recognised in profit or loss if these debt instruments/receivables had been measured at amortised cost. When these debt instruments/receivables are derecognised, the cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss.

(iii) *Equity instruments designated as at FVTOCI*

Investments in equity instruments at FVTOCI are subsequently measured at fair value with gains and losses arising from changes in fair value recognised in OCI and accumulated in the FVTOCI reserve; and are not subject to impairment assessment. The cumulative gain or loss will not be reclassified to profit or loss on disposal of the equity investments, and will be transferred to accumulated losses/will continue to be held in the FVTOCI reserve.

Dividends from these investments in equity instruments are recognised in profit or loss when the Group's right to receive the dividends is established, unless the dividends clearly represent a recovery of part of the cost of the investment. Dividends are included in profit or loss.

(iv) *Financial assets at FVTPL*

Financial assets that do not meet the criteria for being measured at amortised cost or FVTOCI or designated as FVTOCI are measured at FVTPL.

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognised in profit or loss.

Impairment of financial assets (upon application of HKFRS 9 with transitions in accordance with note 3)

The Group recognises a loss allowance for ECL on financial assets which are subject to impairment under HKFRS 9 (including trade receivables and loan receivables. The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12-month ECL ("12m ECL") represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date. Assessment are done based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

o) Financial instruments *(Continued)*

Financial assets (applicable from 1 January 2018) *(Continued)*

Impairment of financial assets (upon application of HKFRS 9 with transitions in accordance with note 3) (Continued)

The Group always recognises lifetime ECL for trade receivables and contract assets without significant financing component. The ECL on these assets are assessed individually for debtors with significant balances and/or collectively using a provision matrix with appropriate groupings (should tailor to reporting entity's specific facts and circumstances.

For all other instruments, the Group measures the loss allowance equal to 12m ECL, unless when there has been a significant increase in credit risk since initial recognition, the Group recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition.

(i) Significant increase in credit risk

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

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

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

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk has increased significantly since initial recognition when contractual payments are more than 1 year, unless the Group has reasonable and supportable information that demonstrates otherwise.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

o) Financial instruments *(Continued)*

Financial assets (applicable from 1 January 2018) *(Continued)*

Impairment of financial assets (upon application of HKFRS 9 with transitions in accordance with note 3) (Continued)

(ii) Credit-impaired financial assets

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

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

(iii) Write-off policy

The Group writes off a financial asset when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery, for example, when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings. Financial assets written off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice where appropriate. A write-off constitutes a derecognition event. Any subsequent recoveries are recognised in profit or loss.

(iv) Measurement and recognition of ECL

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information. Estimation of ECL reflects an unbiased and probability-weighted amount that is determined with the respective risks of default occurring as the weights.

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

Where ECL is measured on a collective basis or cater for cases where evidence at the individual instrument level may not yet be available, the financial instruments are grouped on the aging basis:

- Nature of financial instruments;
- Past-due status;
- Nature, size and industry of debtors; and
- External credit ratings where available.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

o) Financial instruments *(Continued)*

Financial assets (applicable from 1 January 2018) *(Continued)*

Impairment of financial assets (upon application of HKFRS 9 with transitions in accordance with note 3) (Continued)

Financial assets (applicable prior to 1 January 2018)

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

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including trade and other receivables, pledged bank deposits, amount due from a director, amounts due from related parties, amounts due from subsidiaries of a joint venture, loan receivable and bank balances and cash) are measured at amortised cost using the effective interest method, less any impairment.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

o) Financial instruments *(Continued)*

Financial assets (applicable prior to 1 January 2018) *(Continued)*

Impairment of financial assets (applicable prior to 1 January 2018)
Financial assets are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

Objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation; or
- the disappearance of an active market for that financial asset because of financial difficulties.

For certain categories of financial asset, such as trade receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the credit period of 270 days, observable changes in national or local economic conditions that correlate with default on receivables.

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

o) Financial instruments *(Continued)*

Financial liabilities and equity instruments

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

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

Other financial liabilities

Other financial liabilities (including trade and other payables, amounts due to related companies/a subsidiary of a joint venture and bank borrowings) are subsequently measured at amortised cost using the effective interest method.

Effective interest method

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

Interest expense is recognised on an effective interest basis.

Derecognition

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

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

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

p) Available-for-sale financial assets

Investments in securities which do not fall into securities held for trading and held-to-maturity securities are classified as available-for-sale financial assets. At the end of each reporting period, the fair value is remeasured with any resultant gain or loss being recognised in other comprehensive income and accumulated separately in equity in the fair value reserve. As an exception to this, investments in equity securities that do not have a quoted price in an active market for an identical instrument and whose fair value cannot otherwise be reliably measured are recognized in the statement of financial position at cost less impairment losses.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

q) Share-based payment arrangements

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date.

The fair value of the equity-settled share-based payments determined at the grant date without taking into consideration all non-maket vesting conditions is expensed on a straight-line basis over the vesting period, based on the Group's estimate of equity instruments that will eventually vest, with a corresponding increase in equity.

At the end of the reporting period, the Group revises its estimates of number of options that are expected to ultimately vest. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to share options reserve.

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

r) Impairment of tangible and intangible assets

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

5. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 4, management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and underlying assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

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

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.

Going concern basis

As mentioned in note 2(c) to the consolidated financial statements, the Board is satisfied that the Group will be able to meet its financial obligations in full as and when they fall due in the foreseeable future. As the Board is confident that the Group will be able to continue in operational existence in the foreseeable future, the consolidated financial statements have been prepared on a going concern basis. If the going concern basis is not appropriate, adjustments would have to be made to restate the values of assets to their recoverable amounts, to provide for further liabilities which might arise and to reclassify non-current assets and liabilities as current assets and liabilities respectively. Such adjustments might have a significant consequential effect on the loss for the year and net liabilities of the Group as at 31 December 2018.

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 within the next financial year are as follows:

Useful life and impairment of intangible assets – technical know-how

Intangible assets – technical know-how is amortised over their useful economic lives. The assessment of estimated useful lives is a matter of judgment based on the experience of the Group, taking into account factors such as the ability to legally renew the technical know-how, technological progress and changes in market demand. Useful lives are periodically reviewed for continued appropriateness. Due to long lives of assets, changes to the estimates used can result in variations in their carrying value in the period in which the changes take place. Determining whether the intangible assets are impaired requires an estimation of the value in use of respective cash-generating units to which those intangible assets belong. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating units and suitable discount rates in order to calculate the present value.

At 31 December 2018, the carrying amount of technical know-how was HK$626,000, net of accumulated amortisation and impairment loss of HK$276,055,000 (2017: HK$4,558,000, net of accumulated amortisation and impairment loss of HK$286,777,000). Details of the intangible assets are set out in note 18.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

5. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY *(Continued)*

Key sources of estimation uncertainty *(Continued)*

Estimated impairment of trade receivables

For the year ended 31 December 2018, the Group uses provision matrix to calculate ECL for the trade receivables. The provision rates are based on aging as groupings of various debtors that have similar loss patterns. The provision matrix is based on the Group's historical default rates taking into consideration forward-looking information that is reasonable and supportable available without undue costs or effort. At every reporting date, the historical observed default rates are reassessed and changes in the forward-looking information are considered. In addition, trade receivables with significant balances and credit impaired are assessed for ECL individually.

The provision of ECL is sensitive to changes in estimates. The information about the ECL and the Group's trade receivables are disclosed in note 22. At 31 December 2018, the carrying amount of trade receivable was HK$17,889,000 net of allowance for doubtful debts of HK$1,595,000.

For the year ended 31 December 2017, when there is objective evidence of impairment loss, the Group takes into consideration the estimation of future cash flows. The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). Where the actual future cash flows are less than expected, a material impairment loss may arise.

At 31 December 2017, the carrying amount of trade receivables was HK$12,995,000 net of allowance for doubtful debts of HK$1,124,000.

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. At 31 December 2018, the carrying amount of the inventories was HK$3,629,000 (2017: HK$4,121,000)

Income tax and deferred taxation

The Group estimates its income tax provision in accordance with the prevailing tax rules and regulations, taking into account any special approvals obtained from relevant tax authorities and any preferential tax treatment to which it is entitled in each location or jurisdiction in which the Group operates. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax provisions in the period in which such determination is made.

The Group believes it has recorded adequate current tax provision based on the prevailing tax rules and regulations and its current best estimates and assumptions. In the event that future tax rules and regulations or related circumstances change, adjustments to current taxation may be necessary which would impact the Group's financial performance or financial position. As at 31 December 2018, the carrying amount of income tax payable was HK$2,963,000 (2017: HK$3,803,000).

Deferred income tax liabilities relating to certain temporary differences are recognised as the directors consider it is probable that future taxable profit will be available against which the temporary differences can be utilised. Where the expectation is different from the original estimate, such differences will impact the recognition of deferred tax liabilities and tax expenses in the periods in which such estimate is changed. As at 31 December 2018, the carrying amount of deferred tax liabilities amounted to HK$3,897,000 (2017: HK$3,874,000).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

6. CAPITAL MANAGEMENT

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

The Group monitors its capital structure on the basis of a net debt to equity ratio. For this purpose, the Group defines net debt as borrowings as shown in the consolidated statement of financial position less bank balances and cash.

The management reviews the Group's net debt to equity ratio regularly and adjust the ratio through the payment of dividends, the issue of new shares or debt and the repayment of existing debt.

The net debt to equity ratio at the end of the reporting period was as follows:

	2018 HK$'000	2017 HK$'000
Loan from a director	**3,548**	3,308
Loan from a related company	**6,229**	–
Other borrowings	**24,433**	13,820
Total borrowings	**34,210**	17,128
Less:		
Fixed bank deposits	**(11,386)**	–
Bank balances and cash	**(19,186)**	(24,072)
Net debt/(cash)	**3,638**	(6,944)
Capital deficit	**(31,315)**	(19,934)
Net debt to equity ratio*	**N/A**	N/A

* Given that the Group was at a capital deficit as at 31 December 2018 and 2017, the net debt to equity ratio was not presented.

The Group is not subject to any externally imposed capital requirements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

7. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

	2018 HK$'000	2017 HK$'000
Financial assets		
Loans and receivables		
– Trade and other receivables	21,717	13,694
– Fixed bank deposits	11,386	–
– Bank balances and cash	19,186	24,072
	52,289	37,766
Financial liabilities		
Amortised cost		
– Trade and other payables	40,025	36,107
– Amount due to a related company	6,563	4,588
– Amounts due to ex-directors	3,223	3,223
– Loan from a director	3,548	3,308
– Loan from a related company	6,229	–
– Amounts due to shareholders	1,463	1,463
– Other borrowings	24,433	13,820
	85,484	62,509

(b) Financial risk management objectives and policies

The Group's major financial instruments include trade and other receivables, amounts with related companies, ex-directors, a director and shareholders, loan receivable, bank balances and cash, trade and other payables and other borrowings. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (currency risk and interest rate risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. Management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Market risk

(i) Currency risk

The Group mainly operates in the PRC, and did not have significant sales or purchases denominated in currencies other than the functional currency of the relevant group entities. However, the Group has certain bank balances that are denominated in Hong Kong dollar ("HK dollar") and United States dollar ("US dollar"). As a result, the Group is exposed to fluctuations in exchange rates of US dollar and HK dollar against Renminbi ("RMB"). The Group did not enter into any derivative contracts nor did it have a foreign currency hedging policy aimed at minimizing exchange rate risks during the year. However, the management closely monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arises.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

7. FINANCIAL INSTRUMENTS *(Continued)*

(b) Financial risk management objectives and policies *(Continued)*

Market risk *(Continued)*

(i) Currency risk (Continued)

The carrying amounts of the Group's foreign currency denominated monetary assets and liabilities at the end of the reporting period are as follows:

	Assets/(liabilities)	
	2018	2017
	HK$'000	HK$'000
HK dollar	**5**	7
RMB	**(1,063)**	(997)
	(1,058)	(990)

Sensitivity analysis

The Group is mainly exposed to RMB and HK dollar. No sensitivity analysis was prepared since the Directors are of the opinion that the impact of the Group's foreign currency denominated monetary assets and liabilities at the end of the reporting period is not significant.

(ii) Interest rate risk

The Group is exposed to cash flow interest rate risk in relation to its variable-rate bank balances (see note 23 for details of bank balances). It is the Group's policy to keep its bank balances at floating rate of interests so as to minimise at the fair value interest rate risk.

Sensitivity analysis

The Group's interest rate risk arised primarily from variable rate bank balances as all of the Group's borrowings were fixed rate. No sensitivity analysis was prepared since the Group does not anticipate the interest rate of bank deposits changing significantly.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

7. FINANCIAL INSTRUMENTS *(Continued)*

(b) Financial risk management objectives and policies *(Continued)*

Credit risk

As at 31 December 2018, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position.

In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at the end of the reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the Directors consider that the Group's credit risk is significantly reduced.

The Group has concentration of credit risk as 7% (2017: 15%) and 29% (2017: 34%) of the total trade receivables was due from the Group's largest customer and the five largest customers, respectively.

The Group's concentration of credit risk by geographical locations of customers are mainly in the PRC, which accounted for all the trade receivables as at 31 December 2017 and 2018.

The credit risk on bank balances is limited because the counterparties are reputable banks in the PRC.

Other than the concentration of credit risk on trade receivables, loan receivable and liquid funds which are deposited with several banks with good reputation, the Group does not have any other significant concentration of credit risk.

Liquidity risk

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

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

The table includes both interest and principal cash flows. To the extent the interest flows are floating rate, the undiscounted amount is derived from interest rate at the end of the reporting period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

7. FINANCIAL INSTRUMENTS *(Continued)*

(b) Financial risk management objectives and policies *(Continued)*

Liquidity risk *(Continued)*

Liquidity tables

2018

	Weighted average interest rate %	On demand or less than 1 year HK$'00	Over 1 year but within 2 years HK$'000	More than 2 years but less than 5 years HK$'000	Total Undiscounted cash flows HK$'000	Carrying amount at 31 December 2018 HK$'000
Trade and other payables	–	40,025	–	–	40,025	40,025
Amount due to a related company	–	6,563	–	–	6,563	6,563
Amounts due to ex-directors	–	3,223	–	–	3,223	3,223
Loan from a director	8%	–	3,954	–	3,954	3,548
Loan from a related company	8%	–	–	8,449	8,449	6,229
Amounts due to shareholders	–	1,463	–	–	1,463	1,463
Other borrowings	7%-10%	–	28,324	–	28,324	24,433
		51,274	32,278	8,449	92,001	85,484

2017

	Weighted average interest rate %	On demand or less than 1 year HK$'00	Over 1 year but within 2 years HK$'000	More than 2 years but less than 5 years HK$'000	Total Undiscounted cash flows HK$'000	Carrying amount at 31 December 2017 HK$'000
Trade and other payables	–	36,107	–	–	36,107	36,107
Amount due to a related company	–	4,588	–	–	4,588	4,588
Amounts due to ex-directors	–	3,223	–	–	3,223	3,223
Loan from a director	8%	3,368	–	–	3,368	3,308
Amounts due to shareholders	–	1,463	–	–	1,463	1,463
Other borrowings	7%-10%	15,020	–	–	15,020	13,820
		63,769	–	–	63,769	62,509

The amounts included above for variable interest rate instruments for non-derivative financial liabilities is subject to change if changes in variable interest rates differ to those estimates of interest rates determined at the end of the reporting period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

7. FINANCIAL INSTRUMENTS *(Continued)*

(c) Fair value

The fair value of financial assets and financial liabilities are determined as follows:

- the fair value of financial assets with standard terms and conditions and traded in active liquid markets are determined with reference to quoted market bid prices; and
- the fair value of other financial assets and financial liabilities is determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

The Board considers that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate to their fair values.

(d) Offsetting financial assets and financial liabilities

The following financial assets and financial liabilities are subject to offsetting agreements:

As at 31 December 2018	**Gross amounts of recognised financial assets/liabilities**	**Gross amounts of recognised financial assets/ liabilities set off in the consolidated statement of financial position**	**Net amounts of financial assets/ liabilities presented in the consolidated statement of financial position**
	HK$'000	HK$'000	HK$'000
Other receivables			
(net of allowance of doubtful debts of HK$872,000)	2,917	(2,553)	364
Receipts in advance	(10,143)	2,553	(7,590)
Total	(7,226)	–	(7,226)
As at 31 December 2017			
Other receivables			
(net of allowance of doubtful debts of HK$918,000)	3,000	(2,688)	312
Receipts in advance	(7,137)	2,688	(4,449)
Total	(4,137)	–	(4,137)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

8. REVENUE

	2018 HK$'000	2017 HK$'000
Revenue from contracts with customers		
Sales from health care division	**66,001**	48,823

The sales from health care division mainly represented the sales of HPV detection products by a subsidiary namely Genetel Pharmaceuticals (Shenzhen) Company Limited ("Genetel Shenzhen") to hospitals and other customers (the "End Users"). However, a number of the End Users did not enter into sales contracts with Genetel Shenzhen. Genetel Shenzhen only entered into agreements (the "Sales Agreements") with distributors pursuant to which Genetel Shenzhen sold goods to the distributors. During the course of audit for the year ended 31 December 2018, the management discovered that Genetel Shenzhen entered into the Sales Agreements with the distributors and the sales contracts with the End Users at the same time under certain circumstances. Under the Sales Agreements, Genetel Shenzhen shall deliver goods to the End Users upon receiving payments from the distributiors (the "Payments") and issue sales invoices for the distributors to the End Users under the instructions from the distributors. The sales invoices issued by Genetel Shenzhen to the End Users were to be in amounts specified by the distributors without the Group having a price negotiating right. The selling prices stated in the sales invoices were higher than the selling prices stated in the Sales Agreements with the distributors.

Under another agreement with the distributors, the distributors were appointed to perform technical and ancillary services to the End Users. Upon receiving of settlements of trade receivables from the End Users, Genetel Shenzhen was required to pay the distributors the technical service fees (note 12) and refund the Payments (classified as receipts in advance in note 24(b)) to the distributors net of appropriate value added tax. No acknowledgement of goods receipt by the End Users were kept by Genetel Shenzhen.

Notwithstanding the fact that no written agreements for sales were entered into between Genetel Shenzhen and a number of the End Users and Genetel Shenzhen entered into the Sales Agreements with the distributors and sales contracts with the End Users at the same time under certain circumstances, the Board considered that the End Users were customers of Genetel Shenzhen instead of the distributors, therefore, the amounts as stated in sales invoices issued for the End Users were recognised as revenue by Genetel Shenzhen.

		2018 HK$'000
a)	Timing of revenue recognition	
	– Goods transferred at a point in time	66,001

b) Performance obligations

The performance obligation is satisfied when the customer obtain control of the promised goods, being at a point upon delivery of goods. Payment is generally due at the point the customer purchases the products or within 270 days from delivery.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

9. SEGMENT INFORMATION

Information reported to the Executive Directors of the Company, being the chief operating decision maker, for the purposes of resources allocation and assessment of segment performance focuses on types of goods or services delivered or provided.

The Group's only reportable and operating segment is the manufacture and trading of HPV detection products and related equipments. Since it is the only operating segment of the Group, no further analysis thereof is presented. The chief operating decision maker assesses the performance of the reportable segment based on the revenue and loss for the year of the Group are presented in the consolidated statement of profit or loss and the comprehensive income.

Revenue from major products and services

The following is an analysis of the Group's revenue from its major products and services:

	2018 **HK$'000**	2017 HK$'000
HPV detection products and related equipment	**66,001**	48,823

Geographical information

All of the Group's revenue are derived from the operation in the PRC for the years ended 31 December 2018 and 2017 and over 99% of the Group's non-current assets are located in the PRC as at 31 December 2018 and 2017, therefore, no geographical information is presented.

Information about major customers

For the years ended 31 December 2018 and 2017, no single customer contributed 10% or more than 10% of the total revenue of the Group.

10. OTHER INCOME

	Note	**2018** **HK$'000**	2017 HK$'000
Interest income on bank deposits		**116**	53
Government subsidies	(i)	**1,019**	39
		1,135	92

Note:

(i) For the year ended 31 December 2018, the government subsidies mainly represented the subsidies obtained from 深圳市科技創新委員會 for financing the research and development activities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

11. FINANCE COSTS

	Note	2018 HK$'000	2017 HK$'000
Interst on other borrowings		**1,613**	851
Interest on loan from a director	32(c)	**240**	239
Interest on loan from a related company	32(c)	**229**	–
		2,082	1,090

12. LOSS BEFORE TAX

	2018 HK$'000	2017 HK$'000
Loss before tax has been arrived at after charging/(crediting):		
Depreciation of property, plant and equipment	**841**	289
Amortisation of intangible assets (included in cost of sales)	**3,854**	3,754
Staff costs		
– directors' emoluments (note 14(a))	**2,140**	1,366
– other staff costs	**19,947**	14,280
– retirement benefits scheme contributions, excluding directors	**795**	628
	22,882	16,274
Auditors' remuneration – audit service		
– Crowe	**900**	800
– Other auditor	**30**	48
Cost of inventories recognised as expenses	**5,996**	4,564
Reversal of write-down of inventories	**–**	(186)
Operating lease charges: minimum lease payments	**1,999**	1,578
Research and development expenditure (included in other expenses)	**3,544**	2,779
Technical service fees (Note) (included in administrative expenses)	**22,174**	16,777

Note: Under the agreements with the distributors, the distributors were appointed to perform technical and ancillary services to the End Users. After making appropriate enquires, the Board observed that the technical service fees represented spending and costs incurred by distributors and their associates for the purposes of maintaining distribution channels and establishments; travelling and entertainments and potential client solicitation throughout the PRC; and the profit margin and commission paid to the distributors and their associates. Certain technical service fees of HK$14,425,000 (2017: HK$12,837,000) were supported by invoices issued by third parties unrelated to the provision of technical services.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

13. INCOME TAX EXPENSE

	2018 HK$'000	2017 HK$'000
PRC Enterprise Income Tax		
– Current year	**1,806**	1,689
Deferred tax (note 27)		
– Origination and reversal of temporary difference	**677**	77
– Effect on deferred tax balance at 1 January resulting from a change in tax rate	**(450)**	–
Income tax expense	**2,033**	1,766

No provision for Hong Kong Profits Tax has been made since the group entities operating in Hong Kong had no assessable profits for both years.

Under the Law of the People's Republic of China on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiary is 25%. During the year ended 31 December 2018, Genetal Shenzhen was qualified as High and New Technology Enterprise that was subject to a reduced preferential EIT rate of 15% according to the applicable EIT Law.

Taxation arising in other jurisdiction is calculated at the rate prevailing in the relevant jurisdiction.

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

	2018 HK$'000	2017 HK$'000
Loss before tax	**(8,132)**	(10,434)
Notional tax on loss before tax, calculated at the rates applicable to profits in the tax jurisdictions concerned	**(875)**	(444)
Tax effect of expenses not deductible for tax purpose	**2,096**	1,653
Tax effect of temporary differences not recognised	**405**	–
Effect on deferred tax balance at 1 January resulting from a change in tax rate	**(450)**	–
Income tax on concessionary rate	**(399)**	(459)
Tax effect of withholding tax on undistributed profits of the PRC subsidiary	**1,256**	1,016
Income tax expense for the year	**2,033**	1,766

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

14. DIRECTORS', CHIEF EXECUTIVE'S AND EMPLOYEES' EMOLUMENTS

(a) Directors' and chief executive's emoluments

		Fees HK$'000	Salaries and other benefits HK$'000	Retirement benefits scheme contributions HK$'000	Total HK$'000
Year ended 31 December 2018					
Executive directors					
– Lam Ping Cheung		1,200	–	–	1,200
– Hui Yip Wing		360	–	–	360
		1,560	–	–	1,560
Non-executive director					
– Wong Peter Kai-hong	(appointed on 1 December 2017 and resigned on 31 October 2018)	100	–	–	100
		100	–	–	100
Independent non-executive directors					
– Lam Suk Ping		120	–	–	120
– Chan Mee Sze		120	–	–	120
– Cheung Chi Ming		120	–	–	120
– Fan Stephanie Winnie		120	–	–	120
		480	–	–	480
Cheif executive officer					
– Lam Sing Hung, Danny		–	1,482	18	1,500
		2,140	1,482	18	3,640

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

14. DIRECTORS', CHIEF EXECUTIVE'S AND EMPLOYEES' EMOLUMENTS *(Continued)*

(a) Directors' and chief executive's emoluments *(Continued)*

		Fees HK$'000	Salaries and other benefits HK$'000	Retirement benefits scheme contributions HK$'000	Total HK$'000
Year ended 31 December 2017					
Executive directors					
– Lam Ping Cheung		430	–	–	430
– Hui Yip Wing		360	–	–	360
		790	–	–	790
Non-executive directors					
– Lam Yan Fong Flora	(retired on 18 August 2017)	75	–	–	75
– Wong Peter Kai-hong	(appointed on 1 December 2017 and resigned on 31 October 2018)	10	–	–	10
		85	–	–	85
Independent non-executive directors					
– Lam Suk Ping		120	–	–	120
– Hui Wai Man Shirley	(retired on 18 August 2017)	76	–	–	76
– Chan Mee Sze		120	–	–	120
– Wong Anthony Chi-ho	(retired on 8 September 2017)	82	–	–	82
– Fan Stephanie Winnie	(appointed on 13 September 2017)	36	–	–	36
– Cheung Chi Ming	(appointed on 10 July 2017)	57	–	–	57
		491	–	–	491
Chief executive officer					
Lam Sing Hung, Danny	(appointed on 1 December 2017)	–	125	–	125
		1,366	125	–	1,491

Mr. Lam Sing Hung, Danny is the Chief Executive Officer of the Company and his emoluments disclosed above include those for services rendered by him as the Chief Executive Officer.

There was no arrangement under which the chief executive officer or a director waived or agreed to waive any emoluments during either year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

14. DIRECTORS', CHIEF EXECUTIVE'S AND EMPLOYEES' EMOLUMENTS *(Continued)*

(b) Employees' emoluments

Of the five individuals with the highest emoluments in the Group one (2017: one) was a director and another one was the Chief Executive Officer of the Company whose emoluments were included in the disclosures above. The emoluments of the remaining three (2017: four) individuals were as follows:

	2018 HK$'000	2017 HK$'000
Salaries, allowances and benefits in kind	**3,637**	3,523
Retirement benefits scheme contributions	**83**	62
	3,720	3,585

Note: The bonus is determined based on performance of the Group and the current market environment.

Their emoluments were within the following bands:

	2018 Number of employees	2017 Number of employees
Nil to HK$1,000,000	**1**	2
HK$1,000,001 to HK$1,500,000	**1**	2
HK$2,000,001 to HK$2,500,000	**1**	–
	3	4

15. DIVIDENDS

No dividend was paid or proposed during 2018 and 2017, nor has any dividend been proposed since the end of the reporting period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

16. LOSS PER SHARE

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

	2018 HK$'000	2017 HK$'000
Loss		
Loss for the purpose of basic and diluted loss per share		
Loss for the year attributable to owners of the Company	**(10,165)**	(12,200)

	2018 '000	2017 '000
Number of shares		
Weighted average number of ordinary shares for the purpose of calculation of basic and diluted loss per share	**4,383,893**	4,383,893

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

17. PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvements HK$'000	Laboratory and office equipment HK$'000	Motor vehicles HK$'000	Total HK$'000
COST				
At 1 January 2017	–	3,412	538	3,950
Exchange adjustments	6	255	40	301
Additions	166	178	–	344
At 31 December 2017 and 1 January 2018	172	3,845	578	4,595
Exchange adjustments	(9)	(359)	(29)	(397)
Reclassified from deposit for acquisition of plant and equipment	–	2,694	–	2,694
Additions	–	1,435	–	1,435
At 31 December 2018	163	7,615	549	8,327
ACCUMULATED DEPRECIATION				
At 1 January 2017	–	2,734	144	2,878
Exchange adjustments	1	208	13	222
Provided for the year	9	230	50	289
At 31 December 2017 and 1 January 2018	10	3,172	207	3,389
Exchange adjustments	(4)	(183)	(13)	(200)
Provided for the year	57	733	51	841
At 31 December 2018	63	3,722	245	4,030
CARRYING AMOUNTS				
At 31 December 2018	100	3,893	304	4,297
At 31 December 2017	162	673	371	1,206

The above items of property, plant and equipment are depreciated on a straight-line basis at the following rates per annum:

Laboratory and office equipment	15% – 50%
Motor vehicles	10%
Leasehold improvements	Over the lease terms

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

18. INTANGIBLE ASSETS

	Technical know-how HK$'000
COST	
At 1 January 2017	271,359
Exchange adjustments	19,976
At 31 December 2017 and 1 January 2018	291,335
Exchange adjustments	(14,654)
At 31 December 2018	276,681
AMORTISATION AND IMPAIRMENT LOSS	
At 1 January 2017	263,484
Charge for the year	3,754
Exchange adjustments	19,539
At 31 December 2017 and 1 January 2018	286,777
Charge for the year	3,854
Exchange adjustments	(14,576)
At 31 December 2018	276,055
CARRYING AMOUNTS	
At 31 December 2018	626
At 31 December 2017	4,558

Note:

The balance of technical know-how of HK$626,000 (2017: HK$4,558,000) as at 31 December 2018 represented the technical know-how acquired through the acquisition of a subsidiary, Genetel Shenzhen during the year ended 31 December 2009. However, the Board was unable to locate the purchase agreements nor the valuation reports at the date of the acquisition or other documents to support the costs and the carrying amount of these technical know-how. In this connection, the Board was unable to ascertain the accuracy of the costs and the carrying amount of the intangible assets as at 31 December 2018 and 2017 nor the amortisation charged to the consolidated statement of profit or loss and other comprehensive income for the years ended 31 December 2018 and 2017.

The technical know-how represents the costs of design, development, production, sales and distributions of certain HPV detection products registered for use in the PRC. The Group has registered various technologies developed under the technical know-how with the State Intellectual Property Office of the PRC for patents. Each technology so registered would be protected for a period of 20 years starting from the day of registration.

The Board carried out an impairment assessment of the cash generating unit of the manufacture and trading of HPV detection products and related equipment. In preparing the cash flow projections, the Board used certain bases and assumptions and the historical performance of Genetel Shenzhen. The recoverable amount of the cash generating unit has been determined by the Board based on value in use calculations. As a result of the assessment, no impairment loss nor reversal of impairment loss was made for the years ended 31 December 2018 and 2017.

During the year ended 31 December 2011, two medical device licenses had been obtained from the State Food and Drug Administration for products developed under the technical know-how. Both medical device licenses have a legal life of 4 years and had expired in the year 2015. The Board is of the opinion that the Group would be able to renew the medical device licenses continuously at minimal costs and hence extending the legal life of the medical device licenses. The Board is of the opinion that the technical know-how is expected to be available for use by the Group over a useful life of 15 years from the date of acquisition and hence it is amortised on a straight-line basis over 15 years.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

19. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME/AVAILABLE-FOR-SALE INVESTMENTS

	2018	2017
Shanghai Subsidiaries	–	–

As set out in note 2(e) to the consolidated financial statements, the Board was unable to direct the relevants activities of the Shanghai Subsidiaries which significantly affected the Shanghai Subsidiaries' returns and could not obtain any accounting records from their management, the Board was of the opinion that the Group had lost control over the Shanghai Subsidiaries. The Shanghai Subsidiaries had been derecognised from these consolidated financial statements of the Group as from 1 January 2014. The Shanghai Subsidiaries were therefore recognised by the Group as available-for-sale investments with a carrying value of HK$1 as the Board considered that there was no expectation of recovery from the Shanghai Subsidiaries. Upon the adoption of HKFRS 9 "Financial Instrument" in 2018, the available-for-sale investments have been reclassified to financial assets at fair value through other comprehensive income. A list of the subsidiaries derecognised from these consolidated financial statements is set out in note 33.

20. INVENTORIES

	2018 HK$'000	2017 HK$'000
Raw materials	2,660	2,551
Work in progress	692	746
Finished goods	492	1,050
	3,844	4,347
Less: write-down of inventories	(215)	(226)
	3,629	4,121

21. LOAN RECEIVABLE

	2018	2017
Loan receivable	82,500	82,500
Interest receivable	1,238	1,238
Total	83,738	83,738
Less: Impairment loss	(83,738)	(83,738)
	–	–

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

21. LOAN RECEIVABLE *(Continued)*

On 14 November 2014, Sita Financial entered into another loan agreement with the Borrower. Pursuant to the loan agreement, Sita Financial lent a loan of RMB66,000,000 (equivalent to HK$82,500,000) to the Borrower. The loan was bearing interest at 1% per month and repayable on 16 May 2015. In addition, the loan agreement stipulated that the loan was secured by the Borrower's 21% shareholding interest in the Company. However, the Board noted that there was only one director's signature on the board minutes approving the loan and the security as stated on the board minutes was the Borrower's 21% shareholding interest in a former associate of the Group held by the Borrower instead of the 21% shareholding interest in the Company as stated in the loan agreement. In addition, based on the available information, the Borrower was neither a shareholder of the Company nor a shareholder of the former associate of the Group. The Board was unable to verify if the Borrower held 21% shareholding interest in the Company. According to the available accounting records, the loan was made to the Borrower through the current account with SHMY Biochip. Due to the fact that the Board was unable to gain access to the books and records of SHMY Biochip, the Board was unable to verify whether the loan was properly made to the Borrower. The Board was unable to explain the inconsistency between the two documents. Up to the date of approval of these consolidated financial statements, the loan together with the interest receivables remain outstanding. Therefore, full impairment loss totalling HK$83,738,000 on the loan and interest receivables was made as at 31 December 2018 and 2017.

22. TRADE AND OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

	Note	2018 HK$'000	2017 HK$'000
Trade receivables (note i)		**19,484**	14,119
Less: allowance for doubtful debts	(b)	**(1,595)**	(1,124)
		17,889	12,995
Prepayments		**1,017**	780
Other receivables (note ii)		**3,000**	–
Rental and utility deposits		**464**	387
Others	(c)	**364**	312
		22,734	14,474

Note:

i) The trade receivables mainly represented the amounts receivable from the End Users. Upon receiving settlements of the trade receivables from the End Users, Genetel Shenzhen would refund the receipts in advance to the distributors and pay the distributors the technical service fees net of appropriate value added tax incurred by Genetel Shenzhen in issuing sales invoices for the distributors.

ii) The other receivables represents the amount placed in the High Court in Hong Kong for the litigation as disclosed in note 37(l).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

22. TRADE AND OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS *(Continued)*

(a) The Group normally allows a credit period of up to 270 days to its customers, which may be extended for selected customers depending on their trade volume and settlement history with the Group.

The following is an aging analysis of the trade receivables, net of allowance for doubtful debts presented based on the invoice date:

	2018 HK$'000	2017 HK$'000
0 – 60 days	**7,442**	4,573
61 – 90 days	**2,732**	1,253
91 – 180 days	**4,369**	2,797
181 – 270 days	**1,443**	983
Over 270 days	**1,903**	3,389
	17,889	12,995

(b) **Movement in the allowance for doubtful debts**

	2018 HK$'000	2017 HK$'000
Balance at the beginning of the year	**1,124**	880
Impairment losses recognised on receivables	**549**	173
Exchange adjustment	**(78)**	71
Balance at the end of the year	**1,595**	1,124

Impairment under HKFRS 9 for the year ended 31 December 2018

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates are based on days past due for groupings of various customer segments with similar loss patterns (i.e., by customer type). The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions.

During the year, the expected loss rates for certain customers that were credit impaired were assessed specifically by management. For trade receivables aged more than three months past due but not credit-impaired, management has not observed objective evidence of financial difficulties of the debtors and has been taking credit risk mitigating measures. Set out below is the information about the credit risk exposure on the Group's trade receivables using a provision matrix:

31 December 2018

	Credit impaired receivables	**Current**	**Past due less than 3 months**	**Past due 3 to 6 months**	**Past due over 6 months**	**Total**
Expected credit loss rate	100.00%	0.75%	5.40%	11.74%	41.31%	
Gross carrying amount (HK$'000)	644	12,167	4,131	1,397	1,145	19,484
Expected credit losses (HK$'000)	644	91	223	164	473	1,595

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

22. TRADE AND OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS *(Continued)*

(b) Movement in the allowance for doubtful debts *(Continued)*

Impairment under HKAS 39 for the year ended 31 December 2017

Included in the Group's trade receivables are debtors with an aggregate carrying amount of HK$5,524,000 which were past due at the end of the reporting period for which the Group had not provided for impairment loss. As there has not been a significant change in credit quality, the amounts are still considered recoverable. The Group does not hold any collateral over these balances.

An aging analysis of trade receivables which were past due but not impaired as at 31 December 2017 based on the due date was as follows:

	2017 HK$'000
Neither past due nor impaired	7,471
Overdue by	
1 – 60 days	2,037
61 – 90 days	922
91 – 180 days	1,222
181 – 270 days	630
Over 270 days	713
	5,524
	12,995

In determining the recoverability of the trade receivables, the Group considers any change in the credit quality of the trade receivables from the date credit was initially granted up to the end of the reporting period. The concentration of credit risk is limited as the customer base is large and unrelated. The Board believes that there is no further credit provision required in excess of the allowance for doubtful debts already provided for in the consolidated financial statements.

The Board noted that there was trade receivables of RMB228,000 (equivalent to HK$260,000) as at 31 December 2018 (2017: equivalent to HK$273,000) brought forward from 2013 recorded in the books of Genetel Shenzhen which had been outstanding for over several years. There were no subsequent settlements of these long outstanding trade receivables up to the date of approval of these consolidated financial statements.

Before accepting a new customer, the Group assesses and understands the potential customer's credit quality and defines its credit limits. Credit limits attributed to each customer are reviewed regularly.

(c) Others

As at 31 December 2018, there were RMB3,008,000 (equivalent to HK$3,425,000) (2017: equivalent to HK$3,606,000) brought forward from 2013 and had been outstanding in the books of Genetel Shenzhen for several years. The Board noted that there were no documentary evidence to confirm the nature and existence of these other receivable. At the same time, there were certain long outstanding receipts in advance of RMB2,242,000 (equivalent to HK$2,553,000) (2017: equivalent to HK$2,688,000) due to the same parties brought forward from 2013. Although the Board was unable to locate the relevant supporting documents to substantiate these other receivables and receipts in advance, the Board considered that these long outstanding other receivables and receipts in advance with the same parties can be offset with each other. In this connection, an impairment loss of RMB766,000 (equivalent to HK$957,000) on the other receivables after set off of the receipts in advance was charged to the consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2014.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

23. BANK BALANCES AND CASH AND FIXED BANK DEPOSITS

	2018 HK$'000	2017 HK$'000
Fixed bank deposits with maturity over three months	**11,386**	–
Bank Balances and cash	**19,186**	24,072
	30,572	24,072
Less: Fixed bank deposits with maturity over three months	**(11,386)**	–
Cash and cash equivalents	**19,186**	24,072

Bank balances and cash comprises bank balances and cash held by the Group and short-term bank deposits that are interest-bearing at market rate. All bank deposits are with a maturity of three months or less. As at 31 December 2018, the bank deposits carried interest at prevailing market rate at a range from 0.00% to 1.35%% (2017: 0.00% to 0.30%) per annum.

As at 31 December 2018, the fixed bank deposits carried interest at the rates ranged from 1.55% per annum to 1.75% per annum.

At the end of the reporting period, the bank balances and cash and fixed bank deposits of the Group denominated in Renminbi ("RMB") amounted to HK$28,638,000 (2017: HK$24,065,000). The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to change RMB for other currencies through banks authorised to conduct foreign exchange business.

24. TRADE AND OTHER PAYABLES

		2018 HK$'000	2017 HK$'000
Trade payables	(a)	**176**	93
Receipts in advance	(b)	**7,590**	4,449
Technical services fee payable	(c)	**10,523**	8,214
Accrued expenses	(g)	**6,880**	7,924
Other tax payable		**829**	873
Equipment deposits received	(d)	**814**	1,038
Other payable		**427**	580
Others	(e)	**3,654**	3,848
Amount due to a former shareholder	(f)	**9,961**	9,961
		40,854	36,980

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

24. TRADE AND OTHER PAYABLES *(Continued)*

(a) Trade payables

The following is an aging analysis of the trade payables presented based on the invoice date:

	2018 **HK$'000**	2017 HK$'000
1 – 60 days	**119**	–
61 – 90 days	**1**	–
Over 90 days	**56**	93
	176	93

(b) Receipts in advance

Payments received from the distributors upon delivery of goods to the End Users were recorded as receipts in advance. According to the Board, the Group is required to refund the receipts in advance to the distributors upon receiving settlements of the related trade receivables from the End Users. As such, the payments received from the distributors were recorded as receipts in advance. The directors considered that no reclassification of receipts in advance to contract liabilities is necessary upon the adoption of HKFRS 15 as the payments are received from the distributors but not from customers and the Group is required to refund the receipts in advance to the distributors upon receiving settlements of the related trade receivables from the End Users.

As mentioned in note 22(c), the Board noted that there were long outstanding receipts in advance of RMB2,242,000 (equivalent to HK$2,553,000) brought forward from previous years due to the same parties with long outstanding balances recorded under other receivables. Therefore, the long outstanding receipts in advance of RMB2,242,000 (equivalent to HK$2,553,000) (2017: equivalent to HK$2,688,000) and the other receivables with the same parties as at 31 December 2018 and 2017 were offset with each other.

(c) Technical service fees payable

The balances represented technical service fees payable to the distributors, the details of which are set out in note 12.

(d) Equipment deposits received

According to the Sales Agreements entered into between the distributors and Genetel Shenzhen, Genetel Shenzhen shall provide an equipment to each of the End Users for reading the results of HPV testing. The distributors are required to pay a security deposit to Genetel Shenzhen for using the equipment. Genetel Shenzhen shall refund the security deposits to the distributors upon cessation of business activities with the End Users. The Board considered that the cost of the equipment was a marketing cost and therefore the cost of the equipment was charged to the profit or loss when incurred.

(e) Others

The balance of HK$3,654,000 represented an amount of RMB3,209,000 (2017: equivalent to HK$3,848,000) due to 香港港龍科技有限公司 in the books of Genetel Shenzhen. The Board observed that the amount due to 香港港龍科技有限公司 was brought forward from previous years. However, there was no sufficient information to confirm the nature of this amount. In addition, according to the available information, there were no company registered in the name of 香港港龍科技有限公司 either in the PRC or Hong Kong. In this connection, the Board was unable to confirm the existence and nature of the amount of HK$3,654,000 due to 香港港龍科技有限公司.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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24. TRADE AND OTHER PAYABLES *(Continued)*

(f) Amount due to a former shareholder

The amount was due to Ming Yuan Investments Group Limited ("MYIG"). MYIG was a shareholder of the Company which held 21.58% issued shares of the Company and owned by Mr. Yao Yuan and Mr. Iu Chung. On 21 May 2015, Greater Achieve Limited acquired 18.59% issued shares of the Company which was originally held by MYIG. On 10 July 2015, the shareholder of Eastern Wealth become the owner of MYIG. The amount was unsecured, interest free and repayable on demand.

(g) Accrued expenses

Included in accrued expenses, there was accrued salaries payable to Mr. Lam Ping Cheung, the director of the Company of HK$910,000 (2017: HK$70,000).

25. OTHER BORROWINGS

	Note	2018 HK$'000	2017 HK$'000
Loan from an individual			
– Loan principal	(a)	**919**	919
– Accrued loan interest		**144**	78
		1,063	997
Loan from Eastern Wealth			
– Loan principal	(b)	**21,000**	12,000
– Accrued loan interest		**2,370**	823
		23,370	12,823
		24,433	13,820

At 31 December 2018, the other borrowings were repayable as follows:

	2018 HK$'000	2016 HK$'000
Within 1 year or on demand	**–**	13,820
After 1 year but within 2 years	**24,433**	–
	24,433	13,820

Note:

(a) On 12 September 2016, the Company entered into a loan agreement with an individual ("Lender") in Hong Kong. Pursuant to the loan agreement, the Lender agreed to provide a loan facility of RMB2,000,000 to the Company in the PRC for payment of costs of legal proceedings in the PRC. The loan is unsecured, bearing interest at 7% per annum and due for repayment in one year. Before entering into the loan agreement, the Company had already requested for the loan and RMB600,000 was advanced to a PRC lawyer employed by the Company on 4 August 2016. On 17 June 2017, the Company further drew down RMB190,000 for the settlement of operating expenses of the Company's PRC subsidiary.

The Company did not make repayment of the loan when the loan of RMB600,000 was due for repayment on 3 August 2017 and the loan become overdue. On 5 June 2017, the Company and the Lender entered into a supplementary agreement pursuant to which the loan can also be used for payment of the Company's subsidiary operating expenses in the PRC.

On 18 May 2018, the Company entered into another supplementary agreement with the Lender to extend the repayment date to 11 September 2020.

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25. OTHER BORROWINGS *(Continued)*

Note: *(Continued)*

(b) On 27 September 2016, the Company and Eastern Wealth, a company owned by the Lender mentioned in note (a) above, entered into a loan agreement pursuant to which Eastern Wealth agreed to make available to the Company a credit facility of HK$30,000,000 for use in the ordinary course of business of the Group. The loan is bearing interest at 10% per annum and automatically due for repayment upon 3 years from the date of the loan agreement. Eastern Wealth undertakes not to demand repayment of the loan and interest within 2 years from the date of the loan agreement. In the third year, the loan and interest is repayable within 3 months upon written demand by Eastern Wealth. As at 31 December 2018, the Company utilised the facility of HK$15,000,000 under this agreement (2017: HK$12,000,000).

On 18 May 2018, the Company and Eastern Wealth entered into a supplementary agreement pursuant to which the loan period is extended to 26 September 2020 and Eastern Wealth undertakes not to demand for repayment of the loan by 26 September 2020.

On 23 August 2018, the Company and Eastern Wealth entered into another loan agreement pursuant to which Eastern Wealth made available to the Company a new credit facility of HK$9,000,000 (the second loan agreement). The loan bears interest at 10% per annum and shall not be payable unless and until the maturity of the loan under the terms of the second loan agreement. The credit facility was for a period of three years from the date of the second loan agreement. Eastern Wealth undertakes not to demand repayment of the loan and interest within 2 years from the date of the second loan agreement. In the third year, the loan and interest is repayable within 3 months upon written demand by Eastern Wealth. As at 31 December 2018, the Company utilised the facility of HK$6,000,000 under this agreement.

26. INCOME TAX PAYABLE

	2018 **HK$'000**	2017 HK$'000
Balance as at 31 December	**2,963**	3,803

(a) The income tax payable as at 31 December 2018 and 2017 included income tax payable of RMB802,000 (equivalent to HK$913,000 and HK$961,000 as at 31 December 2018 and 2017 respectively) made on a marketing fee of RMB3,400,000 (equivalent to HK$4,250,000) in 2014. The Board noted that there was a marketing fee of RMB3,400,000 (equivalent to HK$4,250,000) recorded in the books of Genetel Shenzhen and marketing fee income of the same amount recorded in the books of HD Global, the intermediate holding company of Genetel Shenzhen in Hong Kong for the year ended 31 December 2014. However, the Board noted that there was no marketing services provided by HD Global to Genetel Shenzhen. The Board could not understand the purpose of recording such marketing fee and could not locate appropriate supporting documents to substantiate these accounting entries. In accordance with the PRC tax regulations, deduction of the marketing fee without provision of marketing services is not allowed. However, deduction of the marketing fee was claimed by Genetel Shenzhen for the PRC corporate income tax purpose in the local filing with the PRC tax authority. In addition, no withholding tax was paid in respect of this marketing fee. In this connection, the Board treated the marketing fee as a non-deductible item when determining the provision of income tax for the year ended 31 December 2014. The marketing fee has been eliminated upon preparing these consolidated financial statements.

(b) As disclosed in note 12 to the consolidated financial statements, certain technical service fees of HK$14,425,000 (2017: HK$12,837,000) for the year ended 31 December 2018 were supported by invoices issued by third parties unrelated to the provision of technical services. In accordance with the PRC tax regulations, the technical services without proper supporting invoices were not deductible for income tax purpose. After consultation with the PRC lawyer and tax consultant, the Board considered that it is appropriate to claim deduction of the technical service fees by Genetel Shenzhen for the PRC corporate income tax purpose in the local filling with the PRC tax authority.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

27. DEFERRED TAX LIABILITIES

The following are the major deferred tax liabilities reecognized and movements thereon during the current and prior years:

	Withholding tax on undistributed profits of the PRC subsidiary	**Fair value adjustment on intangible assets from business combination**	**Total**
	HK$'000	HK$'000	HK$'000
At 1 January 2017	1,565	1,969	3,534
Charge/(credit) to profit or loss	1,016	(939)	77
Exchange adjustments	154	109	263
At 31 December 2017	2,735	1,139	3,874
At 1 January 2018	2,735	1,139	3,874
Charge/(credit) to profit or loss			
– origination and reversal of temporary difference	1,256	(579)	677
– resulting from change in tax rate	–	(450)	(450)
Exchange adjustments	(187)	(17)	(204)
At 31 December 2018	3,804	93	3,897

As at 31 December 2018, the Group had unused tax losses of HK$65,348,000 (2017: HK$65,348,000) per tax return submitted available for offset against future profits. No deferred tax asset has been recognised in respect of the unused tax losses due to the unpredictability of future profits streams.

Under the Law of the PRC on Enterprise Income Tax, withholding tax is imposed on dividends declared in respect of profits earned by the PRC subsidiaries from 1 January 2008 onwards. As at 31 December 2018 and 2017, deferred taxation has been provided for in full in respect of undistributed profits retained by the PRC entity.

28. SHARE CAPITAL

	Number of shares	**Value**
		HK$'000
Ordinary shares of HK$0.05 each		
Authorised:		
At 1 January 2017, 31 December 2017 and 31 December 2018	6,000,000,000	300,000
Issued and fully paid:		
At 1 January 2017, 31 December 2017 and 31 December 2018	4,383,892,800	219,195

There were no movements in the Company's issued share capital for the years ended 31 December 2018 and 2017.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

29. CAPITAL COMMITMENTS

There were no capital expenditure contracted for but not provided in the consolidated financial statements as at 31 December 2018 and 2017.

30. OPERATING LEASE COMMITMENTS

During the current year, the Group made minimum lease payments under operating leases of HK$1,999,000 (2017: HK$1,578,000) in respect of its office premises and staff quarters.

At the end of the reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating leases which would fall due as follows:

	2018 **HK$'000**	2017 HK$'000
Within one year	**1,133**	704
In the second to fifth year inclusive	**712**	–
	1,845	704

Operating lease commitments represent rentals payable by the Group for certain of its office premises and staff quarters. Leases are negotiated for a term ranging from one year to eight years and rentals are fixed for a range of one year to two years.

31. RETIREMENT BENEFIT PLANS

The Group operates a Mandatory Provident Fund Scheme (the "MPF Scheme") for all its employees in Hong Kong. The MPF Scheme is registered with the Mandatory Provident Fund Scheme Authority under the Mandatory Provident Fund Scheme Ordinance. The assets of the MPF Scheme are held separately from those of the Group, in funds under the control of an independent trustee. Under the rules of the MPF Scheme, the employer and its employees are each required to make contributions to the scheme at rates specified in the rules. The only obligation of the Group with respect to the MPF Scheme is to make the required contributions under the MPF Scheme.

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

The total cost charged to profit or loss of HK$795,000 (2017: HK$628,000) represents contributions payable to these schemes by the Group for the year ended 31 December 2018. As at 31 December 2018 and 2017, no contribution was due and unpaid.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

32. RELATED PARTY TRANSACTIONS

The Group's related parties are as follows:

Name	Relationship with the Group
Mr. Yao Yuan	An ex-chairman and ex-director of the Company
Mr. Iu Chung	An ex-director of the Company
Lam & Co.	A firm of solicitors owned by Mr. Lam Ping Cheung
Mr. Lam Ping Cheung	The Chairman and director and a substantial shareholder of the Company
Greater Achieve Limited	A shareholder of the Company which held 18.59% issued shares of the Company and owned by Mr. Lam Ping Cheung

a) Details of the Group's balances with related parities are set out below.

	Note	**2018 HK$'000**	2017 HK$'000
Amount due to a related company			
– Lam & Co.	(i)	**6,563**	4,588
Amounts due to ex-directors			
– Mr. Yao Yuan		**2,553**	2,553
– Mr. Zhao Chao		**51**	51
– Mr. Zhou Li Qun		**2**	2
– Mr. Yu Ti Ju		**160**	160
– Dr. Lam Lee G		**18**	18
– Mr. Yao Liang		**119**	119
– Mr. Yang Chun Bao		**130**	130
– Mr. Zhang Xiao Ming		**75**	75
– Mr. Kot Wang		**75**	75
– Mr. Chui, Everett Man Lung		**40**	40
	(ii)	**3,223**	3,223
Loan from a director			
– Loan principal		**2,992**	2,992
– Accrued interest		**556**	316
	(iii)	**3,548**	3,308
Amounts due to shareholders			
– Wise Spirit International Limited		**366**	366
– Taishan Capital Management Limited		**366**	366
– Greater Achieve Limited		**366**	366
– Uprise Corporation Limited		**365**	365
	(iv)	**1,463**	1,463
Amount due from a Shanghai Subsidiary			
– 湖州數康生物科技有限公司		**2,277**	2,398
– Less: impairment loss	(v)	**(2,277)**	(2,398)
		–	–
Loan from a related company			
– Loan principal		**6,000**	–
– Accrued interest	(vi)	**229**	–
		6,229	–

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For the year ended 31 December 2018

32. RELATED PARTY TRANSACTIONS *(Continued)*

a) Details of the Group's balances with related parities are set out below. *(Continued)*

Note:

i) The amount represents legal fee payable to Lam & Co. for legal advisory services provided to the Group. The amount was unsecured, interest free and without fixed terms of repayment.

ii) The amounts due to ex-directors were unsecured, interest free and without fixed terms of repayment. The Board noted that the amounts were mainly comprised of accrued directors' emoluments for the ex-directors. Up to the date of approval of these consolidated financial statements, the amounts remained outstanding. As the ex-directors had left the Company, the Board was unable to locate documentary evidence to verify the accuracy of the outstanding balances as at 31 December 2018 and 2017.

iii) The loan from a director represents loan and accrued interest due to Mr. Lam Ping Cheung. The details of the loan are set out note 2(c)(i) to the consolidated financial statements.

iv) The amounts due to shareholders represent costs associated with legal proceedings brought by the shareholders against the Company. In 2016, the Supreme Court of Bermuda ordered the Company to bear the costs of the legal proceedings, therefore, the Group accounted for and recognised the legal costs as expenses and the legal costs payable as amounts due to shareholders. Up to the date of approval of these consolidated financial statements, the amounts remained outstanding.

v) In May 2016, Genetel Shenzhen advanced RMB2,000,000 (equivalent to HK$2,233,000) to 湖州數康生物科技有限公司, one of the Shanghai Subsidiaries. However, the Board could not identify the purpose of the payments and could not locate any supporting documents for verification purpose. Since the cash has been paid out and no repayment was made by 湖州數康生物科技有限公司 up to the date of approval of these consolidated financial statements, the Board was of the view that there was no expectation of recovery. Therefore, a full impairment was made on these consolidated statement statements.

vi) The loan from a related company represents loan and accrued interests due to Lam & Co,. The details of the loan are set out in note 2(c)(i) to the consolidated financial statements.

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	**7,258**	4,891
Post-employment benefits	**115**	136
	7,373	5,027

The remuneration of directors and key executives is determined by the remuneration committee having regard to the performance of individuals and market trends.

c) Other related party transactions

	Note	**2018 HK$'000**	2017 HK$'000
Legal fee payable to Lam & Co. for legal services provided to the Group	(i)	**2,967**	4,967
Loan interest payable to a director	(ii)	**240**	239
Loan interest payable to a related company	(iii)	**229**	–

i) During the year, the Group engaged Lam & Co. as a legal advisor for providing legal advisory services to the Group.

ii) The loan interests is payable to Mr. Lam Ping Cheung for the loan of HK$2,992,000 provided to the Group. The interest is calculated at 8% per annum.

iii) The loan interest is payable to Lam & Co, for loan of HK$6,000,000 provided to the Group. The interest is calculated at 8% per annum.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

33. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY

Particulars of the Company's principal subsidiaries are as follows:

Name of subsidiary	Place of incorporation/ establishment	Particulars of issued share/ registered capital	Percentage of equity attributable to the Company Direct 2018	Direct 2017	Indirect 2018	Indirect 2017	Principal activities
Consolidated subsidiaries							
MY Technology Limited	British Virgin Island	US$1	–	–	100%	100%	Inactive
HD Global Limited (Note iv)	British Virgin Island	US$2,000,000	–	–	100%	100%	Investment holding
Ming Yuan Property Management Limited	Hong Kong	HK$2	–	–	100%	100%	Provision of management services
Genetel Pharmaceuticals (Shenzhen) Company Limited (Note i)	PRC	RMB8,027,700	–	–	100%	100%	Manufacturing and trading of HPV chips and related equipment
Premier Asset Investment Limited (Note iv)	British Virgin Island	US$1	–	–	100%	100%	Investment holding
Splendid Victory Holding Limited	British Virgin Island	US$1	100%	100%	–	–	Investment holding
Derecognised subsidiaries (Note iii)							
上海數康生物科技有限公司 (Note i)	PRC	RMB40,000,000	–	–	100%	100%	Research and development activities
湖州數康生物科技有限公司 (Note i)	PRC	RMB10,000,000	–	–	100%	100%	Manufacturing and trading of protein chips and related equipment
上海銘源數康生物芯片有限公司 (Note i)	PRC	US$29,800,000	–	–	100%	100%	Manufacturing and trading of protein chips and related equipment
Shanghai Kang Pei Biomedical Company Limited (Note i)	PRC	RMB10,000,000	–	–	75%	75%	Provision of medical diagnostic, health check and medical appraisal services
上海慧普生物醫藥科技有限公司 (Note ii)	PRC	RMB2,000,000	–	–	80%	80%	Research, development and trading of specialized monoclonal antibody drugs

Notes:

(i) These companies are registered in the form of wholly-owned foreign investment enterprise.

(ii) These companies are registered in the form of sino-foreign joint venture.

(iii) The derecognised subsidiaries were accounted for as financial assets at fair value through other comprehensive income as stated in note 19 to the consolidated financial statements.

(iv) According to the company search records, the shares of Premier Asset Investment Limited and HD Global Limited were charged in favour of a third party as at 31 December 2018. To the best knowledge of the Board, the convertible bonds relating to the share charges had been fully converted into shares of the Company in previous years. Therefore, the share charges appeared in the company search records should had been already discharged as at 31 December 2018.

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

None of the subsidiaries had any loan capital subsisting at the end of the reporting period or at any time during the reporting period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

34. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	2018 HK$'000	2017 HK$'000
Non-current assets		
Fixed assets	9	4
Investments in subsidiaries	1	1
	10	5
Current assets		
Amounts due from subsidiaries	148,509	147,385
Prepayments and other receivables	3,636	722
Utility deposits	91	95
Bank balances and cash	5	10
	152,241	148,212
Current liabilities		
Accrued expenses and other payables	15,100	14,933
Amounts due to subsidiaries	71,403	71,385
Amount due to a related company	5,231	3,386
Amounts due to ex-directors	2,493	2,493
Loan from a director	–	3,308
Amounts due to shareholders	1,463	1,463
Other borrowings	–	13,820
	95,690	110,788
Net current assets	56,551	37,424
Total assets less current liabilities	56,561	37,429
Non-current liability		
Other borrowings	24,433	–
Loan from a director	3,548	–
Loan from a related company	6,229	–
	34,210	–
Net assets	22,351	37,429
Capital and reserves		
Share capital	219,195	219,195
Reserves	(196,844)	(181,766)
Total equity	22,351	37,429

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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34. STATEMENT OF FINANCIAL POSITION OF THE COMPANY *(Continued)*

Movement in reserves

	Share capital HK$'000	**Share premium** HK$'000	**Contributed surplus** HK$'000 (Note)	**Accumulated losses** HK$'000	**Total** HK$'000
At 1 January 2017	219,195	1,177,323	12,804	(1,358,635)	50,687
Loss and total comprehensive loss for the year	–	–	–	(13,258)	(13,258)
At 31 December 2017	219,195	1,177,323	12,804	(1,371,893)	37,429
At 1 January 2018	219,195	1,177,323	12,804	(1,371,893)	37,429
Loss and total comprehensive loss for the year	–	–	–	(15,078)	(15,078)
At 31 December 2018	219,195	1,177,323	12,804	(1,386,971)	22,351

Note: The contributed surplus of the Company represents an amount due to a former holding company waived upon the change of the substantial shareholders in 2002.

35. DERECOGNITION OF INTEREST IN A JOINT VENTURE

In 2013, the Group, through its Shanghai Subsidiaries, held 50% equity interest in a joint venture, namely 天津紅鬃馬醫院投資管理有限公司 in the PRC. The joint venture was engaged in investing holding and its subsidiaries were engaged in the provision of medical diagnostics, health check and medical appraisal services. The carrying amount of the interest in the joint venture was HK$14,765,000 as at 31 December 2013 which had been derecognised since 1 January 2014.

As disclosed in note 2(e) to the consolidated financial statements, the Board was unable to take over the control of the Shanghai Subsidiaries which held the joint venture, the Group was also unable to gain access to the books and records of the joint venture. Therefore, the Group was unable to equity account for the results of operations and the net assets of the joint venture for the years ended 31 December 2018 and 2017. No financial information of the joint venture was made available for disclosure purpose. The interest in the joint venture of HK$14,765,000 brought forward from 2013 were not included in these consolidated financial statements. According to available information and as disclosed in note 37, the joint venture was named as a defendant and a joint defendant with Mr. Zhao Chao and 上海銘源實業集團有限公司 ("上海銘源實業") in a number of legal cases in the PRC. In the opinion of the Board, the Group was unable to obtain the information of these legal cases. Therefore, the details of the legal cases were not disclosed in these consolidated financial statements and the Board was unable to confirm if there was any financial impact of these legal cases on the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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36. 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.

	Other borrowings HK$'000	**Loan from a director** HK$'000	**Loan from a related company** HK$'000	**Amounts due to shareholders** HK$'000	**Total** HK$'000
At 1 January 2017	3,751	3,069	–	1,463	8,283
Financing cash flows	9,218	–	–	–	9,218
Accrued interest	851	239	–	–	1,090
At 31 December 2017	13,820	3,308	–	1,463	18,591
At 1 January 2018	13,820	3,308	–	1,463	18,591
Financing cash flows	9,000	–	6,000	–	15,000
Accrued interest	1,613	240	229	–	2,082
At 31 December 2018	24,433	3,548	6,229	1,463	35,673

37. LITIGATIONS AND CONTINGENT LIABILITIES

Based on the available information, the Board noted that the Group and its joint venture were involved in the following litigations. Given the loss of books and records, the Board's inability to take over the control of the Shanghai Subsidiaries, the inability of gaining access to the books and records of the Shanghai Subsidiaries and the inability to obtain the necessary relevant information or documents from the former management, the Board believes that it is not practical, if not impossible, to ascertain the accuracy or completeness of the disclosure of the litigations and contingent liabilities during the year ended 31 December 2018. The Board was also unable to assess the potential financial impact of the litigations and contingent liabilities, if any, on these consolidated financial statements.

a) On 18 October 2013, 天津紅鬃馬科技發展有限公司 ("天津紅鬃馬") negotiated bills to 天津天極投資諮詢有限公司 ("天津天極"). The bills were further negotiated to 天津市響緣典當有限公司 ("響緣典當") by 天津天極 on 5 January 2014. 響緣典當 presented the bills to a bank. However, the bank informed 響緣典當 that the issuer namely SHMY Biochip had insufficient fund in the bank account to honour the bills. The bills was issued by SHMY Biochip and guaranteed by the Company. 響緣典當 returned the bills to 天津天極. In February 2016, 天津天極 claimed against 天津紅鬃馬 and SHMY Biochip for RMB30,000,000. 天津天極 also claimed against the Company as guarantor of the bills. A court hearing was conducted in Tianjin, the PRC. According to the judgement made by the Tianjin Second Intermediate People's Court in September 2016, the Tianjin Second Intermediate People's Court considered that the claim should be made by 響緣典當 instead of 天津天極.

In November 2016, 天津天極 made an appeal claiming that 天津天極 made use of the bills for purchasing of goods from 響緣典當. As the bills were dishonoured, 天津天極 returned the goods to 響緣典當 and therefore 天津天極 obtained the legal right to claim against SHMY Biochip, 天津紅鬃馬 and the Company. SHMY Biochip claimed that the hearing should be in Shanghai instead of in Tianjin. According the judgement made by the Tianjin Second Intermediate People Court in February 2017, the case was passed to the Tianjin First Intermediate People's Court for hearing. On 25 October 2017, the Tianjin First Intermediate People's Court accepted the case. However, 天津天極 did not pay the court fee within 7 days. On 1 December 2017, the Tianjin First Intermediate People's Court made a judgment and considered that 天津天極 had withdrawn the legal action.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

37. LITIGATIONS AND CONTINGENT LIABILITIES *(Continued)*

b) On 26 September 2013, an individual in the PRC ("Mr. Kwok") granted a credit facility of RMB30,000,000 to 天津紅鬃馬for a period of two years. Mr. Zhao was the person designated to receive the loan provided by Mr. Kwok. From 24 August 2012 to 20 February 2014, Mr. Kwok made loans totaling RMB26,600,000 to Mr. Zhao under the credit facility. Mr. Yao Yuan, Mr. Iu Chung, Mr. Zhao and 上海銘源實業 were guarantors of the loans. 天津紅鬃馬 failed to make loan repayments to Mr. Kwok. As such, Mr. Kwok took legal actions against 天津紅鬃馬, Mr. Zhao, Mr. Yao Yuan, Mr. Iu Chung and 上海銘源實業. According to the judgement made by the Tianjin First Intermediate People's Court made in 2016, (i) 天津紅鬃馬 should repay the loan of RMB26,600,000 and loan interest of RMB20,168,000 to Mr. Kwok, (ii) Mr. Yao Yuan, Mr Iu Chung, Mr. Zhao and 上海銘源實業 were jointly held liable for the liabilities under the guarantees, and (iii) 天津紅鬃馬, Mr. Yao Yuan, Mr. Iu Chung, Mr. Zhao and 上海銘源實業 should pay the litigation costs.

Mr. Yao Yuan and 上海銘源實業 made an appeal to the Tianjin Higher People's Court in October 2017. The appeal was rejected by the Tianjin Higher People's Court in December 2017.

c) On 6 September 2013, an individual in the PRC ("Ms. 耿玉順") entered into a loan agreement with 天津紅鬃馬 pursuant to which Ms. 耿玉順 granted a loan of RMB4,000,000 to 天津紅鬃馬 for a period of six months. Mr. Zhao, 上海銘源實業, 天津創華投資咨詢有限公司 and 天津康盟醫療投資有限公司 were guarantors of the loans. 天津紅鬃馬 failed to make loan repayments to Ms. 耿玉順. As such, Ms. 耿玉順 took legal actions against 天津紅鬃馬, Mr. Zhao, 上海銘源實業, 天津創華投資咨詢有限公司 and 天津康盟醫療投資有限公司.

According to the judgement made by the Tianjin People's Court made in December 2014, (i) 天津紅鬃馬 should repay the loan of RMB4,000,000 and loan interest of RMB370,000 to Ms. 耿玉順, (ii) 天津紅鬃馬 should pay the legal costs, and (iii) Mr. Zhao, 上海銘源實業, 天津創華投資咨詢有限公司 and 天津康盟醫療投資有限公司 were jointly held liable for the liabilities under the guarantees and the legal costs.

d) On 18 September 2014, a writ of summons was issued by Mr. Chien Hoe Yong ("Mr. Chien"), an ex-director, as the plaintiff against the Company as the defendant under the High Court Action No. 1837 of 2014 for the payment of HK$3,866,000 for director's fee, housing allowance, reimbursement of expenses and RMB30,000,000 for special bonus and interest totalling HK$41,347,000. The Company's legal representive signed a consent summons with Mr. Chien's solicitors on 25 October 2016 (the "Consent Summons") to effect that the action be dismissed with no order as to costs. On 27 October 2016, the Court ordered that the action was dismissed with no order as to costs.

e) According to the judgement made by the Shanghai Huangpu People's Court in March 2015, 天津紅鬃馬 was ordered to pay RMB800,000 and related interest to 上海新培晶醫學檢驗所有限公司 for testing services provide by 上海新培晶醫學檢驗所有限公司 in previous years.

f) On 3 November 2015, Mr. Lam Ping Cheung filed a claim against the Company and Mr. Yao Yuan for defamation (HCA 2560/2015). Mr. Lam Ping Cheung claimed that the defamatory statement contained in the announcement made by the Company dated 30 October 2015 had caused Mr. Lam Ping Cheung to be shunned by the general public, causing irreparable and irrecoverable damage to the character and good reputation of Mr. Lam Ping Cheung. The announcement was made before the appointments of the Board.

Up to the date of approval of these financial statements, there were no further development on this case.

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For the year ended 31 December 2018

37. LITIGATIONS AND CONTINGENT LIABILITIES *(Continued)*

g) By an originating summons issued on 14 June 2016 by Guangwei Worldwise Limited as the plaintiff against the Company and the directors of the Company whom were appointed on 20 May 2016 as defendants under High Court Miscellaneous Proceedings No. 1480 of 2016. Guangwei sought, inter alia, a declaration that the annual general meeting of the Company convened on 20 May 2016 and the resolutions passed in the annual general meeting were invalid and not binding on the Company and that the Company be restrained from acting upon the resolutions passed at the annual general meeting. On 16 June 2016, the Company and the directors took out a summons to strike out the original summons on the grounds, among others, that it disclosed no reasonable cause of action (the "Strike-Out Application"). On 22 May 2017, the Court ordered, inter alia, that the Strike-Out Application be allowed and the original summons be struck off.

h) Based on the limited information obtained, the Board noted that 天津農墾銘信嘉小額貸款有限公司 made a claim against SHMY Biochip, 上海銘源實業, 天津康盟醫療投資有限公司, 梵高科(天津)國際貿易有限公司 and Mr. Zhao in relation to a debt dispute. The parties reached a settlement agreement in a mediation which was confirmed by the Tianjin Higher People's Court on 20 July 2016. However, SHMY Biochip, 上海銘源實業, 天津康盟醫療投資有限公司, 梵高科(天津)國際貿易有限公司 and Mr. Zhao did not perform according to the settlement agreement and 天津農墾銘信嘉小額貸款有限公司 applied to the Tianjin Second Intermediate People's Court to enforce the execution of the settlement agreement. However, according to the judgement made by the Tianjin Second Intermediate People's Court on 27 November 2017, no further properties of SHMY Biochip were available for enforcement and there was no assets owned by other respondents that could be enforced. If there were any assets discovered in the future that could be available for the enforcement, 天津農墾銘信嘉小額貸款有限公司 could apply for the enforcement again.

In the absence of relevant supporting documents, the Board was unable to provide further details of the case and estimate the financial effect on these financial statements.

i) Based on the limited information obtained, the Board noted that SHMY Biochip, 天津紅鬃馬 and 上海銘源投資管理有限公司 were defendants in a legal case with 富海隆投資咨詢服務有限公司 relating to a debt transfer agreement of RMB117,025,000. SHMY Biochip and 上海銘源投資管理有限公司 made an appeal claiming that the court hearing should be in Shanghai instead of Tianjin. The appeal was rejected by the Tianjin Higher People's Court in June 2016. 上海銘源投資管理有限公司 made further appeal to Supreme People's Court. However, the further appeal was also rejected by the Supreme People's Court in December 2016.

In the absence of relevant supporting documents, the Board was unable to provide further details of the case and estimate the financial effect on these financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

37. LITIGATIONS AND CONTINGENT LIABILITIES *(Continued)*

j) Based on the limited information obtained, the Board noted that SHMY Biochip was one of the respondents in a legal case relating to a debt dispute with 盛大融信(天津)實業發展有限公司. Pursuant to a judgement made by Tianjin Second Immediate People's Court on 8 August 2016, the bank accounts balance of RMB149,500,000 or equivalent value of other assets owned by SHMY Biochip, Mr. Iu Chung, 上海銘源實業, Shanghai HealthDigit, 天津康盟醫療投資有限公司 and 牟清 should be frozen.

In the absence of relevant supporting documents, the Board was unable to provide details of this legal case.

k) According to the judgement made by Huzhou Wuxing District People's Court on 25 December 2015, the bank account balance of RMB4,956,715 or equivalent amount of property owned by 天津市福萊特科技發展有限公司 be frozen for 湖州數康生物科技有限公司 in relation to a dispute on a sale and purchase contract. In the absence of relevant supporting documents, the Board was unable to provide further details of the case.

l) On 19 December 2016, the Company and its other 2 indirectly wholly owned subsidiaries (the "Plaintiffs") commenced an action (HCA3339 of 2016) against the Company's predecessor auditors, Deloitte Touche Tohmatsu ("DTT"), claiming against DTT for, inter alia, breach of its duties of reasonable skill and care owed to the Plaintiffs arising out of DTT's failure to detect, suspect or report fraudulent activity and/or other irregularities in the management of the Plaintiffs and/or other subsidiaries of the Company.

On 29 September 2017, an indirectly wholly owned subsidiary commended an action (HCA 2282 of 2017) against the Company's predecessor auditors, DTT, claiming against DTT for, inter alia, breach of its duties of reasonable skill and care owed to the Plaintiff arising out of DTT's failure to detect, suspect or report fraudulent activity and/or other irregularities in the management of the Plaintiff and its subsidiaries.

On 6 July 2018, Master J. Wong of the High Court ordered, inter alia, that HCA 3339 of 2016 and HCA 2282 of 2017 be consolidated and thereafter be carried on as one action (the "Consolidated Action") with HCA3339 of 2016 being the lead action.

As at the date of this report, the Consolidated Action has not been determined.

m) Based on the limited information obtained, the Board noted that 深圳市師股權投資有限公司 made a claim against SHMY Biochip and 上海銘源實業 in relation to a debt dispute. The Shanghai First Intermediate People's Court accepted the claim by 深圳市師股權投資有限公司 on 1 December 2017. However, 深圳市師股權投資有限公司 did not pay the court fee within the time limit specified by the Shanghai First Intermediate People's Court. Pursuant to a judgement made by Shanghai First Intermediate People's Court on 5 March 2018, the claim was considered as withdrawn by 深圳市師股權投資有限公司.

In the absence of relevant supporting documents, the Board was unable to provide further details of the case.

FINANCIAL SUMMARY

A summary of the consolidated results and of the assets and liabilities of the Group for the past five financial periods is set out below:

(A) RESULTS

	For the year ended 31 December,				
	2014 HK$'000	2015 HK$'000	2016 HK$'000	2017 HK$'000	**2018** **HK$'000**
Revenue	45,243	59,670	52,132	48,823	**66,001**
(Loss) before tax	(922,339)	(5,722)	(13,235)	(10,434)	**(8,132)**
Income tax (expense)/credit	54,157	(1,667)	(2,331)	(1,766)	**(2,033)**
(Loss) for the year from continuing operations	(868,182)*	(17,389)	(15,566)	(12,200)	**(10,165)**
Profit for the year from discontinued operation	–	–	–	–	**–**
Loss for the year	(868,182)	(7,389)	(15,566)	(12,200)	**(10,165)**
Attributable to:					
Owners of the Company	(868,182)	(7,389)	(15,566)	(12,200)	**(10,165)**
Non-controlling interests	–	–	–	–	**–**
	(868,182)	(7,389)	(15,566)	(12,200)	**(10,165)**

* The loss for the year ended 31 December 2014 included the loss arising from Shanghai Subsidiaries of HK$804,506,000.

(B) ASSETS AND LIABILITIES/EQUITY

	At 31 December,				
	2014 HK$'000	2015 HK$'000	2016 HK$'000	2017 HK$'000	**2018** **HK$'000**
Total assets	44,743	45,403	40,032	51,125	**61,858**
Total liabilities	(29,213)	(37,866)	(49,056)	(71,059)	**(93,173)**
	15,530	7,537	(9,024)	(19,934)	**(31,315)**
Equity (deficit) attributable to owners of the Company	15,530	7,537	(9,024)	(19,934)	**(31,315)**
Non-controlling interests	–	–	–	–	**–**
	15,530	7,537	(9,024)	(19,934)	**(31,315)**